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The Impact of Used Car Imports on the Industry and Markets in Eastern Europe

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GLOBAL INSIGHT

If You Want to Buy a Second Hand Car, Poland Is the Place to Go to...

- **Jeep for Sale: Very good condition and very good price (PLN 6,000 = €1,570).**



**This car comes from the UK,
BUT
it has been modified for Polish
roads by a professional
company...**



New EU Members Had Difficult EU Accession

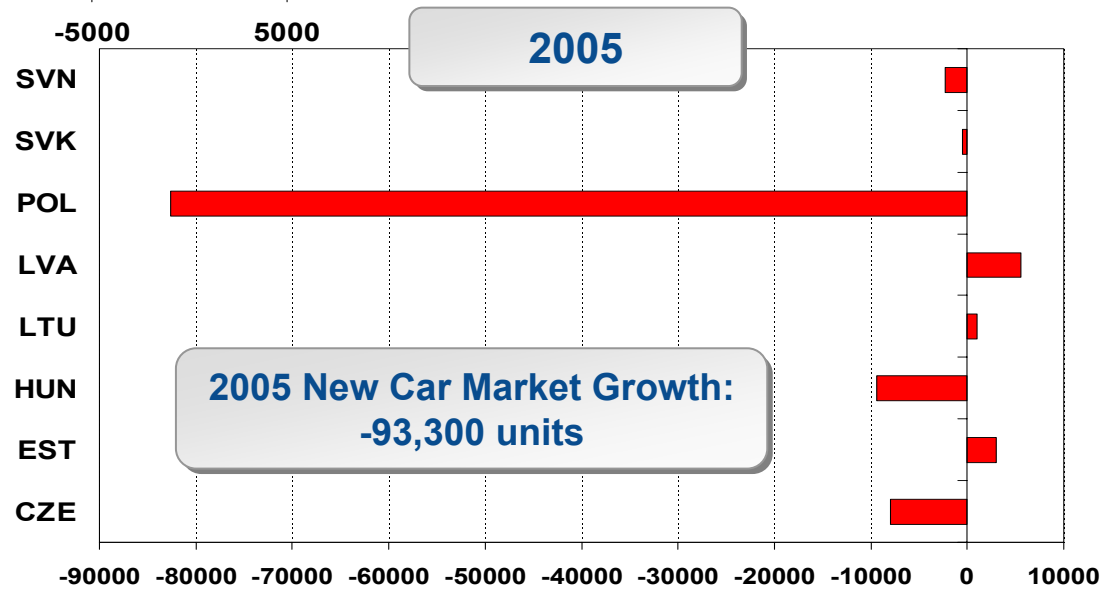
- Demand for new cars has decreased in most of the countries after they became EU members
- Volatility has been high as EU accession provided a fixed date to aim at
- Worries about possible price rises pushed up demand in countries such as Poland and Slovakia in the months before the accession with a subsequent drop thereafter
- Buyers in other countries, such as the Czech Republic, decided to take a “wait and see” attitude. Hence demand was weak before and after the accession
- Taxes, VAT and “controls” on used car imports have been removed – to devastating effect
- New Car price increases have occurred, as OEMs moved to cut the price gap between the new Members and the EU
- Post EU accession consumer sentiment has often been negative
- The Baltics were an exception to this rule – demand has surged before and after the EU accession

Demand For New Cars in the New EU Members



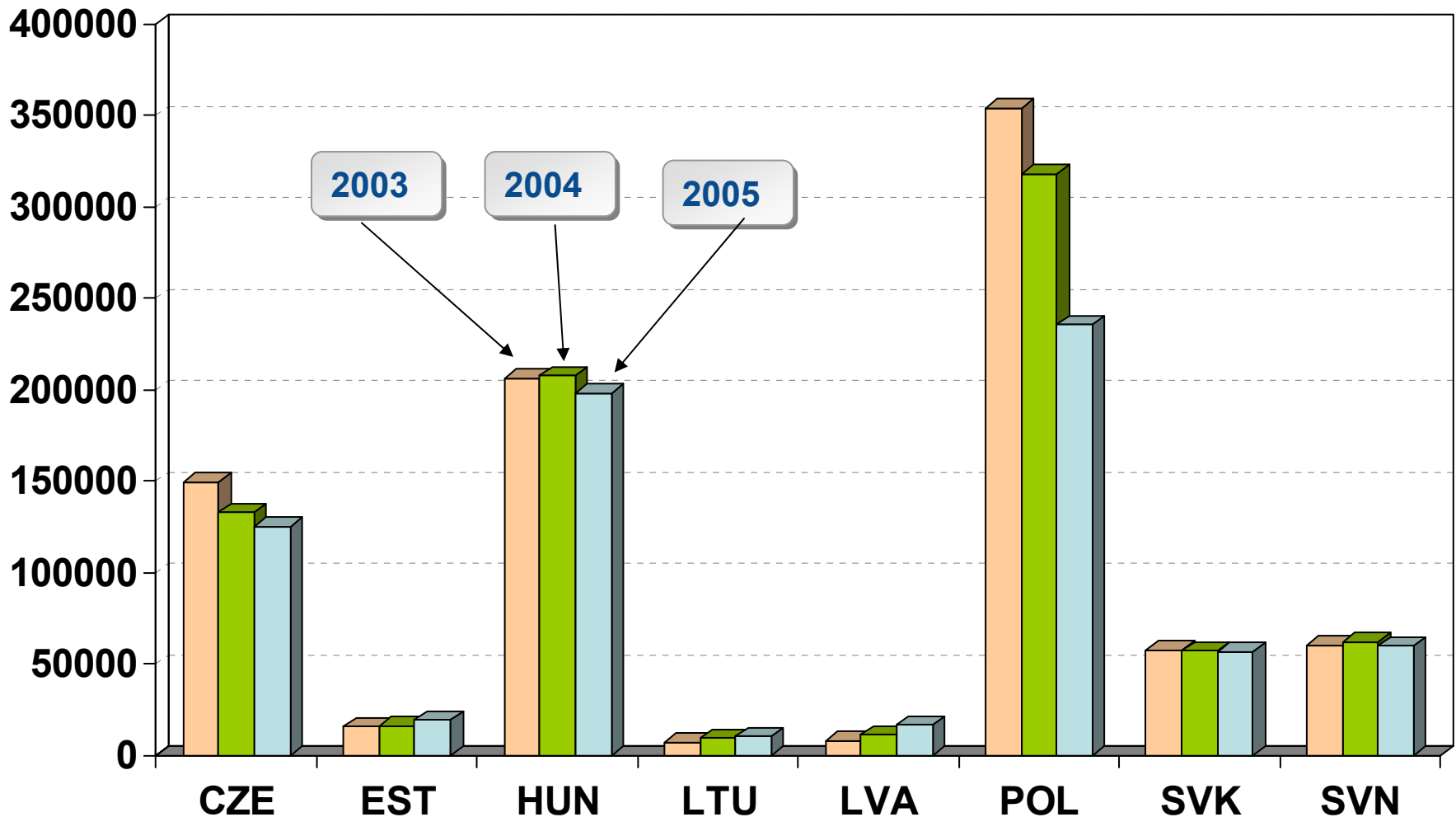
- In 2004, the combined total new car sales for the new EU Entrants decreased by 5% year-on-year to 816K

- The situation deteriorated even more in 2005
- Demand for new cars dropped by 11% compared with the previous year. New car sales amounted to 724K

