

# Driving ESG In The Used Car Market





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# Section 1

## Executive Summary

Malaysia's automotive ecosystem is massive and complex. It involves numerous industries and companies including car manufacturers, distributors, importers, service providers, and insurers, among others.

A key component of the automotive ecosystem is the used car industry, which is sizeable, with used cars accounting for 40% of cars on Malaysian roads. In absolute numbers, a total of 400,000 used cars were sold in 2021. In the same year, 600,000 new cars were sold.

The growth of the used car industry both in terms of volume and value is expected to increase by nearly 10% by 2025. This is in stark contrast to the decline in the industry between 2015-2020.

An important factor for this impressive growth is the affordability of used cars, which have a lower entry cost than newer cars. Most used cars in the market use internal combustion engines (ICEs) which run on cheaper fuels.

The emergence of online car trading platforms which have made the process of buying used cars easier and more transparent. Additionally, the unreliable public transport system especially in the Klang Valley has led more to purchasing their own vehicles. Having a personal vehicle has also been essential for those working with e-hailing and p-hailing companies.

However, there are challenges facing the used car industry, particularly where environmental, social, and governance (ESG) agendas are concerned. ESG goals are becoming increasingly important to governments, markets, and end-consumers but the used car industry is often perceived as

being incompatible with these goals.

In fact, the National Automotive Policy (NAP) 2014-2020 and the subsequent NAP 2020-2030 places an emphasis on the "Green and Sustainability" theme. Locally and globally, many believe that fuel-efficient and low-emission cars are the only vehicles that comply with ESG goals.

For example, the used car industry is not viewed as being environmentally-friendly because most of the cars in the market are considered old, high-polluting, and contributing towards the consumption of fossil fuels. Additionally, these cars are perceived as contributing to traffic jams and accidents because of their ageing parts.

There are also concerns over the social and governance aspects of the used car industry which contribute to perceptions surrounding used cars.

However, as this paper discusses, the used car market is actually ESG-compatible.

Used cars help reduce wastage and the use of valuable limited resources. The second-hand market is also increasingly being populated with more fuel-efficient and environmentally friendly cars. Additionally, the lower prices of used cars compared to new cars mean they help facilitate social mobility.

With the increased adoption of the ESG agenda by Malaysian companies, particularly automotive industry players, it is clear that the used car industry cannot be left out of ESG conversations and policies. All stakeholders must be aware of the important role the used car industry can, and will play, in furthering Malaysia's pursuit of the ESG agenda.

## Section 2

# Premise

Malaysia's automotive ecosystem is driven by the National Automotive Policy (NAP), which was first introduced in 2006 to facilitate the required transformation and to integrate the local automotive industry into the increasingly liberalised and competitive global environment.

In NAP 2014-2020, the Government has placed an emphasis on being 'green' or environmentally friendly as well as being sustainable with a focus on developing Malaysia as a hub for energy efficient vehicles (EEVs). This has led to the burgeoning of EEVs that include Battery Electric Vehicles (BEVs), Plug-in Hybrid Electric Vehicles (PHEVs) and Hybrid Electric Vehicles (HEVs) into the Malaysian automotive market.

The growth trend in EEV is expected to continue into the foreseeable future, as EEVs are also expected to play a role in NAP 2020 – 2030, which emphasizes Connected Mobility in a bid to enhance the automotive industry in the digital industrial transformation era. One of the objectives of NAP 2020 – 2030 is to reduce carbon emission from vehicles by improving fuel economy level in Malaysia by 2025 in line with the ASEAN Fuel Economy Roadmap of 5.3 Lge / 100km.

The emphasis on reducing carbon emissions and putting more energy efficient vehicles on the road is in tandem with the increasing global commitment towards sustainability, which has in turn driven the adoption of ESG (Environment, Social and Governance) for automotive industry players across the world.

In Malaysia, the used car industry is a critical component of the local automotive system. This industry consists of an extensive eco-system that include used car dealerships,

financing companies, after-market parts and services, importers and exporters, vehicle inspection agencies as well as online trading platforms.

