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Biden floats toughest-ever auto tailpipe emissions restrictions, which could boost sticker prices

By Rachel Koning Beals
April 12, 2023

Some auto-industry analysts say the new proposed EPA rules will likely push up retail purchase costs for both standard and electric vehicles, but could save money over car's lifetime

The Biden Administration is advancing the toughest-ever proposed limits on tailpipe emissions from cars, SUVs, vans and pickup trucks, an expected move that brought cheers from environmental policy-setters and prompted others to warn vehicle prices would rise in response.

The proposal announced Wednesday from the Environmental Protection Agency increasingly raises restrictions each year on tailpipe emissions of carbon dioxide, smog-forming nitrogen oxide and other pollution from vehicles for model years 2027 through 2032. The rule now goes to a comment period before final tailpipe emissions limits are set.

Some auto-industry analysts said the new rules will likely push up retail purchase costs for both standard and electric vehicles, although the Biden team said auto owners will save more over the life of a vehicle. Wednesday's announcement does stop short of a ban on gas-powered vehicles and a mandate to buy electric. And yet the more-stringent emissions rules are expected to push manufacturers to roll out EVs to meet the standards, even while more than half of U.S. drivers remain uncertain that an EV will be their next auto purchase.

According to the EPA, the new rule is designed to ensure that all-electric options make up as many as two out of every three new passenger vehicles sold in the U.S. by 2032.

Environmental groups, public-health officials and EV-market participants have lobbied the administration to ensure requirements for model-year 2030 emissions are 75% tougher than those covering 2021 models, but that pitch may not make the final cut.

In addition, a second EPA rule advanced Wednesday would update vehicle emissions standards for greenhouse gas pollution from buses, freight trucks and other heavy-duty vehicles. This rule builds on the final standards that EPA released in December 2022.

Wednesday's rules are separate from the fuel economy standards set by the federal government, an update to which is expected soon.

"We can now power our homes, cars and even trucks with clean electricity -- and we must do so to secure a livable climate," said Lisa Frank, nonprofit policy group Environment America's Washington legislative office executive director.

"These new pollution limits, combined with improved tax credits for new and used electric vehicles and historic investments in electric vehicle charging, will help Americans use less gas and breathe cleaner air while slashing climate emissions," she said. "This is among the most significant actions on climate by the Biden administration to date."

The proposed EPA standards on vehicles were first reported earlier this month by Bloomberg News and others.

By EPA estimates, the new standards would protect public health by cutting nearly 10 billion tons of CO₂ emissions -- twice the annual U.S. emissions today. They would also save consumers on average \$12,000 over the lifetime of a vehicle because of using less fuel and lowering maintenance costs. And they would strengthen American energy security by reducing reliance on 20 billion barrels of imported oil. Republican lawmakers have made energy security a key feature of their own push on returning more traditional and alternative U.S. energy generation to the U.S.

The EPA says its approach is technology-neutral, meaning that better-designed gas vehicles, hybrids, fuel cell vehicles, and other innovations could all be used to meet stricter standards, leaving the approach to adoption up to each manufacturer.

But with EV technology getting more advanced and cheaper, and consumer demand rising compared to just a few years ago, many manufacturers would likely rely on fully electric vehicles for compliance, the EPA and the White House said.

The EPA estimates that by 2032, if finalized, the proposed rules could result in electrification of 67% of new sedans, crossovers, SUVs, and light trucks; 50% of new vocational vehicles (such as buses and garbage trucks); 35% of new short-haul freight tractors; and 25% of new long-haul freight tractors.

For sure, the interest level in EVs has moved higher over recent years. EVs made up 5.8% of new U.S. vehicle sales in 2022, their most to date. There are over 130,000 public chargers now

available across the country -- with all 50 states now implementing a federal investment to build a new national charging network, according to the White House. The private sector has committed more than \$120 billion into the American-made electric vehicle and battery supply chain in the last two years alone.

But when asked directly, some polls show a majority of Americans aren't yet sold on going electric for their next purchase, hesitancy they pin on higher prices relative to traditional cars and what they feel are too few charging stations.

About 4 in 10 U.S. adults are at least somewhat likely to switch to an EV for their next buying round, said a recent poll by The Associated Press-NORC Center for Public Affairs Research and the Energy Policy Institute at the University of Chicago. Only 8% of U.S. adults say they or someone in their household owns or leases an electric vehicle, and 8% say their household has a plug-in hybrid vehicle.

U.S.-based automakers General Motors Co.(GM) and Ford Motor Co.(F) remain generally bullish for EV sales in coming years, while overseas manufacturers, including Hyundai plan U.S.-based battery factories in order to get more of their EV offerings to qualify for consumer breaks stateside.

GM, Ford and the makers who still need traditional autos to generate the revenue that will fund EV expansion have argued that emissions rules should be limited in scope and extend just a few years. Major EV-only producer Tesla Inc.(TSLA) on the other hand has pushed for tougher emissions rules, which could help its sales.

Auto trade groups have made their frustrations known. The EPA emissions shift will require a "massive, 100-year change to the U.S. industrial base," and the rule should be based on "a clear-eyed assessment of market readiness," the Alliance for Automotive Innovation has said.

"The Biden Administration's latest and more aggressive EPA mandates would require an unrealistic level of investment in everything from vehicle production to infrastructure support," said Karl Brauer, executive analyst at consumer-focused auto information site ISeeCars. Brauer predicts price hikes for both EVs and gasoline models to meet the standards.

Brauer suggests the amount of tinkering to the EV rebate portion of the Inflation Reduction Act already illustrates how moving too quickly can actually hurt electric vehicle sales, "as fewer EVs qualify for tax credits today than qualified 6 months ago."

With a major spending bill passed last year, all-electric, plug-in hybrid, and fuel cell electric vehicles purchased new in 2023 or after may be eligible for a federal income tax credit of up to \$7,500. Select leased vehicles also qualify. The Department of Energy keeps an updated informational page on which EVs qualify as the U.S. continues to work out trade differences with global automakers.

"Electric vehicles certainly have a role to play in the future of personal transportation," Brauer said. "As EV sales and production numbers rise their costs will drop, ideally at the same rate our infrastructure evolves to support consumer charging needs."

Other observers said consumer habits are already tilting in the direction favoring EVs and energy-slashing steps at home. Limits on vehicle pollution factor into a U.S. pledge to meet its Paris Agreement commitment to cut greenhouse gas emissions by at least 50% from 2005 levels by the end of the decade, and younger consumers and voters especially have wanted the U.S. to keep this pledge.

And, say environmental groups, it's up to the Biden administration to make sure the EPA rules have teeth. Biden has faced some criticism for enacting rule-making that keeps traditional energy and traditional auto practices still in the economic mix for years to come.

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Even with federal rules under consideration, states are grappling with their own decision-making. As more buyers weigh an electric or hybrid gas-electric vehicle to save on volatility from gas prices or because of personal convictions when it comes to manmade climate change, some states have been leaning toward setting their own emissions standards, taking a lead from California.

Seventeen states already follow California's tailpipe pollution limits, which are stronger than current federal standards, and some of those states are considering adopting California's pro-EV target as well.

Under the Clean Air Act, states must abide by the federal government's standard vehicle emissions standards unless they at least partially opt to follow California's stricter requirements.

<https://www.morningstar.com/news/marketwatch/20230412466/biden-floats-toughest-ever-auto-tailpipe-emissions-restrictions-which-could-boost-sticker-prices>