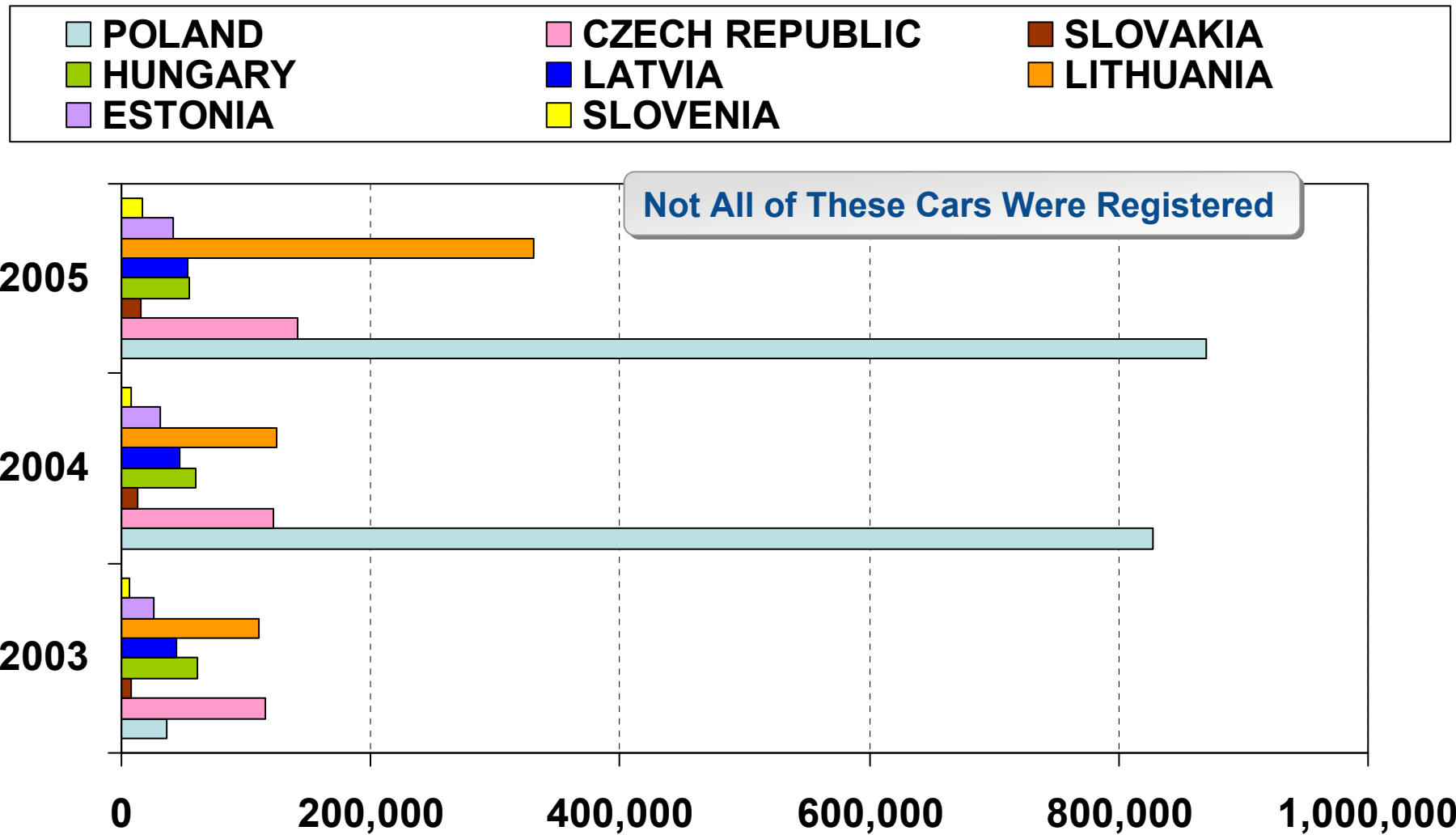


New EU Entrants: New Car Sales (2003–05)

New Car Markets Have Decreased the Most in Poland and the Czech Republic



EU Accession: Poland Was Hit the Most With Used Car Imports



Used Cars Supply a Large Proportion of the Total Demand

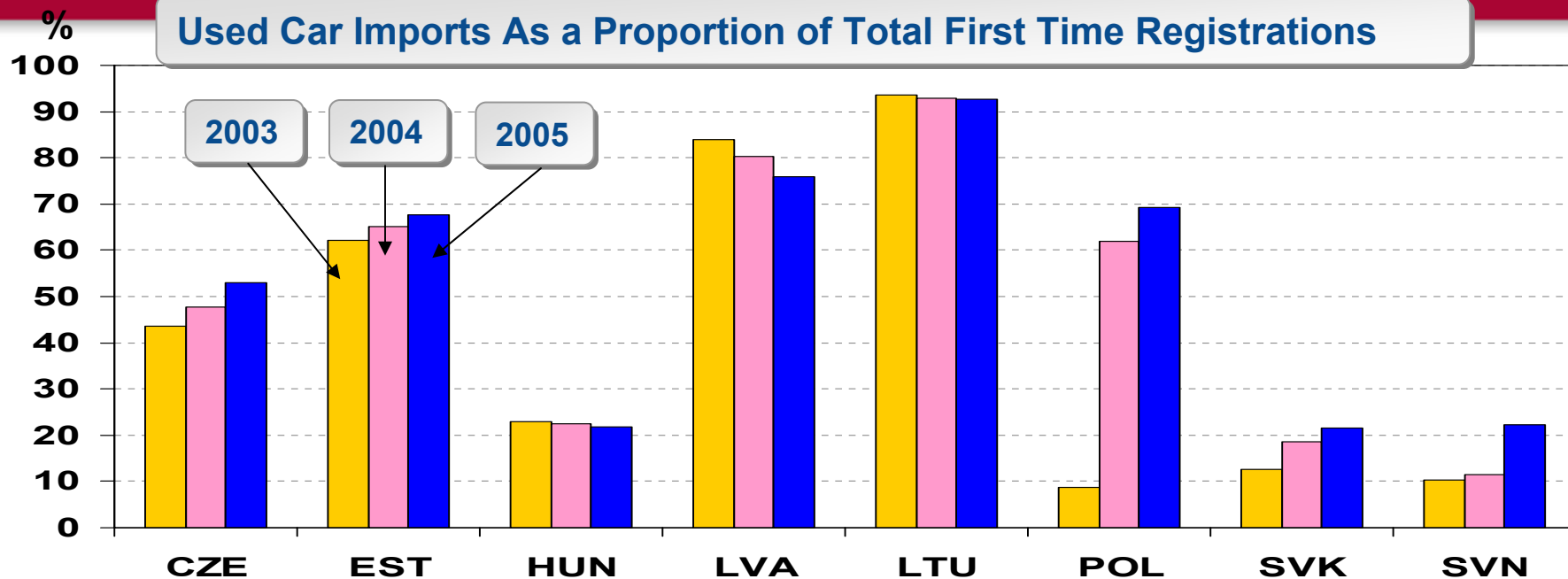


- Used car imports, registered for the first time in the new EU Members have reached 920,000 units in 2004 (126% up year on year) and 979,000 units in 2005 (6% up year on year)
- In 2005, used car imports made up almost 58% of all first time registrations in the new EU Member countries