While the global and domestic automotive industry is adopting the pillars of ESG throughout its value chain, the used car industry in Malaysia is still very much focused on internal combustion engines (ICEs). As such, there is a perception that the used car industry may find it challenging to adopt ESG as it facilitates and pro-long the use of ICE vehicles that may not be as energy efficient or as eco-friendly as EEVs.

This paper (supported by ELK-Desa Capital Sdn. Bhd.) seeks to determine if the used car industry in Malaysia is ESG compatible while outlining ways to enhance ESG in this industry.

Key sections in this paper include

Definition of ESG

02. Malaysian automotive landscape

03. Used car market from an ESG perspective

## Section 3

# What is ESG and Sustainability?

ESGs refers to a set of standards used to evaluate a company. Investors use ESGs to screen potential investments to determine the ethical impact of investing in a company.

The environmental criteria focuses on the impact a company and its operations has on the environment. It also looks at a company's policies to minimise its impact on the environment, address climate change, and reduce energy consumption and carbon emissions, among others.

The social criteria centres around a company's impact on society, which includes its employees, suppliers, customers and surrounding communities. This criteria covers labour practices, community engagement, diversity and inclusion, and human rights, among others.

The governance criteria examines a company's structure and leadership, issues of transparency, internal control and compliance, risk management, and stakeholder rights, among others.

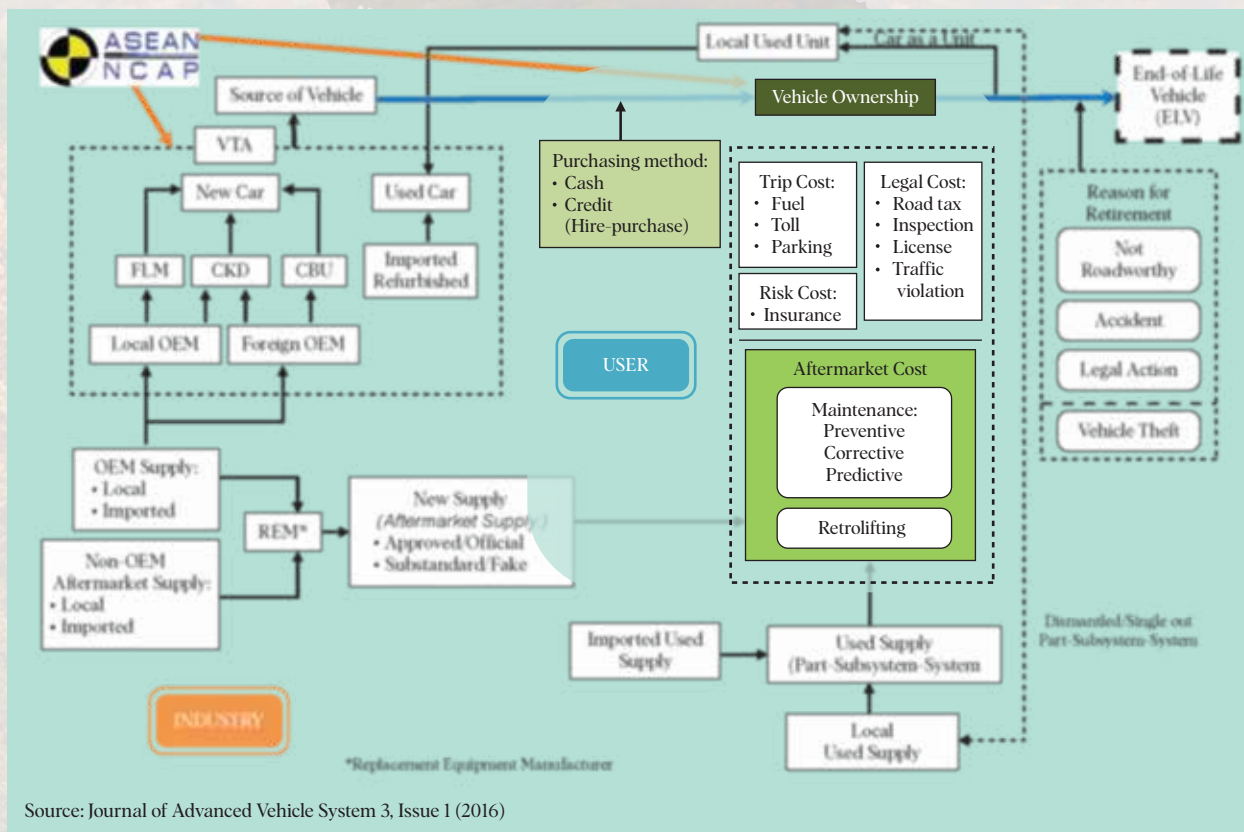
Sustainability assesses a company's ability to operate and grow in an economically, environmentally, and socially responsible manner. This involves the adoption of policies and best practices to have lasting and positive impact on stakeholders, surrounding communities and the environment.



