



EPA proposes MY2023-2026 GHG Emission Standards and President Biden signs Clean Cars Executive Order

August 10, 2021

On August 5, 2021, the Environmental Protection Agency (EPA) issued a [Notice of Proposed Rulemaking](#) (NPRM) to revise the federal greenhouse gas (GHG) emissions in model years (MY) 2022-2026. In coordination with the rulemaking, the Biden Administration announced a set of new actions aimed at strengthening American leadership on clean cars and trucks, including an [Executive Order](#) (EO) setting a nationwide target for zero-emission vehicle (ZEV) sales. The National Highway Traffic Safety Administration (NHTSA) is soon expected to issue its fuel economy NPRM.

EPA proposed GHG standards

[EPA is seeking public comment](#) on the proposed development of new, more stringent GHG emissions standards for light-duty vehicles for MY2023 to MY2026.

The proposed standards would begin in MY2023 by matching California's [Framework Agreement](#) standards, and would increase in stringency year over year (YoY) through MY2026. Initially the proposed standards would require a nearly 10 percent steep stringency increase from current MY22 Trump-era levels, thereafter increasing by about 5 percent YoY, resulting in the most stringent standards EPA has proposed to date by MY2026. The proposed combined-fleet emissions standards for light-duty vehicles include:

- MY2023: 199 grams of CO₂/mile (9.8 percent decrease from MY2022)
- MY2024: 189 grams of CO₂/mile (4.7 percent decrease from MY2023)
- MY2025: 180 grams of CO₂/mile (4.9 percent decrease from MY2024)
- MY2026: 171 grams of CO₂/mile or 52 miles per gallon equivalent (5.0 percent decrease from MY2025)

The proposed rule largely maintains the existing flexibilities and structure of the GHG program, with some small additions and changes. The standards would still be based on vehicle footprint with separate curves for cars and trucks. The compliance, certification, and enforcement structure would not change. Electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs) would still be assumed to produce 0 grams of CO₂ per mile (i.e., no upstream emissions will be considered). In addition, no changes are proposed to the CH₄ and N₂O emissions standards or the opportunity to earn A/C credits. The following changes are proposed:

- [Carrying credits forward](#): A limited extension for carrying forward credits accrued through over-compliance with MY2016-2020 standards in which MY2016 credits expire after 7 years (i.e., MY2023) and MY2017-2020 credits expire after 6 years

- Off-cycle credits: Increase the cap on off-cycle menu credits from 10 to 15 grams of CO₂/mile beginning as early as MY2020 for manufacturers whose technology meets revised menu definitions
- Advanced technology multipliers: Extend multiplier incentives for EVs, PHEVs, and fuel cell vehicles (FCVs) for MY2022-2025 and institute a cumulative cap on multiplier credits at 2.5 g/mile per model year or 10.0 g/mile on a cumulative basis for MY2022-2025
- Full-size pickup incentives: Restore full-size pickup truck incentive for MY2022-2025 based on hybrid technology or emissions performance
- Natural gas: Remove multipliers for natural gas vehicles (NGVs) after MY2022

These changes could have potential implications on the GHG credit market. In the near term, demand for GHG credits driven by the significant change in standards from MY2022 to MY2023 and the relatively short lead-time would be tempered by the increase in compliance options available for MY2023. EPA's proposal would offer the most flexibility for MY2023 compliance purposes, with credits from all model years back to MY2016 available to meet MY2023 requirements. In addition, the flexibilities described above would be available to initially transition manufacturers into the more stringent standards, but are proposed to sunset in later model years (e.g., MY2025). Looking ahead, the proposed standards grow steadily more stringent and most of the compliance flexibilities would expire before MY2026, so demand for GHG credits will likely remain high as the industry attempts to meet the more rigorous standards with fewer flexibilities in MY26+. Consumer demand for ZEVs will have a significant impact on the ability of OEMs to meet the proposed ZEV targets and, as a result, on the demand for GHG credits.

The proposed standards may also affect the interaction between California and federal GHG standards. EPA indicated its intention to reinstate California's Clean Air Act waiver. If EPA reinstates the waiver, non-Framework OEMs could face a trifurcated regulatory scheme of California GHG standards, federal EPA (GHG) standards, and federal NHTSA (CAFE) standards. At this time, it is unclear whether California would consider reinstating its previous "deemed to comply" provision to allow compliance with federal standards to qualify as compliance with California standards, either now or at some point in the future. Additionally, although the Framework Agreements contain an automatic termination clause that applies if EPA finalizes GHG emissions standards equal to or more stringent than Framework Agreement standards, it is currently not clear whether the proposed standards would trigger that provision.

EPA will hold a virtual public hearing on its notice on August 25, 2021 (and potentially August 26) and requests written comments by September 27, 2021.

Separately, NHTSA's proposed rule establishing new CAFE standards for MYs 2024-2026 passenger cars and light trucks was released [today](#) but has not yet been published in the Federal Register. Comments on NHTSA's proposed rule are due within 60 days of publication in the Federal Register.

Executive Order on Strengthening American Leadership in Clean Cars and Trucks

The EO establishes a new target to make half (50 percent) of all new passenger car and light truck sales in 2030 be ZEVs, including battery electric, plug in hybrid electric, or fuel cell electric vehicles. The EO also directs EPA and NHTSA to establish new fuel efficiency and emission standards by July 2024, set GHG standards for light- and medium-duty vehicle for MY2027-2030, and for heavy-duty vehicles through at least model year 2029. EPA is instructed to coordinate setting standards with California, "including by adopting California's standards." The EO and President Biden's statements also direct EPA and DOT to consult with the Departments of Commerce, Labor, and Energy on goals including strengthening the domestic supply chain for the automotive sector and growing the industry's workforce.

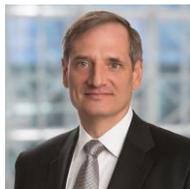
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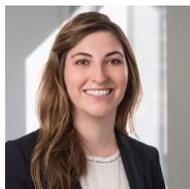
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