

Scrapping Bonus in Europe:
Governments Spending Wisely?

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About 720,000 tons of scrap Germany is going to collect in 2009 with a very likely increase by 50%. And they're even going to pay for it: 1.5 billion euro. This is the amount that the German Government is paying for the first 600,000 applicants who are willing to give away their used cars (older than 9 years) for a premium to buy a brand new automobile. (Deutsche Welle, 2009). But this type of economic stimulus package is also taking place in several other European countries, therefore a couple of other billion euro are pumped to help the auto market exclusively. Willy-nilly, the question about the car-wrecking incentive raises, posing the efficiency of the program under the question mark. However, the Scrapping Bonus increases well-being, reduces unemployment and helps the environment.

Even though the Scrapping Bonus Program works on the same principle around Europe, there are still a lot of differences. To begin with, it is important to note the countries currently offering the premium, waiting for the legislation to be developed or pending for the government's approval: Austria, Belgium, Czech Republic, France, Germany, Italy, Luxembourg, Poland, Portugal, Romania, Serbia, Slovakia, Spain and United Kingdom. Among all these states, the authors of scrapping-bonus.com relate that Germany and Luxemburg have the largest incentive (2,500 euro), preceded by Austria, Italy and Slovakia with 1,500 euro, France and Serbia with 1,000 euro and Romania with 700 euro. The same website describes another difference between the minimum years of usage for a car to be considered "scrap", starting again with 9 years in Germany, 10 years in Romania and going up to 13 years in Austria. Moreover, in contrast with the other countries, a car is considered new in Slovakia even if it has no more than 6,000 kilometers on the clock and it is less than 6 months old (Radio Slovakia

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International, 2009). The quantity of CO₂ / kilometer a car produces is another limit with different values, the new car to be bought has to emit 120 g or less of CO₂ / kilometer in Luxembourg and Italy and up to 160 g or less in France. In summary, there are different particularities for the Scrapping Bonus in Europe but mainly it represents the same fact: governments give incentives for buying new cars. This stimulates the economy and renews the auto park, which leads to safer and less polluting vehicles meaning less pain for our environment too.

A new car makes each and every buyer happy. It is one of the moments when people's lives becomes easier, safer or more luxurious, but generally better. And the economy follows the same path. The 91 percents of the respondents who answered "Yes" to the question "Do you like the scrapping premium?" represent strong evidence to support that people do welcome the bonus that helps them to buy a new automobile (scapping-premium.com, 2009). In addition, the two months Germany needed to use up all the 1.5 billion euro set aside for the Scrapping Bonus program (as cited in Deutsche Welle, 2009) reveal the same huge demand. In fact, the government spokesman, Thomas Steg, had to make an announcement in order to avoid consumer panic: "There is no basis for panic, haste or a run out of applications". Staying in the same country, the editorial team from just-auto.com reveals that even the orders from private buyers for the commercial vans boosted up in March 2009 by 13% as a result of the Scrapping Bonus Program. They explain this by saying "Such vehicles are gaining popularity particularly with families with younger children (loads of toy storage space) and also with disabled buyers as there is plenty of room for a wheelchair and associated equipment" ("GERMANY: Scrapping bonus boosts private van sales," 2009). Thus, there is no doubt for an

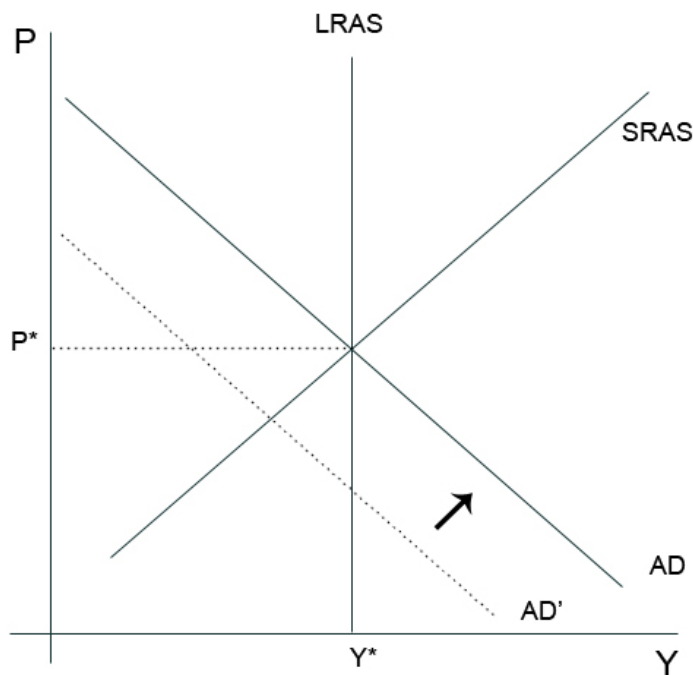
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increase in the well being of people who benefit from this program even though PEGE (Planetary Engineering Group Earth) has a different claim. The NGO “that informs since 1991 about important items regarding our future”, as they describe themselves, estimates that the increasing rate of unemployment will lead eventually to some of the people who benefited from the scrap premium becoming unemployed. Because they used the bonus for the leasing advance now they are unable to pay and are left with a residual value for the car higher than market value. Shortly, PEGE says that part of the program’s users will be left without the car plus a debt to the leasing company. Such scenario is possible to happen indeed, but it is very unlikely to happen to the average of users and furthermore, the Scrapping Bonus program actually tends to maintain or even decrease the unemployment rate as it will be discussed a bit later.