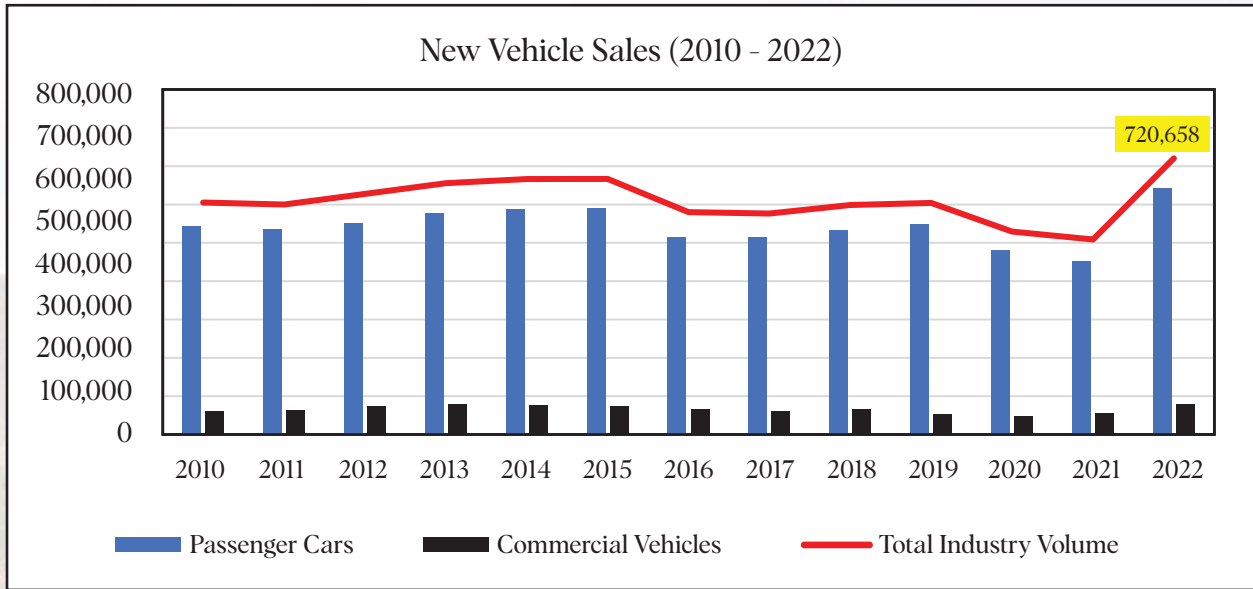
# Section 4

## The Malaysian Automotive Landscape

The Malaysian automotive ecosystem is complex and encompasses multiple industries and players, from car manufacturers, importers, distributors, end-car financing, servicing, repairs, and insurers. Used cars are a part of this ecosystem and comprise imported and refurbished vehicles.



In terms of growth, vehicle sales saw an uptick last year after a period of slight decline between 2016 and 2021. According to statistics from the Malaysian Automotive Association (MAA), a total of 720,658 vehicles were sold last year. This has been supported by the growth of online vehicle trading platforms and an unreliable public transport system. While ICE vehicles still dominate the market, electric vehicle (EV) sales are gaining ground.



