



**NEW ZEALAND**  
**FOREIGN AFFAIRS & TRADE**  
Manatū Aorere

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# **US proposes stricter emissions standards, in boost for EV production**

A MARKET INTELLIGENCE REPORT

# Summary

*Prepared by the New Zealand Embassy in Washington DC.*

- The US has taken a critical step toward meeting its emissions targets in the transport sector with the Environmental Protection Agency proposing stricter emissions standards for passenger cars and light trucks.
- If finalised they would bring the US closer to New Zealand's goals on transport emissions and potentially aid New Zealand's transition by increasing global EV production.
- It is expected that the regulations will face some significant challenges before they are finalised. The proposed rules represent some of the most ambitious climate action taken by the Biden administration, and Republicans and the oil and gas industry are using it as an example of government overreach.
- But the US automotive industry is already reorienting manufacturing to EVs with the Biden administration's industrial policy agenda, particularly the Inflation Reduction Act, driving investment decisions, including for EU based automotive manufacturers who have said they will be prioritising expansion in the US due to the incentives available.

# Report

The US Environmental Protection Agency (EPA) has proposed stricter emissions standards for cars and light trucks. The standards are some of the most ambitious climate action taken by the Biden administration to address transport sector emissions - the largest contributor to US greenhouse gas (GHG) emissions, accounting for about 27% of total emissions.

This development could have a significant impact on whether New Zealand can reach our own emissions reductions targets for transport since the US is consistently our 5th or 6th largest source of vehicle imports. The US' General Motors is in the top three car manufacturers globally and EU based companies like Volkswagen, Mercedes-Benz and BMW have said they will be expanding operations in the US to take advantage of support provided under the Inflation Reduction Act (IRA), including purchase incentives of up to US\$7,500 for new clean vehicles and up to \$4,000 for used vehicles.

The EPA's proposed standards build on existing emissions standards for passenger cars and light trucks for marketing years (MYs) 2023 through 2026. The key aspects of the proposed standards are below while further detail can be found [here](#):

- For light-duty vehicles (cars and light trucks), the EPA is proposing standards that would increase in stringency each year over a six year period, from MYs 2027-2032. The proposed standards are projected to result in an industry wide average target for the light-duty fleet of 82 grams/mile of CO<sub>2</sub> in MY 2032, representing a 56% reduction in projected fleet average GHG emissions from existing standards.
- For medium-duty vehicles (class 2b and 3 i.e. small trucks), the EPA has proposed standards that would increase in stringency year over year from MYs 2027-2032. When phased in, the standards are projected to result in an average target of 275 grams/mile of CO<sub>2</sub> by MY 2032, which would represent a reduction of 44% compared to current standards.

A public hearing is scheduled for this month on the proposed regulations. The EPA will then (if needed) revise the regulation and issue a final rule.

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# An accelerated EV transition

These stricter standards could drive a major shift in the US transport landscape. The standards are expected to drive widespread use of filters to reduce gasoline particulate matter emissions and spur greater deployment of CO<sub>2</sub>-reducing technologies for gasoline-powered vehicles. While the standards do not expressly cap the number of petrol-powered automobiles that can be sold in the US, depending on the effectiveness of these adaptation measures it may force manufacturers to limit their production.

At the same time, the proposed standards are projected to drive significant reorientation to the production of EVs. In the first quarter of 2023, more than 225,000 EVs were sold in the US, according to initial estimates, accounting for approximately 7% of new-vehicle sales. This is up on sales last year where EVs accounted for only 5.8% of new vehicle sales. The EPA projects the proposed standards would result in EVs accounting for approximately 67% of new light-duty vehicle sales and 46% of new medium-duty vehicle sales in MY 2032. Vehicle manufacturers in the US have also set their own EV goals. Ford Motors – which sold 61,575 EVs last year – aims to build 600,000 per year by the end of 2023. General Motors plans to build a million per year by 2025, an ambitious goal from the 39,096 EVs it sold last year.

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## Are the standards realistic?

Many environmental groups have expressed support for the rules. The Environmental Defense Fund has said the new rules “will give all Americans cleaner air and a safer climate, while also creating jobs and saving people money”. Democrats have also voiced support. Senate Environment and Public Works Committee Chair Tom Carper (D-Delaware) said: “In addition to providing regulatory support to where the market is already heading, EPA’s proposed vehicle emissions standards would make significant progress in our fight against climate change. They will also save Americans money at the pump and better insulate our country from the volatility of the global oil market.”

However, support from environmental groups and Democrats is unlikely to facilitate the safe passage of these rules in their current form. The Alliance for Automotive Innovation, the trade group for major automakers, has defended the EPA’s right to set standards and doesn’t deny the future is electric. However, they will be testifying and submitting comments and with their President, John Bozzella, saying the “EPA’s proposed emissions plan is aggressive by any measure. By that I mean it sets automotive electrification goals in the next few years that are... very high.” Bozzella argues that his main concern is how fast it can be achieved and “how fast will depend almost exclusively on having the right policies and market conditions in place to achieve the shared goal of a net zero carbon automotive future.”

If the EPA’s stricter rules are finalised, significant investments in the increased supply of

critical minerals, manufacturing capacity, power generation, the charging network etc. would be required to ensure the standards are feasible. Like New Zealand, the US will also need to significantly invest in charging infrastructure across the country to help a large number of drivers overcome range anxiety and embrace a shift away from gas stations for chargers. Under the Infrastructure Investment and Jobs Act US\$7.5 billion has been set aside to build a nationwide network of 500,000 EV chargers. However, there is significant resistance to network coverage in Republican states.

Substantial investments in grid infrastructure and electricity generation will also be required to ensure the energy system has capacity for such a significant move to EVs. The Biden administration is providing significant support for clean-power generation projects, for example the IRA Advanced Energy Project Credit which is valued at US\$10 billion. It is widely known that such investments take a long time to come online and it's questionable whether the US can power-up in time to meet the goals set by the Biden administration. EPA Administrator Michael Regan argues that the standards are feasible because of Biden's "Investing in America agenda, which is already driving historic progress to build more American-made electric cars and secure America's global competitiveness".

The regulations are likely to face legal challenge. Republican-led states like Texas are already suing the EPA to block its existing climate change regulations for vehicles and will likely challenge the new ones. And Republican judges on federal courts, including the Supreme Court, have shown increasing hostility to environmental regulations. The oil and gas industry is also expected to challenge the proposed rules so the final vehicle rules are likely to look different and could be stalled entirely through litigation.

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