Used Car Imports, Registered for the First Time in the New EU Countries

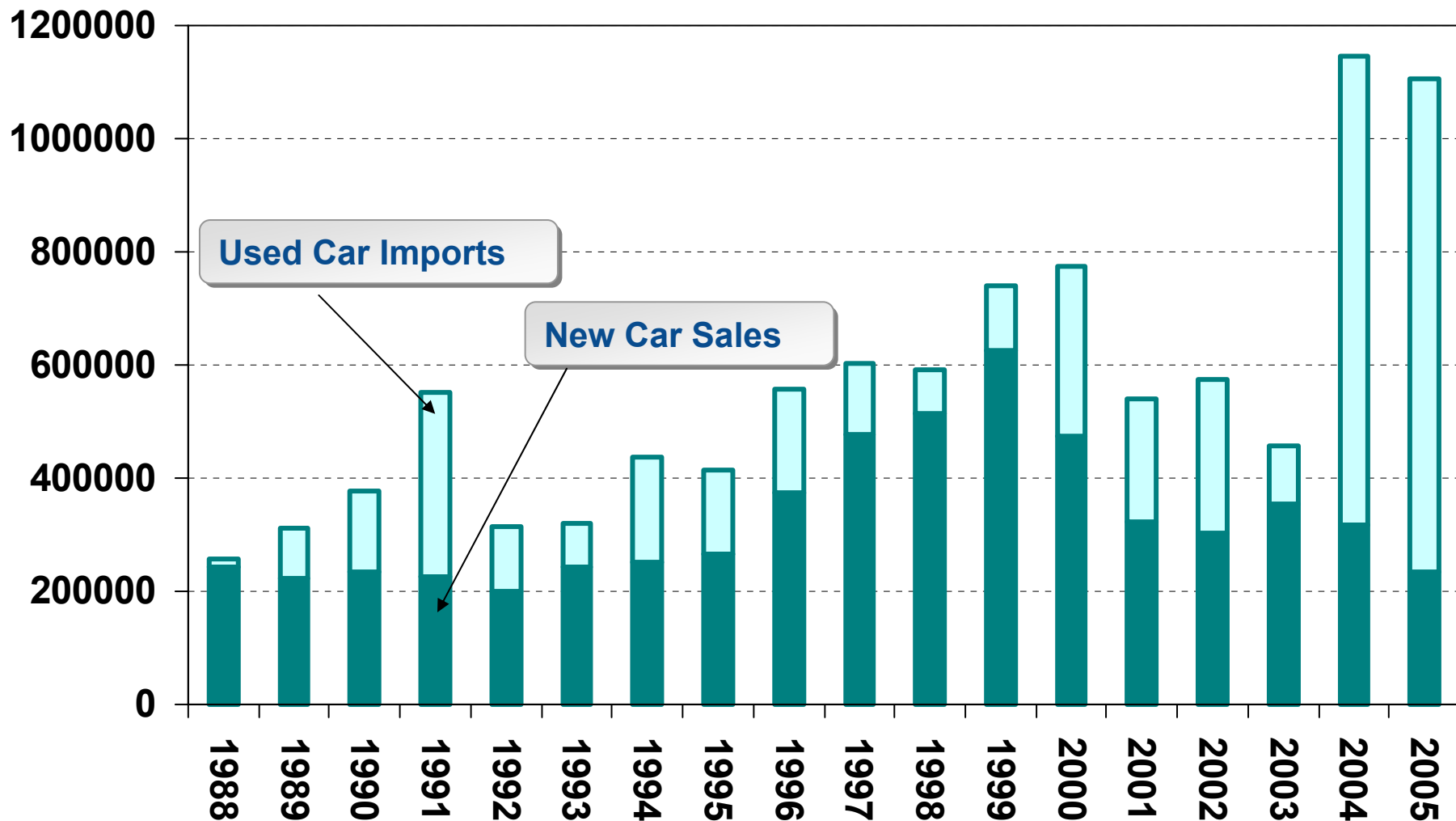
Used imports	2003 (‘000)	2004 (‘000)	2005 (‘000)
Poland	33	515	531
Czech R	116	122	141
Lithuania	111	125	130
Latvia	45	46	53
Hungary	61	60	50
Estonia	26	31	41
Slovenia	7	8	17
Slovakia	8	13	16
Sub-Total	407	920	979

First Time Registrations: Used Cars Run at Higher Levels Than New Cars



- **Poland:**
 - 65–70% of all first time registrations are used cars
 - Currently, the most popular models are cars produced in 1995
- **Czech Republic:**
 - Over 53% of all registrations are used imports.
 - The average aged of imported second hand cars is 7 years old
- **The Baltic states** have the highest proportion of used cars registered for the first time
 - Over 90% of cars registered in Lithuania, are used car imports
 - Over 60% of used cars imported to the Baltic states come from Germany
 - The majority of cars are 11 to 15 years old

Poland Had Problems With Used Car Imports in the Past, But Never On Such a Big Scale...



The Changes in Legislation Has Led to Floods of Used Car Imports

Legislation in Poland

Before the EU Accession

- **22% VAT levied on all cars**
- **Tariffs on imports from MFN countries = 35%**
- **Euro II cars – banned**
- **100% of VAT deduction on company cars**
- **Excise Tax: % paid of the value of the car**

After the EU Accession

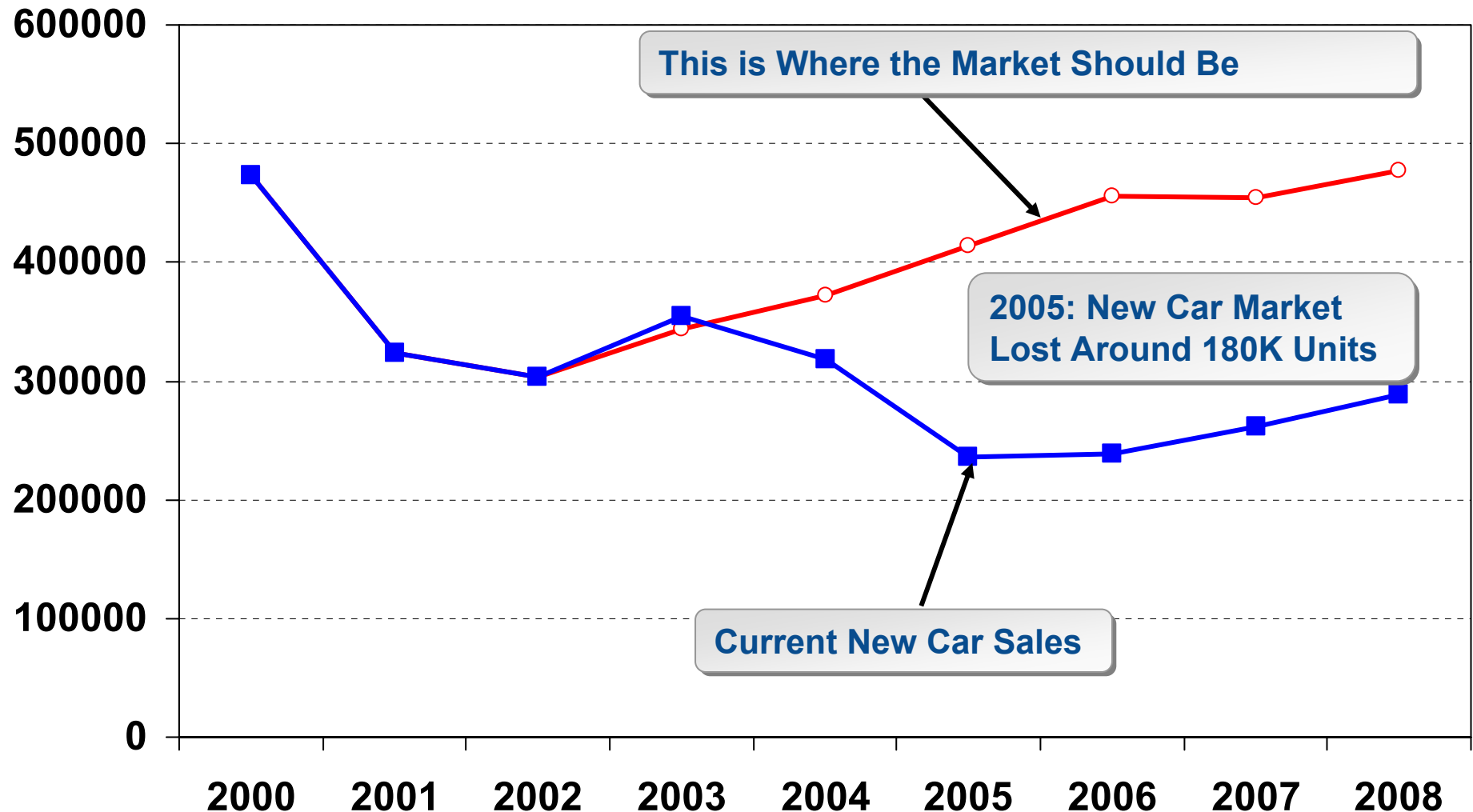
- **22% VAT removed for used imports**
- **Tariffs on imports from MFN countries = 10%**
- **Euro II barrier – lifted**
- **60% of VAT deduction (or PLN 6,000) on company cars**
- **Excise Tax: % paid of the value of the car**