Source: Malaysian Automotive Association, MAA

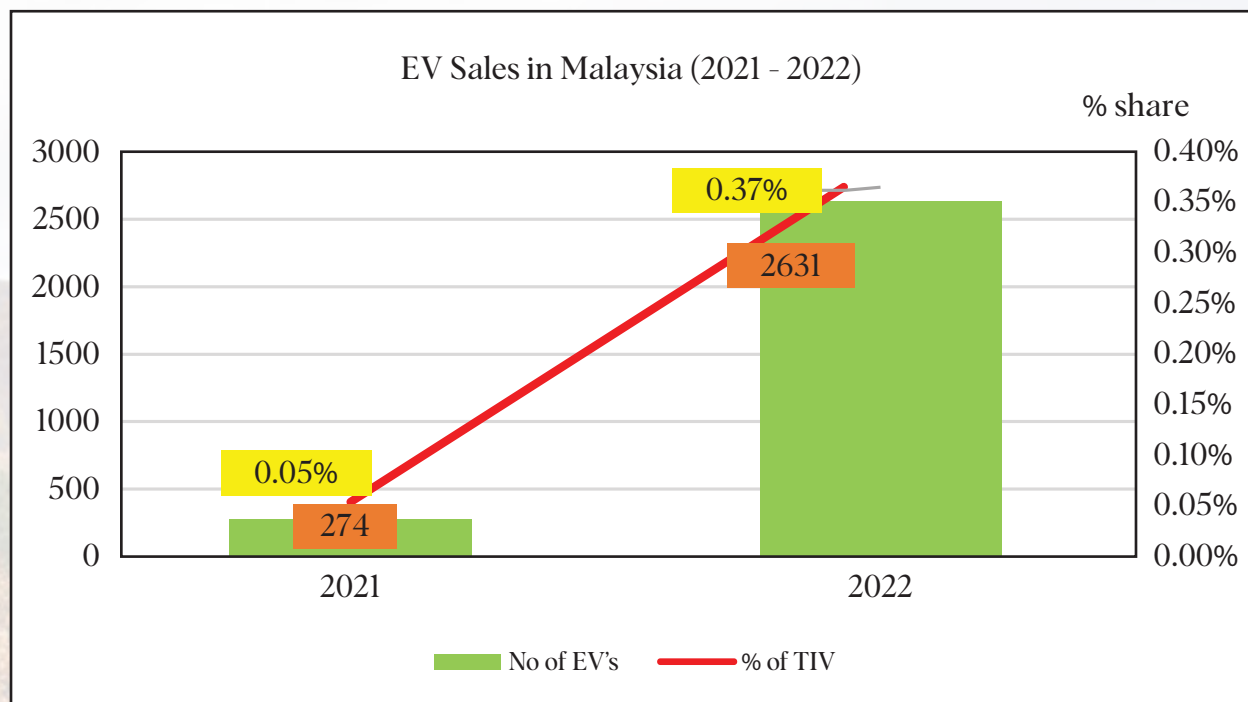
In terms of the local industry, the NAP 2020-2030 also touches on moving beyond EEVs. Globally, the concept of mobility will influence the direction of product development, from a purely powertrain-based vehicle to the incorporation of artificial intelligence and connectivity features in vehicles.

POLICY DRIVEN			VISION DRIVES POLICY
<b>SUPPLY CHAIN INTEGRATION</b>	<b>INVESTMENTS PROMOTION</b>	<b>GREEN AND SUSTAINABILITY</b>	<b>CONNECTED MOBILITY</b>
NAP 2006 (2006-2009)	NAP 2009 (2009-2014)	NAP 2014 (2014-2020)	NAP 2020 (2020-2030)
<b>ADOPTED POLICY</b>	<b>REVIEWED</b>	<b>FOCUSED</b>	<b>ENHANCED</b>
Introduced to transform the domestic automotive industry and integrating it into the increasingly competitive regional and global industry network.	Reviewed to enhance the capability and competitiveness of the domestic automotive industry.	Focused on developing Malaysia as the hub for Energy Efficient Vehicle (EEV)	Enhance Malaysia's automotive industry in the era of digital industrial transformation.

Source: National Automotive Policy 2020, Ministry of International Trade and Industry (MITI)

A greater emphasis on ESG goals are also strongly shaping the automotive industry, particularly the development of more EEVs in line with consumer demands. In Malaysia, the sale of EEVs grew by almost tenfold from 2021 (274 units) to (2,631 units) a year later.





