

# Zero Emission Vehicles

## OEMs Risk Falling Behind Stringent ICE Bans

### 10-minute Insight

As the world transitions toward an electrified and decarbonized future, regions around the world have taken approaches of varying stringencies to promote the production and sale of electric and zero emission vehicles. The European Union is perhaps the most aggressive regulator, having championed leading greenhouse gas / fuel economy standards and targets for economy-wide decarbonization in the past, and now pushing its more stringent “Fit for 55” proposal that could effectively ban internal combustion engines (ICE) in the bloc altogether.

**In this insight we will explore the status and key provisions of the current “Fit for 55” proposal in the EU, its complimentary emissions regulations, the future of internal combustion engines in the region, and how this level of stringency translates into automakers’ ZEV planning.**

#### Target audience

Product planning Strategy

Legal Engineering

#### Focus market(s)

EU



# What is happening?



## “Fit for 55”

A ramp up in regulatory stringency & timing

- Package first proposed July 2021 to reduce EU’s economy-wide **Greenhouse Gas emissions 55% by 2030**.
- Includes provisions for renewable energy, energy taxation, LDV CO2 emission standards and more
- General approaches on many of these topics are adopted as of June 2022.
- Proposed amendments and exemptions that could weaken the target did **not** pass in the position, but are still eligible for negotiation.

## Euro 7

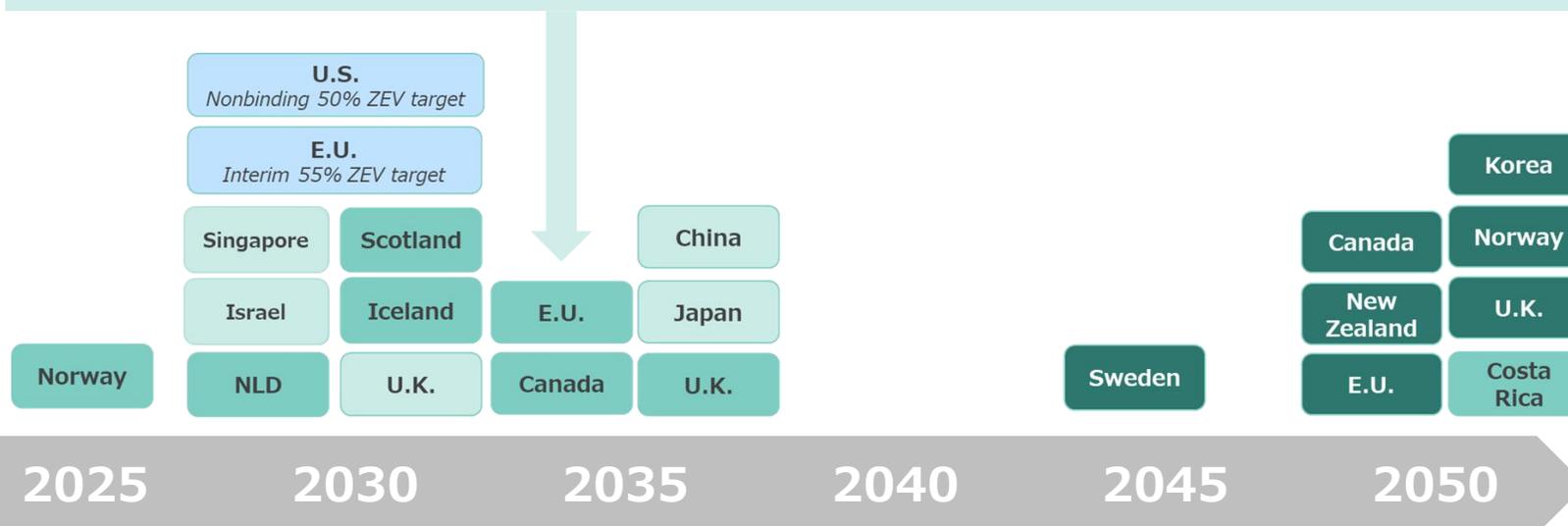
A complimentary emissions package

- Proposed Euro 7 non-CO<sub>2</sub> LDV/HDV emission standards would update Euro 6.
- **Ambitious compliance timing of 2025/2026**.
- Updates would compliment and accelerate targets under the “Fit for 55” package.
- Draft language was expected by July 20, 2022 after being postponed from 2021, but is not yet released (*industry groups warn that further delay will burden OEMs and stakeholders needing time to adjust design and production cycles for the 2025 / 2026 targets*).