Poland – New Car Demand Has Fallen Dramatically Since the EU Accession

- **Flood of used cars hit car importers and manufacturers hard**
- **Second hand car prices have gone down**
- **Depressed residual value of cars means that the trade up is more expensive**
- **New car prices increased**
- **Financial situation of Polish buyers is bad**
- **The complicated and changing tax regime in Poland is confusing for both buyers and investors**



Poland: Used Car Imports Had a Devastating Impact on New Car Demand



The Majority of Used Cars Imported to Poland Are Old Cars...

Out of All Used Car Imports

Cars less than 4 years old made up:

December 2005: 5%

January 2006: 5.9%

March 2006: 7.1%



Cars 4 - 10 years old made up:

December 2005: 28.3%

January 2006: 29.1%

March 2006: 34.6%



Cars older than 10 years made up:

December 2005: 66.7%

January 2006: 65%

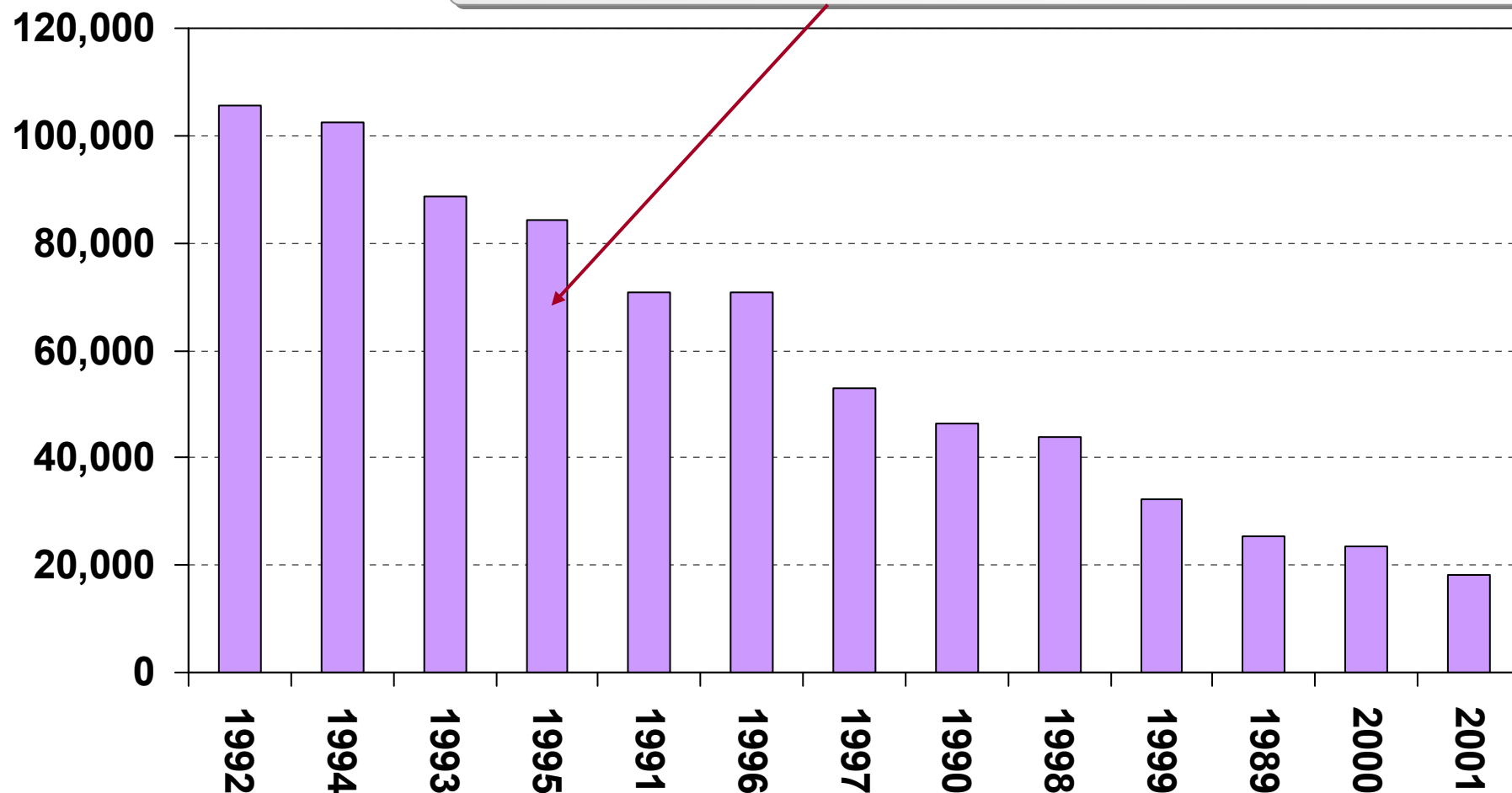
March 2006: 58.3%



Source: the Polish Ministry of Finance

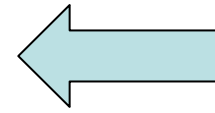
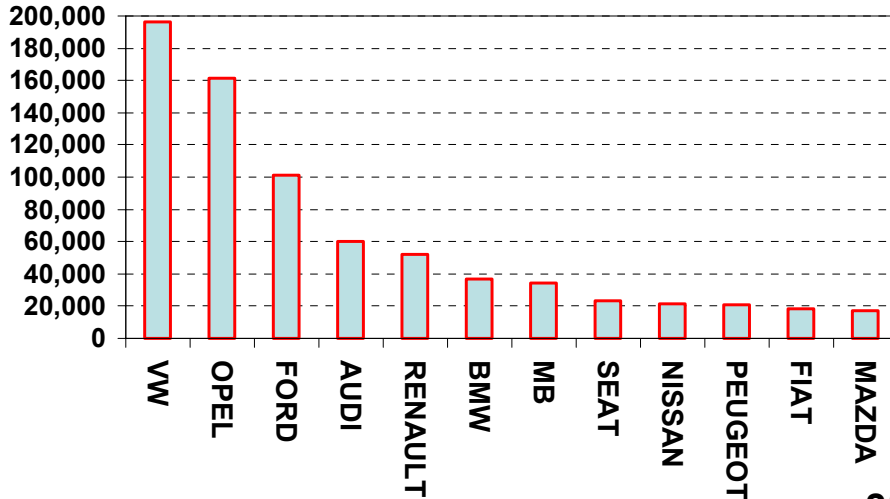
Poland: Used Car Imports By Year of Production (2005)

