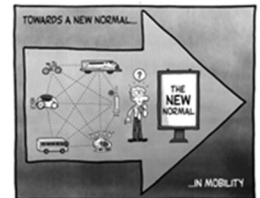
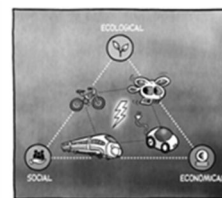


FUTURE OF THE AUTOMOTIVE INDUSTRY



Theses on the relaxation of CO2 limits in the EU

In 2019, the EU tightened CO2 limits for passenger cars and light commercial vehicles, which are to be achieved by 2025 and 2030 (European Union, 2019). Failure to comply will result in penalties. Some car manufacturers are calling for the CO2 fleet limits decided for 2025 to be relaxed at the end of 2024: While Opel and BMW are in favor of maintaining them, VW and Ford, as well as the German Chancellor and Economics Minister Habeck, are in favor of relaxing them. Two theories on the effects of a possible relaxation of CO2 limits.

Thesis 1: Relaxing CO2 limits could compensate for management errors.

The differing positions of the car manufacturers stem from the fact that they are affected differently by having to pay fines in 2025 for excessive emissions and non-compliance with the fleet limits for their vehicles.

VW and Ford are particularly affected. Both companies would have to reduce the emissions of their vehicles by more than 20 percent in 2025 to meet the limits (The International Council on Clean Transportation, 2024), which seems hardly possible, partly because they lack the necessary vehicles. They face fines in the billions at the end of 2025. Such payments would come at a particularly unfavorable time in the midst of the transformation and in view of the planned layoffs in Wolfsburg and Cologne due to high costs, low production volumes, and problems in China.

BMW and the Stellantis Group (with its German subsidiary Opel), on the other hand, have adapted to the CO2 limits. By the end of 2024, CO2 emissions at both companies will be less than 10 percent above the targets. They have enough electric vehicles on offer and can comply with the 2025 CO2 limits through marketing measures. Renault and Toyota are moderately affected, with emissions 14 percent above the limits, while Mercedes must reduce emissions by 17 percent in 2025 (ibid.).

The CO2 limits are binding and have been known for six years. This gave car manufacturers enough time to adapt and develop electric vehicles to meet the limits. A relaxation of the CO2 limits would penalize those car manufacturers who have focused on the CO2 limits and thus on lower-emission drives, and would cushion the management mistakes of the other manufacturers. Politicians would

thus be compensating for something that companies have failed to achieve. If the automotive industry were not so important for the economy and jobs in the EU, and especially in Germany, a relaxation of the CO₂ limits would not be an option.

However, six years is just one development cycle, which is not much time for the transition to electric mobility and compliance with emission limits, especially if the first generation of electric vehicles – as is the case with many traditional brands – is not well received by the market. This applies much more to VW and Mercedes, which have taken a risk with their newly designed models (ID.3 and ID.4 as well as EQE and EQS), than to BMW, which has pursued a rather conservative model policy to date.

The management errors lie primarily in the model policy, as only vehicles that offer advantages and appeal to consumers are purchased. So far, the wrong products have mostly been offered. There is a lack of electric vehicles in the upper vehicle classes with a long range and, above all, small, affordable electric vehicles. In addition, German car manufacturers have relied too long on combustion engines with higher margins and neglected electric mobility.

Thesis 2: A limited relaxation of CO₂ limits is to be expected despite negative effects on the climate, sales, and competitiveness of European automobile manufacturers.

A relaxation of CO₂ regulations would initially and above all be bad for the environment, because electric vehicles, at least when powered by green electricity, can reduce emissions. Climate change is forcing us to reduce emissions.

A relaxation of CO₂ regulations would also be detrimental to sales. It would further slow down the already sluggish sales of electric vehicles because customers would become even more uncertain after already receiving conflicting signals about the end of combustion engines and technological openness.

Finally, relaxing CO₂ regulations would also be fatal from a competitive perspective for traditional German and European automotive companies, which are falling further behind their new competitors from the US (Tesla) and China (such as BYD, NIO, and Geely). In China alone, every second vehicle sold in 2024 was a new energy vehicle (i.e., a battery-electric or plug-in hybrid vehicle), and in total, almost as many electric vehicles were sold there in 2024 as were sold in the entire EU. The lead of the new competitors would become even greater.

Only tough targets provide a fixed point for the complex development of automobiles and offer planning security. If they are watered down, a climate of uncertainty and insecurity is created, which makes everything even slower and more expensive. That is why the “start of production” (SOP) has always been fixed in automobile development. Anyone who postpones it creates major problems.

On the other hand, it is problematic if China subsidizes manufacturers while the EU “penalizes” them. If there is to be a suspension of CO₂ limits, it should at most be temporary.

Literature

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