Source: Malaysian Automotive Association, MAA

The Malaysian automotive landscape is also expected to see changes in line with the Government's plans to reduce carbon emissions. Notably, Malaysian automotive industry players like UMW Holdings and Bermaz Auto Berhad have adopted ESG agendas. UMW, which is the sole distributor for the Toyota and Lexus brands, has, among others, pledged to achieve 100% carbon-neutrality by 2050. Bermaz Auto, which distributes Mazda, Peugeot, and Kia vehicles has already brought EVs into the market as part of its ESG goals.

The Malaysian Government is also seeking to develop the Next Generation Vehicle (NxGV) technology ecosystem to turn Malaysia into a regional hub for the production of NxGVs which are environmentally friendly and fuel-efficient with low or no emissions. Electric vehicles (EVs), hybrid vehicles (HVs), plug-in-hybrid vehicles (PHEVs), and fuel cell vehicles (FCVs) are examples of NxGVs. Of the NxGVs, the Malaysian Government has placed special emphasis on EVs, and has set up a National EV Taskforce which has set targets to increase the total industry volume of EVs and HVs to 38% by 2040.

Currently, EVs only account for less than 5% of the total industry volume in Malaysia. The Taskforce also aims to establish 10,000 public charging stations by 2025.

# Section 5

## Malaysian Used Car Market

The Malaysian used car market is sizeable in nature, with 2 out of every 5 cars sold in the country being a used car. In 2021, 400,000 used cars were sold compared to 600,000 new cars. The growth of online car trading platforms such as Carsome and MyTukar has contributed to an uptick in used car sales and this trend is expected to continue in years to come.



**Historical Market Growth**  
(CAGR 2015 - 2020)  
Used car market by volume: -0.1%  
Used car market by value: 1.2%



**Future Market Growth**  
(CAGR 2015 - 2020)  
Used car market by volume: 8.6%  
Used car market by value: 9.6%



**Competition Structure**  
Highly Fragmented with 4,500-5,000 multi-brand dealers, 10-12 OEM certified, 5-7 auction players, 10-15 C2B players, 10-15 Online auto classified



**Market Stage**  
Late-growth Stage



**Basis of Competition**  
Number of listings, vehicle Brands offered, Number of listings, Additional service offerings (Financing/ Warranty/ After sales), Key Focus areas, Partnerships (For offline players)

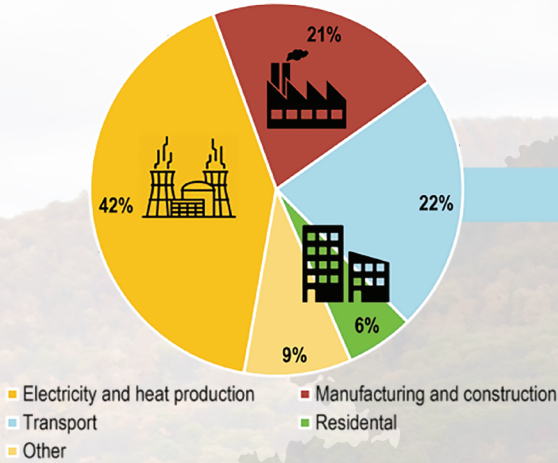


Source: KenResearch

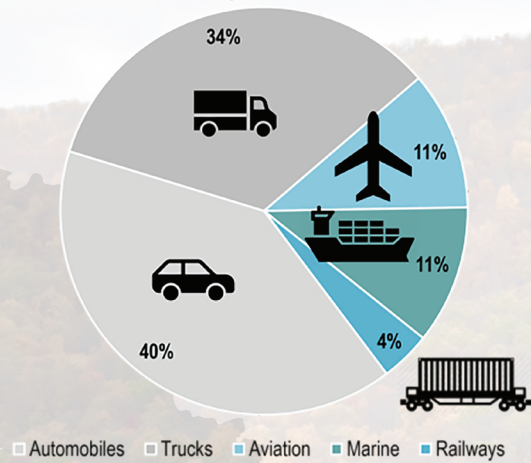
Aside from these online platforms, there are some 5,000 brick-and-mortar used car dealers offering multiple brands. An unreliable public transport system, including frequent train breakdowns is also contributing to increased used car sales. In fact, the growth of the used car market by volume is expected to hit 8.6% by 2025 compared to the -0.1% growth seen between 2015 and 2020.

While the Malaysian used car industry remains a critical component to the overall automotive system and a key economic contributor, the industry is perceived to be a laggard when it comes to adopting ESG.