In March 2006, Cars Produced in 1995 Were the Most Popular



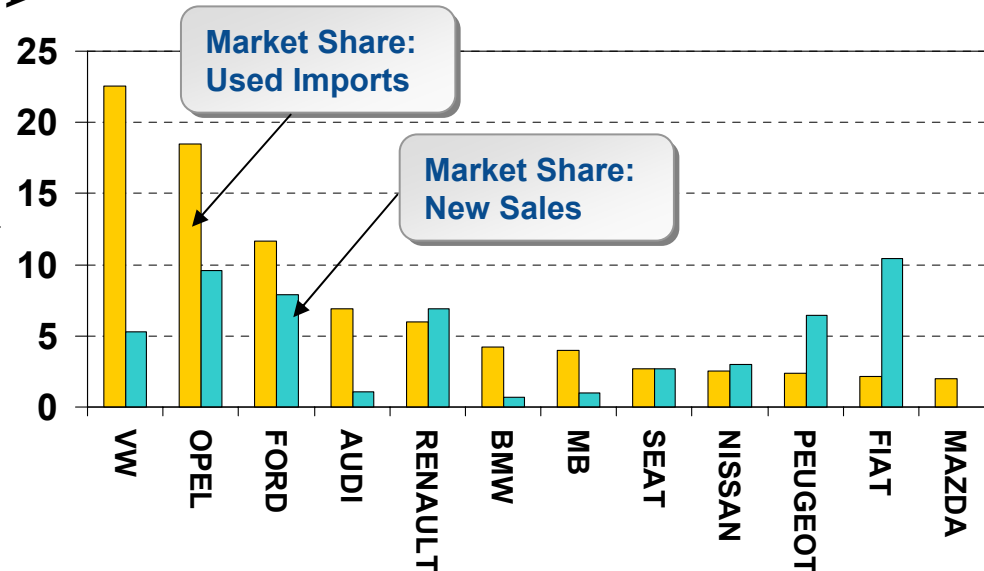
Source: the Polish Ministry of Finance

Poland: Which Brands Enjoyed the Biggest Demand in 2005?



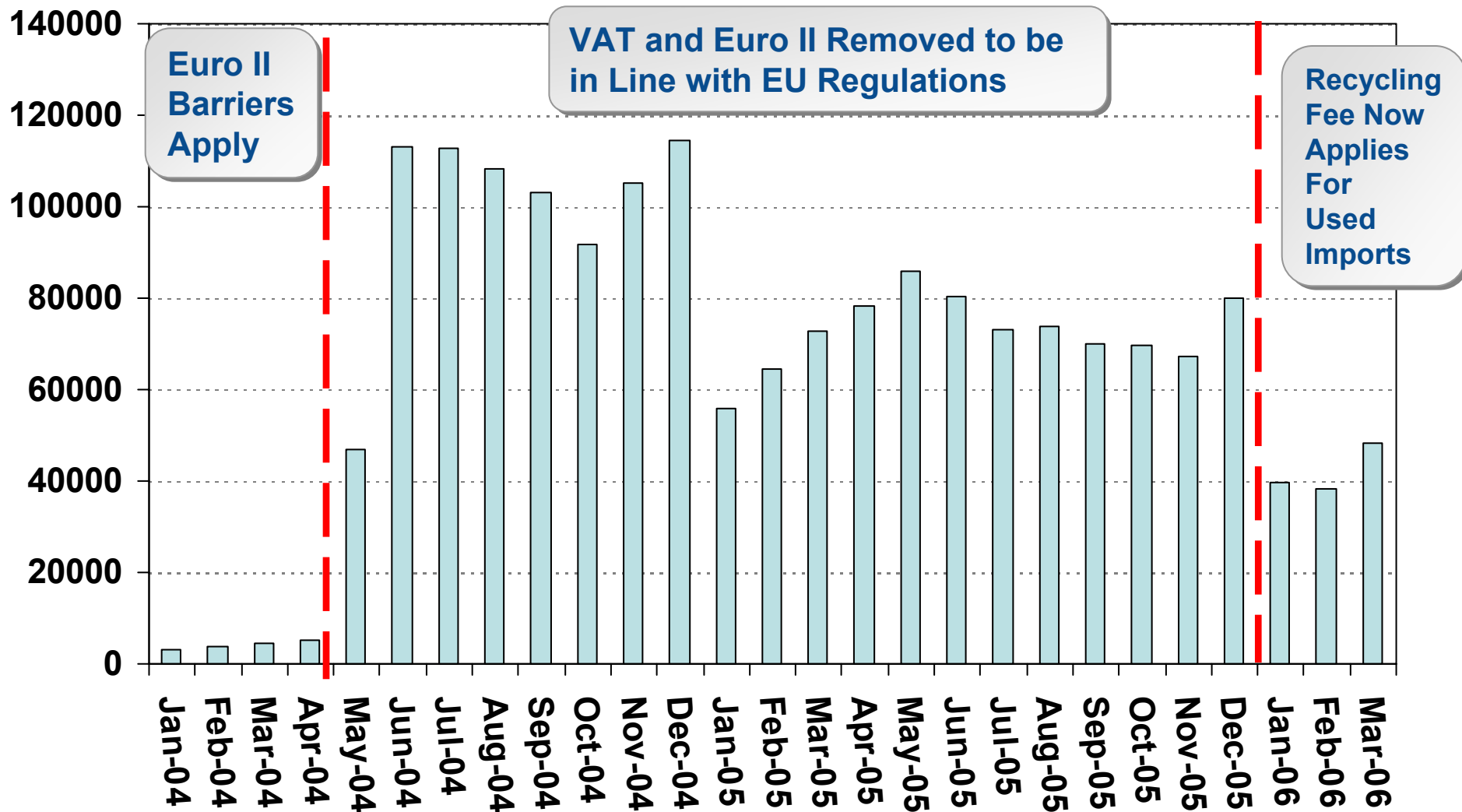
**Used Car Imports:
Top Brands in 2005**

...and how did the same brands performed on the new car market?



Source: the Polish Ministry of Finance

Poland - Used Car Imports Are Slowing Down, But They Are Still at Very High Levels



Source: Samar

Poland: Will the Car Market Move...

From:



To:



- **In the short term the market will get help from:**

- ELV Tax: Importers pay a fee of PLN 500 (€150) per vehicle registered (from January 2006)

- Ecological Tax: based on a vehicle's age, engine size and compliance with European emission standards (from November 2006?)

