Automotive Regulatory Outlook: The Push for Electric Vehicle Markets and the Challenges Faced by Automakers

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The automotive industry is one of the most heavily regulated industries in the U.S., and automakers are now facing increasingly complicated challenges when navigating through the regulatory waters, especially with regard to the electric vehicle (EV) market. In April, as part of the AutoConnect program hosted by Frost Brown Todd in Nashville, TN, a panel of five automotive industry experts insightfully deliberated on various regulatory challenges that automotive manufacturers are now facing. This article elaborates on various topics explored by the panelists, providing additional background on EV regulations.

Regulatory Uncertainties at the Federal Level

Automakers are potentially facing significant federal policy swings as the presidential election approaches. The current administration is working hard to pass legislation to facilitate the transition to EVs, exemplified by the following:

- Environmental Protection Agency (EPA) rolled out a new rule that sets targets for EV adoption to be 56% of all new vehicle sales by 2032.
- Department of Energy (DOE) adjusted the petroleum-equivalent fuel economy calculation for EVs.

However, with Republicans frequently opposing the Biden administration's clean energy initiatives, citing economic and practical concerns, the results of the 2024 election could critically influence the direction of U.S. energy policy. Should there be an administration change, many of the legislative efforts by the current administration are very likely to be reversed or heavily modified.

Regulatory Uncertainties at the State Level

Since federal legislation generally leaves room for state legislation in this area, automotive manufacturers, especially national and multi-national ones, also face regulatory uncertainties due to the blue-red divides at the state level. For example, Tennessee passed a law that takes away incentives for unionization last year, but states like Massachusetts and California will be unlikely to pass similar laws.

State law policy swings could also be a problem. Last year, Kentucky passed a law imposing extra fees on hybrid and electric vehicles, but this fee on hybrid cars was later repealed.

Other Challenges Related to EVs

Aside from regulatory uncertainties, automotive manufacturers may also have difficulties in complying with the regulatory requirements. Despite the current administration's efforts to push for transition to EVs, actual demand is lagging. In 2023, according to Kelley Blue Book data, EV sales in the U.S. represent merely 7.6% of the total U.S. vehicle market. In addition, a recent Pew Research Center study shows that more than half of U.S. adults who plan to purchase vehicles, including 70% of Republicans, say that they will not consider purchasing an EV. The Pew study also revealed that the biggest obstacle for faster EV adoption could be the availability of public charging stations. The U.S. customers' lukewarm reaction to EVs and the lack of charging infrastructure will likely make it more difficult for automotive manufacturers to achieve the EPA's target of 56% EV sales by 2032.

Sources:

Americans Buy Nearly 1.2 Million Electric Vehicles to Hit Record in 2023, According to Latest Kelley Blue Book Data – Jan 16, 2024 (kbb.com)

Americans' views of electric cars as gas alternative are mixed | Pew Research Center