CO2 Emissions by Economic Sector



CO2 Emissions by the Transport Sector



Global Greenhouse Gas Emissions by the Transportation Sector

Source: The Geography of Transport Systems, Global Greenhouse Gas Emissions by the Transportation Sector

From an environmental perspective, the used car market is often seen as a conduit to keeping old, inefficient, and polluting cars on the road. It must be noted that the transport sector in Malaysia accounts for 20% of greenhouse gas emissions. Of this figure, cars contribute around 40% of carbon emissions.

From a social standpoint, used cars are also often perceived as problematic and costly to maintain and as such, become a financial burden especially to M40 and B40 owners. The used car industry is also blamed for keeping many cars on the road, leading to traffic congestions and the need to spend on building more highways and roads.

In terms of governance, used car dealers are often regarded as unethical, pushing for sales of cars that may have problems. The used car eco-system is also believed to be opaque and non-transparent as Malaysian may not understand the breadth and depth of the eco-system.

# Reality Check: Used Car Industry IS ESG Compatible

In spite of the misperceptions surrounding Malaysia's used car industry from a sustainability perspective, there are already tangible and viable elements embedded within the industry eco-system that are ESG compliant. Furthermore, as the entire global and domestic automotive industry shifts towards a more sustainable operating stance, used car industry stakeholders are able to strengthen against risks and take advantage of more ESG opportunities to ensure long term value creation for the society at large.

The following are key areas where the Malaysian used car industry has and will continue to contribute towards a more sustainable automotive eco-system.

## Environment

### Reducing the need to produce more cars

The used car industry mitigates the need to produce or import new cars. This conforms to the tenets of recycle, reuse and reduce. When a used car is purchased, it gets a new lease on life instead of being scrapped. In addition to reducing the need for more vehicle scrapping facilities or 'junkyards', used cars negate the need to manufacture even more cars, whether at home or from abroad. This means lowering the need to utilise commodities like steel, rubber, plastics and aluminum that are commonly used in car manufacturing. Also, car makers have to use a substantial amount of fossil fuels not only as energy for the car manufacturing process but also for the synthesis of plastics and other synthetic materials, thus generating even more greenhouse-gas (GHG) emissions and natural resources.

### Greener more energy efficient used cars

It is important to note that the used car industry is ultimately a trend follower, not a trend setter. The introduction of more eco-friendly ICE vehicles as well as energy efficient vehicles into the automotive market and their growing demand will naturally see a rise of these vehicles in the used car market. If the growth trajectory of EEVs is maintained, the Malaysian used car industry will eventually see EEVs commanding a much larger presence of the market share and older, less eco-friendly and energy efficient vehicles being phased out.

Similarly, the used car industry could also see an increase in its market for electric vehicles (EV). While the number of EVs in Malaysia rising rapidly, with the entry of new players and more cost efficient EVs, it is critical to understand that EVs themselves may not be a suitable replacement for other EEVs or ICE vehicles at this juncture.

In general, EVs primary source of power comes from electricity and that is primarily generated from fossil fuels, particularly coal, in Malaysia. In addition, batteries in EVs today uses lithium-ion batteries that are typically made from raw materials including cobalt, nickel and manganese. Lithium-ion batteries are extremely expensive to produce and require high levels of mining activity. Comparatively, traditional diesel and petrol-powered vehicles benefit from lead-acid batteries, which are widely recyclable.

While the EV market is still at a nascent stage, albeit growing rapidly, the entry of more EVs into the used car market will be dependent on supply and demand. Perhaps in future, when EV technology becomes more sustainable and cheaper to own, the popularity of used EVs will grow.

### **Technology driving green**

The growth and popularity of on-line trading platforms for used car may potentially create an eco-friendlier eco-system. The evolution of online trading platforms that are information rich, has provided potential used car buyers with the necessary resources to conduct preliminary research and surveys to make an informed decision. This itself will reduce the carbon footprint throughout the process.

Well informed consumers that demands for higher quality, energy efficient and competitive pricing could potentially lead to more eco-friendly and better maintained cars on the road. Brick-and-mortar car dealers will need to evolve to be more competitive, potentially lead to improvising operational efficiency and better-quality cars, hence reducing its carbon footprint in the process.