- VAT: company car owners will be able to deduct the full VAT paid on their car (from January 2007)

- **In the long term the market will get a boost from:**

- Wage increases

- Lower unemployment

- Replacement demand

What Did the Other Countries Do to Stop Used Car Floods?

Legislative Changes in Other Markets After Joining the EU

- **Czech Republic:**

- VAT on used imports has been lifted
- Vehicles of up to 11 years old can be imported, but they must comply with Euro II norms

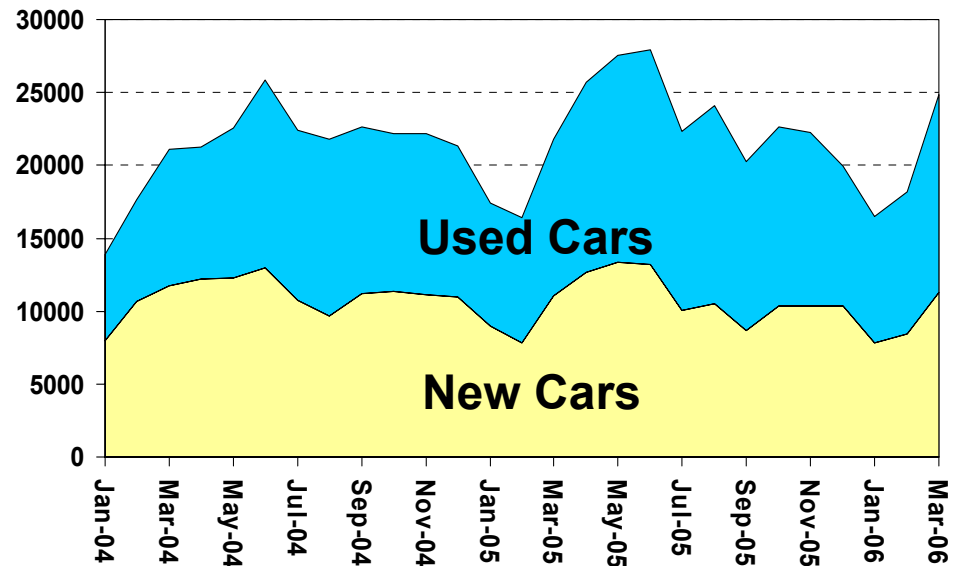
- **Hungary:**

- VAT on used imports has been lifted
- Registration tax has been introduced in May 2004. The fee depends on both fuel/engine size (cubic capacity) and the environmental classification of the vehicle (Euro-II, Euro-III/IV compliant). High fees discourage buyers from purchasing imported used cars

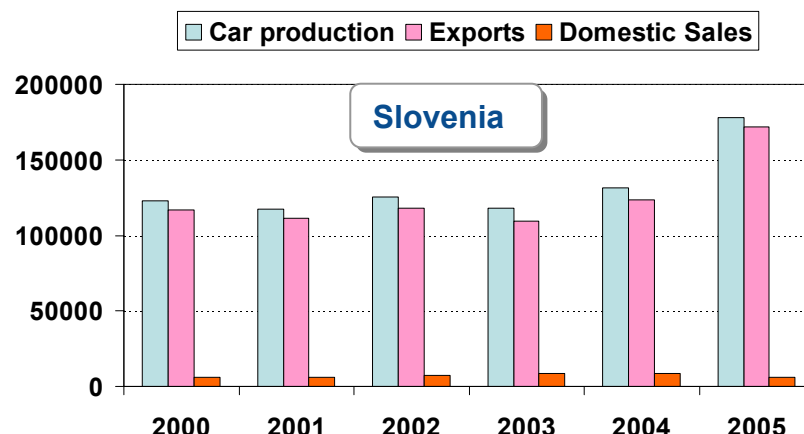
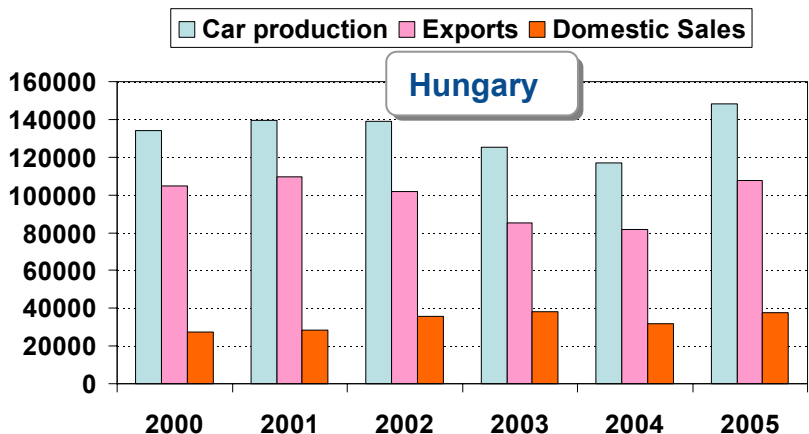
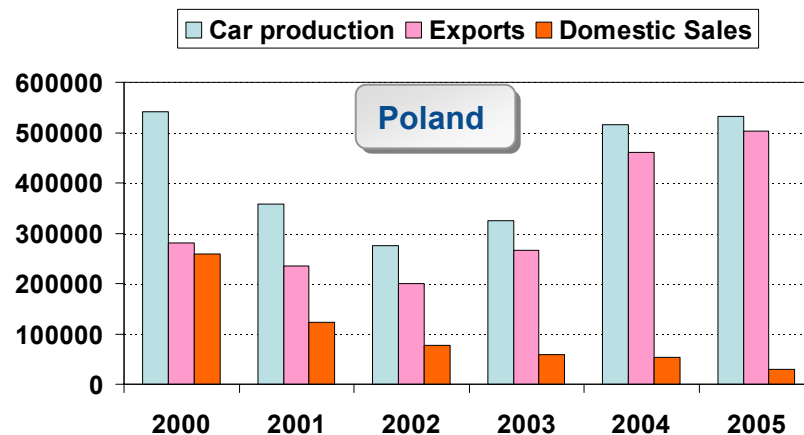
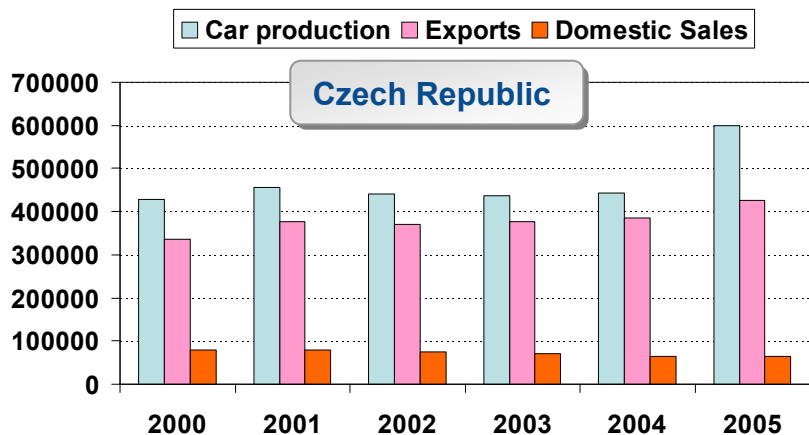
- **Slovakia:**