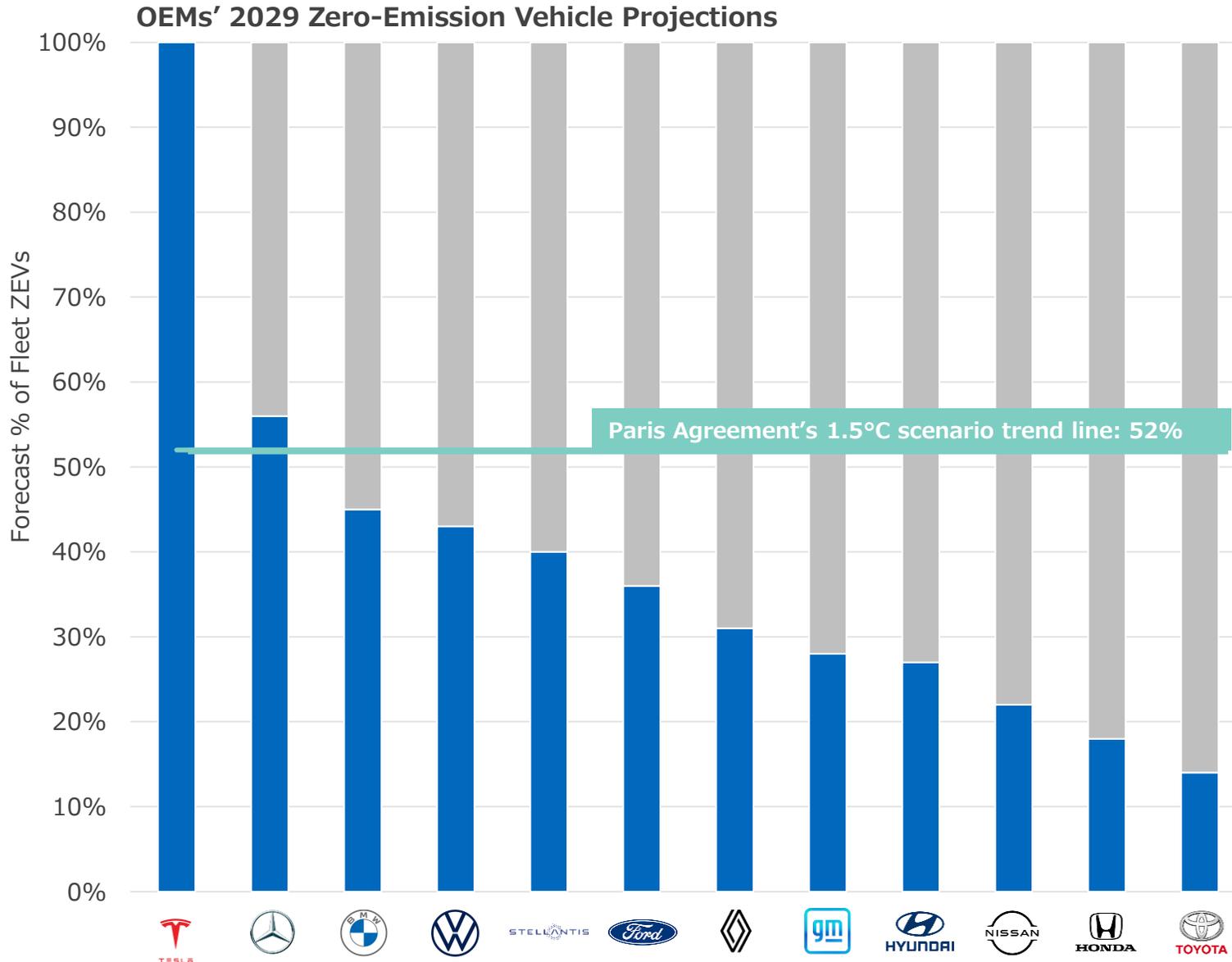
## Key takeaway

The EU is combating emissions with a focus on transportation – positioning itself to have one of the **most stringent ZEV mandates of all major trading blocs**.

- “Fit for 55” is on an expedited legislative schedule, but more negotiations remain before the package can become law. Euro 7 will compliment “Fit for 55” and support its targets for LDV and economy-wide reductions.
- “Fit for 55” signals an effective ICE ban – including hybrids - that will shift the market towards ZEVs. Anticipated Euro 7 standards