



## OUR CONTRIBUTION TO CLIMATE PROTECTION IN THE EUROPEAN UNION, US AND CHINA IN 2024.

At the BMW Group, we see the consequences of climate change as a major challenge for the future. As governments around the world work to enshrine the targets of the Paris Climate Agreement in national law, investors are increasingly evaluating companies and business models according to ESG criteria (Environmental, Social, Governance).

In Europe, North America, Japan, China and elsewhere, medium- to long-term targets for CO<sub>2</sub> emissions from new vehicles are already in place, but they are not directly comparable at an international level. This is because test cycles and test procedures differ from country to country, and segment and drivetrain mixes often vary considerably.

We are committed to achieving ambitious yet realistic environmental policy targets worldwide that meet the Paris Agreement – including a fully climate-neutral value chain by 2050 at the latest. In our work with major industry associations, we advocate for aligning their activities with the Paris Agreement.

For us at the BMW Group, a key concern is the creation of the right framework conditions to accelerate the adoption of electromobility and facilitate the transition towards climate-neutral transport, so that our already broad range of models is met with the required levels of market acceptance and customer demand.

### EUROPEAN UNION

The European Green Deal was introduced to foster a circular and sustainable economy, cut carbon emissions, enhance resource efficiency and protect biodiversity. In recent years, however, external challenges such as the COVID-19 pandemic, the war in Ukraine and rising living costs have led to a shift in the EU's priorities. The European automotive industry nonetheless remains fully committed to decarbonisation, the EU's 2050 carbon-neutrality target and the Paris Agreement, and is undergoing an unprecedented transformation towards low-carbon mobility and software-defined vehicles.

While the need to decarbonise is undeniable, it is equally vital to safeguard the automotive industry's competitiveness and standing as a European powerhouse. To maintain – and, where necessary, strengthen – its leadership, regulation must be both effective and adaptable, responding to a changing environment, evolving geopolitical dynamics, and shifts in customer demand and acceptance. Ensuring the industry's economic success is essential, not least so it can finance its own transition.

The BMW Group strongly advocates for electrified mobility as a key driver of climate-neutral transport and is calling for a holistic and consistent industrial policy to support its widespread adoption. Too often, conflicting political initiatives within the EU weaken Europe's position as an industrial leader. We take steps to actively contribute to political decision-making, both at association level and in our own right as a company.

In our view, the EU's current regulatory framework around the CO<sub>2</sub> reduction targets for cars and vans fails to take into account many of the realities we live in. To stay globally competitive, the European automotive industry must maintain access to important supply and sales markets, embrace all technological innovations that will help us achieve the climate goals, and continue meeting the needs of customers.

The only way the European Union's 2035 zero tailpipe emissions target can be achieved is with e-mobility and by electrifying the transport sector. However, e-mobility extends far beyond simply transitioning from internal combustion engine vehicles (ICEs) to battery-electric (BEV), plug-in hybrid (PHEV) or hydrogen fuel cell electric vehicles (FCEVs): it also depends on energy supply, access to critical raw materials, a robust charging infrastructure, evolving consumer demand and geopolitical dynamics. Many of the essential conditions are not yet in place, and the industry's reliance on upstream supply chains and export markets necessitates a balanced and multilateral trade policy.

As electrification progresses, the greatest challenge reaches far beyond drivetrain technologies to include the decarbonisation of the EU's entire supply chain, alongside the establishment and preservation of fair, open global trade relations. For the European automotive industry to secure long-term investment in its transformation, stable supply chains and reliable market access are essential.

## USA

In the United States, vehicle emissions and related fuel efficiency standards are regulated at both state and federal levels. Federally, in accordance with the powers granted to it under the Clean Air Act (CAA), the United States Environmental Protection Agency (EPA) sets emissions criteria for motor vehicles, including for CO<sub>2</sub>. Meanwhile, the National Highway Traffic and Safety Administration (NHTSA) oversees automotive fuel efficiency standards under the Energy Policy and Conservation Act of 1975 (EPCA). At the state level, California's vehicle emissions regulations are managed by the California Air Resources Board (CARB), which is responsible for climate protection policies and supervises air pollution control efforts to maintain health-based air quality standards.

The BMW Group continues to work closely with the EPA, NHTSA and CARB on emissions regulations. Our collaboration with the EPA focuses on technical feasibility and aims to ensure stringent but fair standards that will bring about ever-greater reductions in CO<sub>2</sub>. In March 2024 the EPA announced its final Clean Cars rule, widely regarded as "the most stringent federal climate regulation ever imposed on passenger vehicles and light-duty trucks". The rule grants automakers greater flexibility in meeting the standards than originally proposed – a welcome move from the BMW Group's point of view and testament to the fact that our consistent engagement with the Biden administration yielded positive results. The final version of the ruling requires approximately 50% of new vehicle sales to be either BEVs or PHEVs by 2030. This acknowledges industry concerns about the pace of the EV transition by allowing a more gradual progression towards the targets. Though more feasible than the original proposal, the targets will still be challenging to achieve.

In June 2024, the National Highway Traffic Safety Administration (NHTSA) announced the final rule for passenger cars and light trucks built in model years 2027-2032, and new fuel efficiency standards for heavy-duty pickup trucks and vans built in model years 2030-2035.