- VAT on used imports has been lifted
- Registration fee has been introduced. It rises sharply with a car's age and can reach up to €1,204

Czech Republic: Used Car Sales have Exceeded New Car Demand



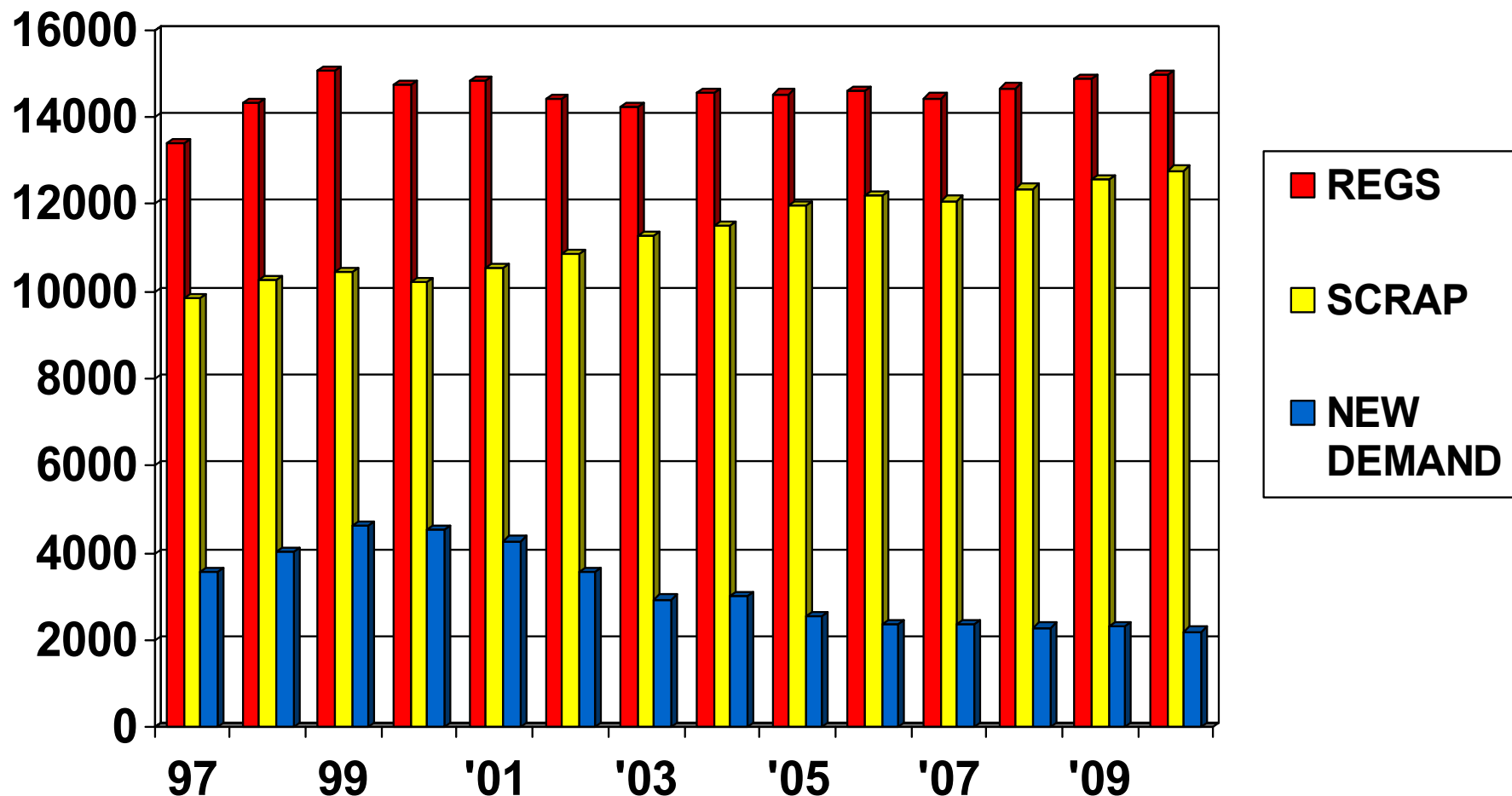
OEMs Have Decreased Production Destined for the Domestic Markets



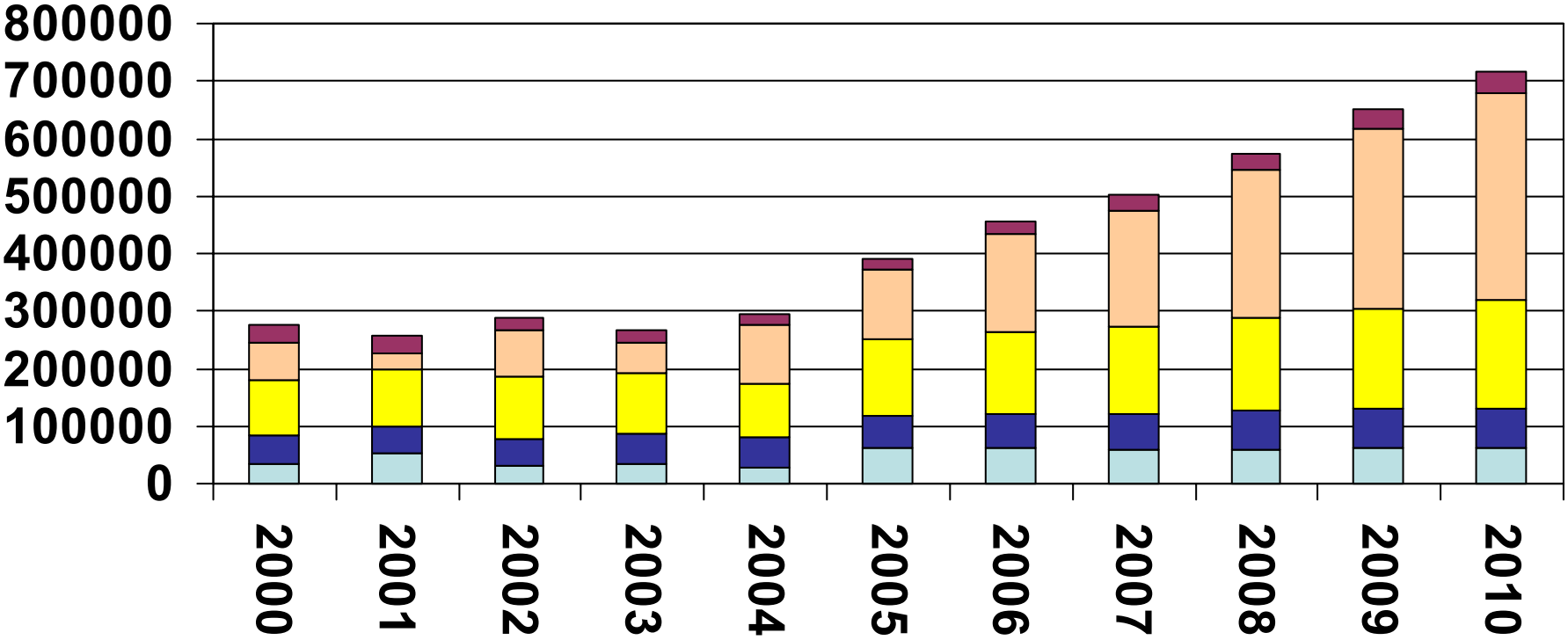
Western Europe: Used Car Exports to Eastern Europe Show Up As Scrapping and This Has Helped to Support Car Sales in the West At a Time When 'New Demand' Has Been Weak