have also been called a “ban through the back door” on ICEs by the Verband Deutscher Maschinen- und Anlagenbau, a German industry group.
- Final “Fit for 55” text may be negotiated on to include exemptions for synthetic fuels, small vehicle manufacturers (SVM), or more that could ‘weaken’ stringency.



# Why does it matter?



## Key takeaway

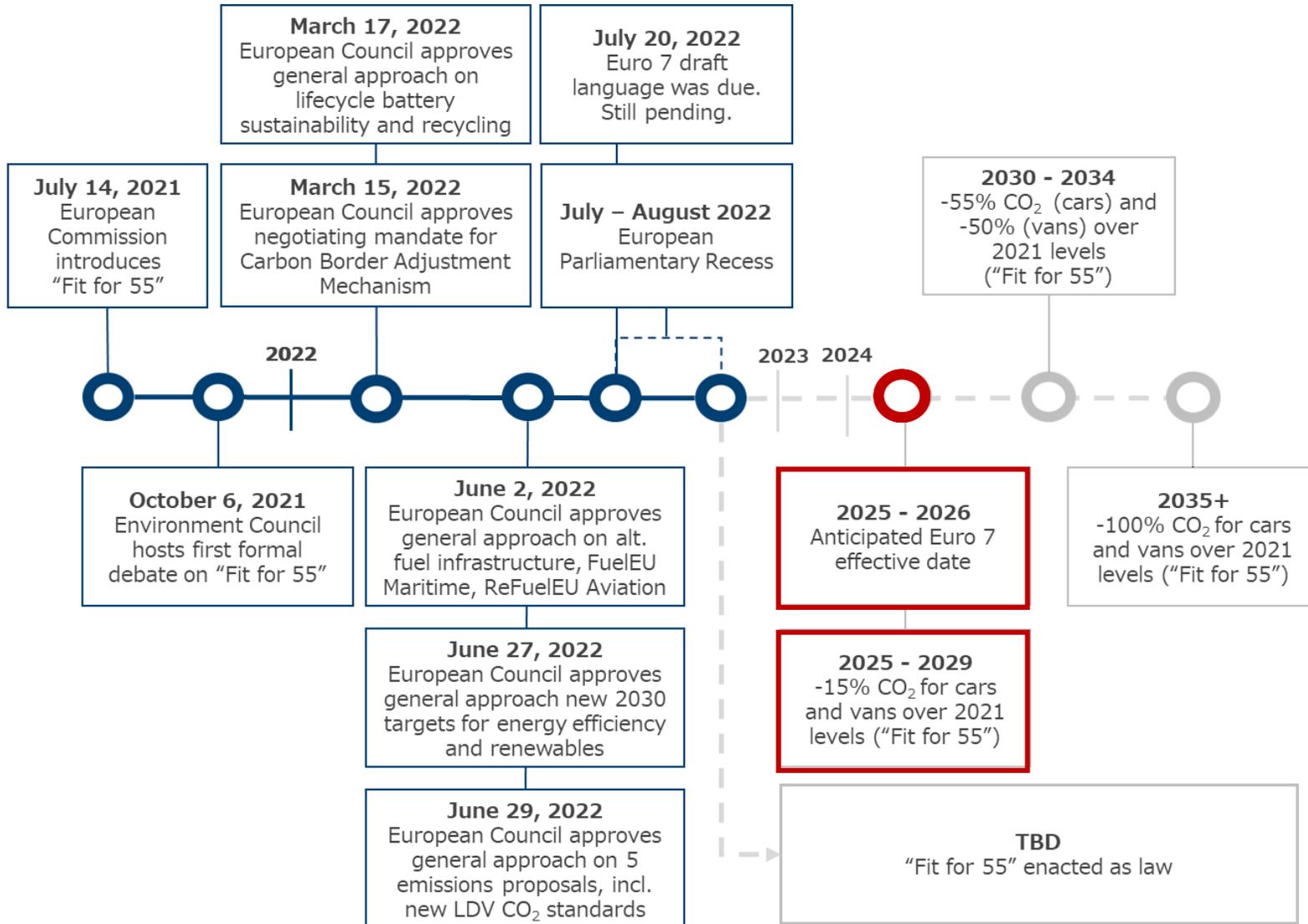
**Light Duty Vehicle (LDV) emission standards proposed under "Fit for 55" and Euro 7 will have a dramatic impact on automakers' production plans in Europe, with little lead time.**