Following extensive discussions and negotiations between the Alliance for Automotive Innovation, BMW and other OEMs with the administration and federal agencies, the new rule results in a significant reduction in Corporate Average Fuel Economy (CAFE) standards compared to the proposal of the NHTSA. In July 2023, NHTSA had proposed tightening CAFE requirements by 2% per year for passenger cars and 4% per year for light trucks from 2027 through 2032. Now light truck targets have been adjusted from 4% year-on-year to 0% in the first two years (2027/28) and 2% in the following years. Also, the contradictions between the CAFE and EPA Greenhouse Gas rulings were addressed, which was a major request from the industry. The industry fleet average standard for light-duty vehicles in 2031 will be 50.4 miles per gallon, down from 55.7 mpg in the proposal (the current average is 39.1 mpg). For SUVs and pickups, it is now 45, down from 52.2 miles per gallon (current average is 35.2).

Section 177 of the Clean Air Act (CAA) allows states to adopt the identical vehicle emission standards established by California under its waiver authority. (The waiver was granted by President Obama, rescinded by President Trump, reinstated by President Biden, and is now likely to be rescinded again.) Under California's Advanced Clean Cars II (ACC II) programme, instead of permitting a mix of different drivetrains to meet emissions standards, automakers must progressively increase the percentage of zero-emission vehicles (ZEVs) sold in model years 2026-2035, culminating in 100 percent of new vehicle sales being ZEVs. This policy effectively phases out the sale of new ICE vehicles.

Currently there are eleven states following California: Oregon, Washington State, New York, Massachusetts and Vermont, which adopted ACC II starting in model year 2026, and Colorado, New Jersey, Delaware, Rhode Island, New Mexico and Maryland, which will join the programme in model year 2027. Known as Section 177 states, these states lag well behind California on the transition to EVs, and given that California is unlikely to meet ACC II standards, it is highly unlikely that the other states will achieve them. On that basis, if automakers cannot increase their ZEV sales, the only way they could meet the requirements is by reducing their vehicle sales overall.

## CHINA

China's regulatory framework for the automotive industry is designed to accelerate the industry's green transformation by enforcing fleet fuel efficiency standards, ZEV mandates and pollutant emissions regulations. A key element is the 2025 target for vehicle fleet regulation, which sets fuel consumption at 4.6 litres per 100 kilometres according to the Worldwide Harmonized Light Duty Test Cycle (WLTC). China is also shaping the future of New Energy Vehicles (NEVs) such as PHEVs, range extender vehicles (REXs), BEVs and FCEVs through two national guidelines: the Beautiful China guideline, issued by the State Council in January 2024, aims for NEVs to account for 45% of all new car sales by 2027; the Economic and Social Green Transformation guideline, introduced in August 2024, envisions NEVs becoming the dominant choice in new car sales by 2035.

At regional and municipal levels, major Chinese cities have limited quotas of licence plates for ICE vehicles but offer exemptions for NEVs. Unlike the EU, China does not intend to ban ICE vehicles entirely, as it recognises the need for a diverse range of powertrain technologies to accommodate different consumer needs and usage scenarios. The BMW Group is well-positioned to meet climate regulations in China in full, with total NEV sales exceeding 400,000 units since we introduced them there. The new electric MINI, in production in China since October 2024, is set to increase BEV sales even further.

The BMW Group has also launched a range of initiatives to reduce carbon emissions across its supply chain and dealership network, such as expanding the use of renewable energy, implementing energy and water conservation measures, promoting the reuse and recycling of batteries, and using recycled materials in production.

To promote healthy competition and the decarbonisation of the supply chain, the BMW Group has engaged with various Chinese government bodies, including the Ministry of Industry and Information Technology and the Ministry of Commerce.

At the EV100 (China Electric Vehicle Hundred People Association) Annual Conference 2024, the BMW Group advocated for the harmonisation of international standards and a balanced, technology-neutral open approach to ensure long-term industry prosperity and broad customer choice. In the BMW Group's view, simply relying on electric vehicles to reduce carbon emissions during the use-phase of the vehicle is not sufficient. Far more, our goal is a comprehensive climate strategy that covers the entire lifecycle and value chain of our vehicles – from raw materials and supply chain through to production, use and recycling.

At the World NEV Congress 2024 (WNEVC) in Haikou, the BMW Group highlighted the automotive industry's vital role as a pillar of China's economy, emphasising that the sector's health and sustainability are essential for the country's economic strength. We also underscored the need for a collaborative approach between industry and government to ensure continued success and emphasised that fostering innovation is key to creating value and making a significant economic impact. We shared our view that free global trade is fundamental to value creation and innovation, and that as a multinational with a worldwide presence, we strongly believe that the only way to achieve a sustainable, carbon-neutral future is by embracing all technologies that will help enable it – from highly efficient ICEs, PHEVs, BEVs and REXs to FCEVs.

The supply chain has also been at the centre of our collaboration with the China Development Research Foundation (CDRF) since 2021. A joint 2024 report on NEV high-voltage battery recycling highlighted the rapid development of China's high-voltage battery industry, driven by the fast-growing electric vehicle market. As the largest production and sales market for NEVs and high-voltage batteries, China must now be fully prepared for the wave of electric vehicles reaching end-of-life in the coming years. The report recommends establishing a safe, efficient and standardised battery recycling system. Multiple policy measures have been proposed to achieve this, such as improving technical standards, fostering market development and strengthening regulatory oversight. Additional in-depth studies and on-site investigations by the CDRF and the BMW Group have explored the steel industry's green transition, the supply of electricity from renewable sources and standards for lifecycle carbon emission reductions.

BMW AG, May 2025

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