(000's)

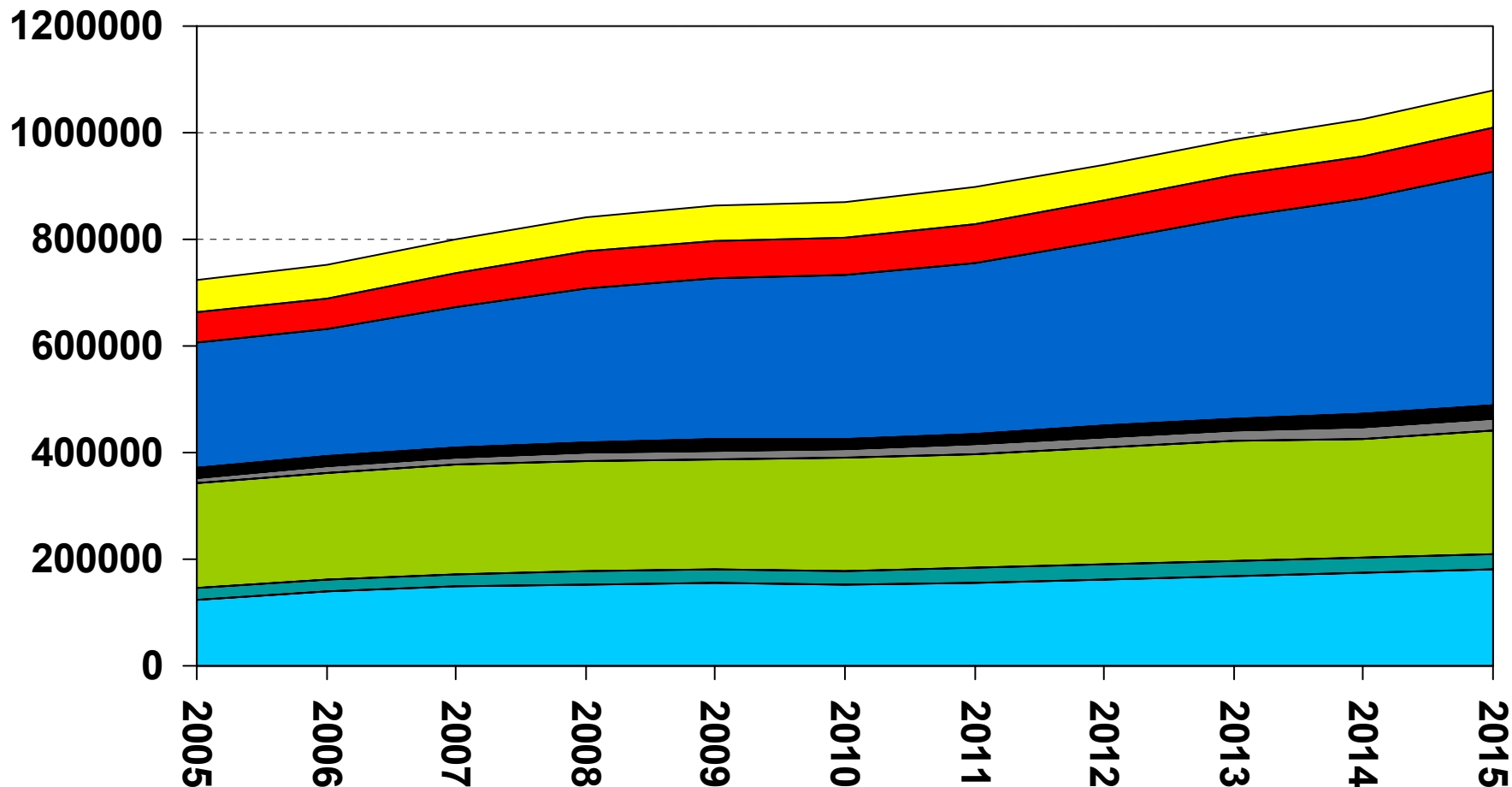
Replacement Demand: in 2000 = 70%, in 2005 = 80%



Old Used Cars Now Flowing in Means Accelerated Scrapping

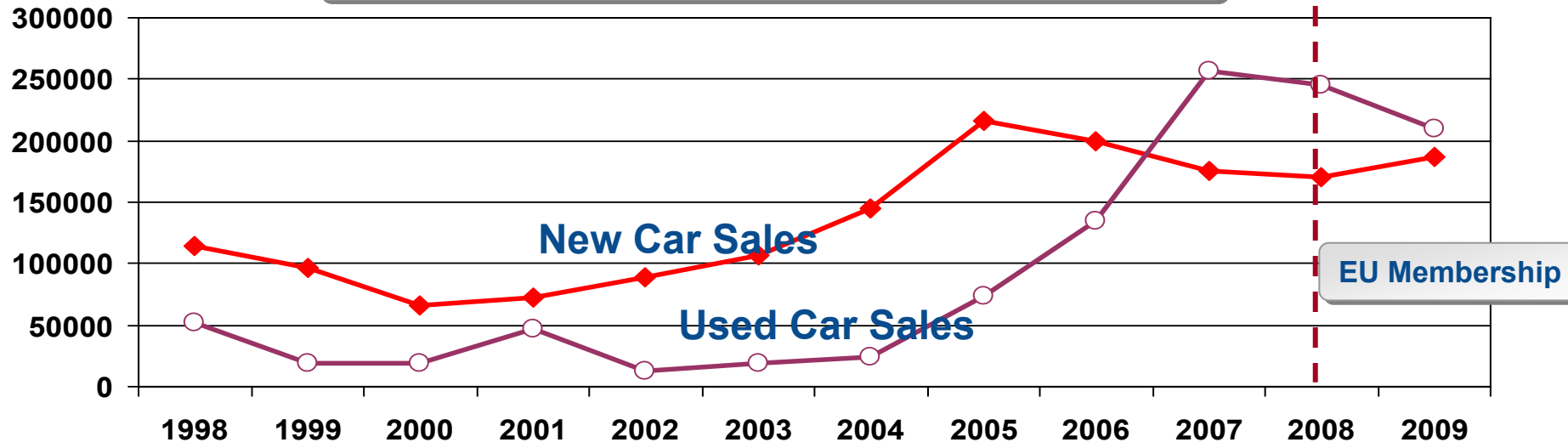


New EU Countries: Prospects For Recovery of New Car Sales Are Good



Will the Future EU Members Repeat Poland's Mistake?

Romania: Demand for New and Used Cars



- As of 2007, Romanian borders will open to all used vehicles:
 - VAT on used imports will be lifted
 - The Euro III barriers on used imports will be banned
 - Excise Tax is likely to be abolished
- The Romanian Government is currently working on a new registration tax, which would be based on the age of the vehicle as well as Euro norms

Conclusion

- **EU Accession has been more difficult than previously anticipated**
- **Used car imports played havoc with new car sales**
- **It will take significant time for the influx of used imports to go through the system. The damage has been done for the next three or four years**
- **On the up side, used imports have supported the Western European new car market in a short term**
- **In a long term, accelerated scrapping will help to lift new car demand in Central Europe**
- **Future EU Entrants, will have to learn a lesson from these countries to avoid the disruption on their markets**

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Thank You

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