## **Social**

### **Driving the national economy**

Malaysia used car market was valued at USD25.14 billion (RM111.57 billion) in 2021, and it is expected to reach a value of USD35.25 billion (RM156.44 billion) by 2027, registering a CAGR of 5.4% during the forecast period (2022 - 2027) according to Mordor Intelligence Malaysia Used Car Market Industry Report.

Clearly, the vibrancy of the used car industry makes it a sustainable contributor to Malaysia's economic recovery efforts following the COVID-19 pandemic. In addition, the industry also generates revenue for the Malaysian Government in the form of tax revenue. The industry also generates positive multiplier effect from a socio-economic perspective in the area of attracting foreign and local investments, job creation and talent enrichment as well as enabling the growth of the new car market.

### **Job creator**

The extensive eco-system of the used car industry is an important source of income for hundreds of thousands of Malaysians.

The key avenues where used cars are traded in Malaysia, which include franchise and independent car dealers, rental car companies, buy here pay here dealerships, leasing offices, auctions, and private party sales (individual dealers), have become an important generator of jobs for Malaysians.

In addition, the used car industry is also supported by a large network of financial institutions and insurers, parts and after-sales service providers as well as vehicle inspection officers and facilities, amongst others, all of which employs mostly Malaysian talent and create business opportunities for local entrepreneurs.

### Enhancing social mobility

The used car industry provides a more affordable avenue for those in the medium to lower income brackets, namely the M40 and B40 segments, to own a private vehicle. The cost of a new car, even the cheapest in the market, may be out of reach of these segments, more so with the rise in cost of living.

Owning a private vehicle is more than just convenience. Those who own their own vehicles are more likely to travel further, beyond their homes, to seek out better jobs and employment opportunities. While public transportation is readily available, especially in city centers, the lack of connectivity, service issues and long travel times may discourage certain groups of people from venturing too far for work.

Facilitating private ownership of a vehicle can also open up income opportunities like the provision of e-hailing or e-delivery services.

## Governance

### Adherence to robust regulations

There are various laws that the used car industry has to adhere to including the Road Transport Act 1987, the Second-Hand Dealers Act 1946 (Revised 1977) and the Hire Purchase Act of 1967, among others. The Government is also considering putting in place 'lemon laws' to further safeguard purchasers of used cars.

Generally, used car industry players are committed towards complying with the existing laws and regulations. This is because the operating landscape is competitive and any reputational damage or adverse enforcement action may lead to business failure.

### Commitment towards ESG

As the global and domestic automotive industry is embracing ESG throughout its value chain, it is natural that participants of the used car industry also follow suit in order to remain competitive, viable and sustainable. In addition to complying with existing rules and regulations, used car players from franchised and organised dealers to financing solution providers are taking the lead by embedding elements of ESG into their operations. In doing so, they are able to continue to adhere to ESG standards required by automotive authorities, financial institutions and regulating bodies, while enabling their business to grow and create value for their respective stakeholders.

## Section 6

# Key Take Outs

# 1.

**The used car market is ESG compatible.** From the environmental, social, and governance perspectives, much of the used car eco-system has built-in elements that conform to the standards and spirit of sustainability. The used car industry can help reduce wastage, mitigate the use of valuable and limited natural resources, contribute to the economic growth and social mobility while industry players has and will continue to adhere to high standards of corporate governance in order to remain competitive.

# 2.

**The used car industry is a trend follower based on supply and demand.** The growth of EEVs and EVs coupled with the lowering cost of these vehicles mean that in time to come, the used car market will be able to offer more eco-friendlier vehicles. Technology will also play an important role in future used cars to ensure that energy-efficient vehicles are truly sustainable.

# 3.

**Used car stakeholders are embracing ESG.** A number of Malaysian automotive players are committed towards the ESG agenda, clearly outlining risks, opportunities and sustainable strategies in their corporate strategies. This will be the impetus for the used car industry to follow suit in tandem with the National Automotive Policy.

# 4.

**Technological advancements,** from the development of more environmentally friendly cars like EEVs to vehicle inspection equipment to online car trading platforms, will help facilitate the used car industry to achieve ESG goals.