Looking now at the economy side, the numbers speak for themselves. According to Credit Suisse, Germany, one of the major car-producing nations in the world suffered a decrease of 0.6% from the gross domestic product in the fourth quarter of 2008, caused by a dramatic decrease in the demand for automobiles. It also contributed to the 2.1% overall contraction in Europe's largest economy last quarter. On the other hand, figures for the first quarter of 2009 will surely look different for Germany after government’s incentive boosted the demand for new cars with 21% in February 2009 and 40% in March 2009 (just-auto.com, 2009). There is no wonder why Thomas Steg, Germany’s government spokesman, said the program is “a huge hit”. But not everyone likes the program that much: according to Paul Schilling, the chief editor of Freie HONNEFER, experts (most likely supply side economists) are questioning the program, seeing it as a very big opportunity cost for developing new technologies (“From

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Inside Germany: Scrap bonus – Who really benefits,” 2009). Though, an increase in output from improving technologies is soon to happen in the long run, therefore stimulating the aggregate demand is the option governments have for this current severe recession.



So, the Scrapping Bonus program is indeed a spark for new cars sales, giving some pain killers to an economy's sector roughly hit by recession. It also produces very good statistics for the government's plan of increasing the general demand.

This incentive has a role in keeping the unemployment rate on the same level, too. People restart working in factories after temporary lay-offs and salesmen make deals again. Moreover, Dacia, the car manufacturer from Romania hires 500 more people and prolongs the contract for 400 workers. This comes as a result of the increasing demand from the European countries who have the Scrapping Bonus Program. Dacia will increase its production with 140 vehicles/day, from 1200 to 1340, starting with June 2009 (bloombiz.ro, 2009). Furthermore,

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after Fiat signed a deal at the end of 2008 with Zastava, Serbia's only car manufacturer, with a plan to produce 15,000 Punto cars per year, the Economy Minister, Mladjan Dinkic, decided to introduce the bonus for new cars. He told the parliament that this is a part of the government's plan for the current crisis, aiming to keep workers producing in the Zastava factory. The 1,000 euro incentive for buying a new car will be offered only to those who accept to take home a Fiat Punto assembled in the country, at Zastava. (The Associated Press, 2009). So, factory workers remain employed and in addition to this, people in other related or non-related industries keep their jobs.

Another extra result for the Scrapping Bonus program is that people get safer cars. A vehicle produced today is on average two times safer than one produced 10 years ago. EuroNCAP provides motoring consumers with a realistic and independent assessment of the safety performance of some of the most popular cars sold in Europe. Established in 1997 it is now backed by seven European Governments, the European Commission and motoring and consumer organizations in every EU country. Counting their statistics (Europeans travel three times/day more than 20 years ago and 42,000 fatalities on European roads every year) and the simple example with a BMW 3 Series from 1997 getting a score of 10 at the EuroNCAP crush test compared to a BMW 3 Series from 2005 getting 35 out of 40 points it can be concluded that a few millions of people that will give away their older than 9 years cars because of the Scrapping Bonus Program will have a better, safer life. So, even if car safety is not a main concern in time of economic crisis, having this improvement as an extra from a government action that aims to stimulate the economy gives more credit to the program.

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Last but not least, the bonus improves the environment. Replacing old polluting cars with new ones that respect the regulation of maximum carbon oxide produced per kilometer represents a way of reducing the damage brought to our planet. Dr. Christoph Leitl, the President of Austrian Federal Economic Chamber stated about the Scrapping Bonus Program “This is a great idea to support the car industry, and also an important contribution for the conservation of the environment”. On the other hand, Greenpeace energy expert Jurrien Westerhof believes money could be invested better to prevent the climate change (Austria News, 2009).

This last difference of opinions is the best way to start concluding about the Scrapping Bonus Program. It cannot be disagreed that money could actually be invested better for our planet, or used for research and improvement in technology, or spent to reduce unemployment. But bearing in mind that governments’ first goal is to stimulate back the demand and adding that it does even more (increases well-being, prevents unemployment, helps the environment) the Scrapping Bonus Program becomes an effective action for governments to take in response to current recession.

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