- Cars (12%) and vans (2.5%) make up a total ~15% of the EU's CO2 emissions
- By 2029, 10 of the top 12 global OEMs will fall behind Paris ZEV targets.
- OEMs may risk noncompliance if they do not rapidly accelerate planning / production to support a higher volume of ZEVs in the short- to mid-term.
- Tesla and Mercedes-Benz are the only OEMs currently forecasted to achieve interim ZEV mix / GHG reduction targets.
- May be attributable to other automakers' continued reliance on short-term (P)HEV and LEV sales.

# Where next?



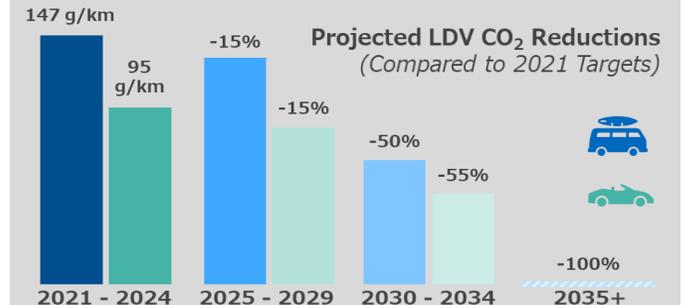
## Timing for "Fit for 55" & Euro 7



## Key takeaway

**OEMs have relatively little time to ramp up preparations for more stringent emission standards beginning as soon as 2025.**

- The European Council must still adopt its remaining approaches and negotiate a final legal text for "Fit for 55," however the 2025 - 2035+ targets for CO<sub>2</sub> reductions are expected to apply.
- The delay in publication of Euro 7's draft language risks burdening manufacturers, who will require as much time as possible to adjust design and production cycles for the anticipated 2025 / 2026 compliance targets, which at this time are still expected.



# Who to watch out for?

## VDA

“Restricting the technology to a single drivetrain option within such a short period of time is worrying and does not give any consideration whatsoever to the interests of consumers.”

The German Automotive Association, VDA



“The automobile industry will fully contribute to the goal of a carbon-neutral Europe in 2050. [...] But [...] a transparent review is needed halfway in order to define post-2030 targets.”

Oliver Zipse  
CEO of BMW/ACEA President



“The focus of the discussion should be on how to accelerate the transition to electrification. We hope more manufacturers will join us in setting ambitious dates for becoming fully electric.”

