



## CSM WORLDWIDE + IHS GLOBAL INSIGHT AUTOMOTIVE GROUP = IHS AUTOMOTIVE

### Trend Watch: Government Regulations Can Drive Industry Growth

By Paul Haelterman, Vice President, Advisory Services

It might be fair to say that most business people would prefer as little government intrusion into their businesses (and the overall market) as possible. It is a somewhat natural reaction for many people. However, when it comes to creating new business opportunities, government intervention can be a huge catalyst for growth.

The automotive industry saw significant governmental regulatory intervention in the 1960s, initially regarding crash safety. Seat belts were mandated in Western Europe, Japan and the US, and this created what is today over a \$7 US billion annual market for seat belts. This does not include all of the additional elements such as electronic control units (ECUs), crash sensors, pyrotechnic tensioners, etc., which easily takes the figure to more than \$10 US billion.

In the US, a modification was made to the Federal Motor Vehicles Safety Standard (FMVSS-208) and occupant classification systems were mandated for front passenger seating systems. This one piece of regulatory change for the US market created a \$4 US billion industry.

Looking at recent developments in Brazil for driver- and passenger-side airbags, the current penetration rate is just under 20%. However, this will grow dramatically over the next few years due to government regulation. Brazil's government mandates the use of driver and passenger airbags for all vehicles sold in the Brazilian market (CONTRAN #311). Using a rational "phased-in" approach starting in 2011, all new vehicles introduced must have a driver and passenger airbag by 2013. By 2014, all vehicles sold in Brazil must be equipped with a driver and passenger airbag. Figure 1 shows an increase in the value of the Brazilian airbag market by over 700% between 2010 and 2016.

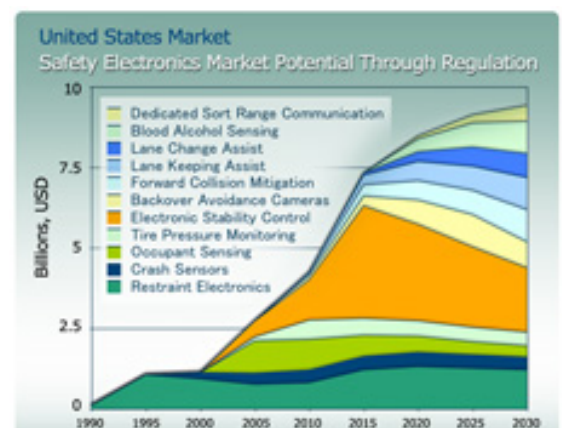


We are seeing similar developments in mature markets for incremental safety equipment as markets like the United States now have nearly 100% penetration of six airbags per vehicle (i.e., driver, passenger, 2-side curtain bags, 2-driver and passenger seat thorax bags). Some vehicles have knee airbags, while other vehicles with three rows of seats have two additional side curtain bags for the last row of seats. The airbag module business is now worth over \$9 US billion, not including the ECUs, sensors, wiring, etc.

In the safety electronics market, not all items are regulated, while some are in the process of becoming regulated. In 2010, the US safety electronics market is estimated to be worth \$5 US billion, only including the electronics content. CSM forecasts this market to nearly double by 2030.

When there is clear mandatory regulation, suppliers have a high degree of certainty that each vehicle will need the regulated product. When the US created the "voluntary agreement" with automakers for six airbags per vehicle, problems did arise. OEMs wanted suppliers to add new capacity to support volumes, whereas suppliers needed orders to guarantee these volumes and add capacity. OEMs were reluctant to provide this, resulting in some unintended consequences.

CSM Worldwide closely monitors several new regulatory developments that will drive industry opportunities for the supply base. Many of the initiatives surround fuel economy, CO2 (in China, Europe and the US) and safety. CSM is available and would like to show you where you can obtain growth and profitability within these new regulations.



Paul Haelterman can be reached via e-mail at [paul.haelterman@ihs.com](mailto:paul.haelterman@ihs.com).