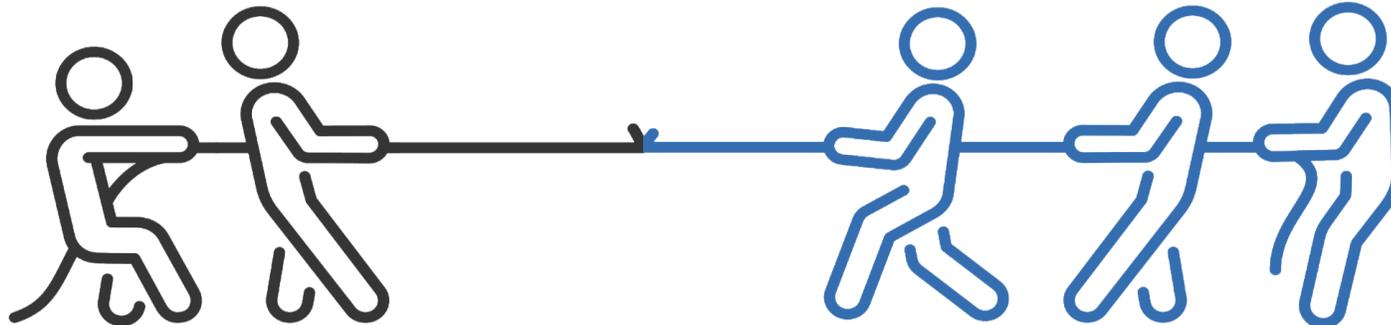
Anders Karrberg, Head of sustainability & Volvo Cars strategy



“Volkswagen is quietly letting policymakers in Brussels know that it would support more ambitious cuts in emissions than other car manufacturers.”

Source: Reuters

Resisters



Proponents

## Key takeaway

**Generally, the industry is in support of “Fit for 55,” but not without concerns relating to investments, consumer adoption, and technology limitations.**

- VDA, the German Association of the Automotive Industry, is resisting “Fit for 55’s” ICE ban, despite German OEMs like Mercedes-Benz and BMW being well positioned for compliance.
- VDA insists that a variable product mix is required to achieve timelines in a realistic manner as well as maintain consumer choice.
- VW and Volvo have independently expressed their support, while BMW/ACEA are tentatively supporting the proposal. Many OEMs maintain that adjacent investments, such as in charging infrastructure and EV battery production, must aggressively progress to support the targets as proposed.
- Among governments, there remain some, like Hungary, that have openly expressed their strong opposition to “Fit for 55”.

# How should you react?



# 1

## Jump off the Fence

Automakers should plan for an imminent ramp up in emissions targets in the EU (with other global markets likely not far behind). Short-term product planning must account for the policy transition to ZEVs and move away from an interim reliance on PHEVs, LEVs, conventional hybrids, and ICEs.

# 2

## Reorganize

Automakers may need to consider reorganizations to adapt quickly enough. Current business models may not support an efficient and accelerated transition to ZEVs. Restructuring and/or developing an EV-dedicated brand could capture new investor and consumer interest in competition with EV startups such as Tesla and Rivian, however this would require significant upfront investment.

# 3

## Collaborate

Automakers should collaborate with all stakeholders - consumers, utility providers, and governments - to promote an environment that encourages and incentivizes ZEV adoption. OEMs should work with governments and utilities to accelerate the build out of charging infrastructure and renewable energy, and to offer desirable, equitable incentive programs for both ZEV purchases and charging. OEMs should also invest in consumer outreach and education to combat stigmas surrounding issues such as range anxiety or battery safety.

## Authors



Riley Keehn  
Specialist



Taylor Leone  
Specialist



## Related SBD Reports



Ref:623  
Electric  
Vehicle Guide



Ref:217  
EV Charging &  
Infrastructure  
Guide

## Related SBD Consultancy

- Market analysis
- Policy analysis
- Strategic advisory
- Legislative / regulatory trends tracking

## Interested in finding out more?

Most of our work helps clients go deeper into new challenges and opportunities through custom projects. If you would like to discuss recent projects we've completed relating to **Emissions, ZEVs, and ICE Bans**, please [contact us](#).