T&E position paper on the Commission proposal for the revision of the CO_2 regulation

Summary:

On December 16, 2025, the European Commission proposed significant changes to the EU's car CO_2 emission standards, weakening the 2035 zero-emission target to a 90% reduction target. This review comes amid intense lobbying from automotive and fuel industries, despite evidence that the electric vehicle transition is succeeding. Backtracking on these standards poses serious risks to Europe's competitiveness, climate goals, consumer costs, and employment. Overall, reversing the EU's 2035 phase-out of combustion engine sales sends a confusing signal at a time when European manufacturers urgently need to catch up with Chinese EV-makers:

- The weakening of the 2035 CO_2 reduction target from 100% to 90% is expected to reduce the share of BEVs by 15%, down to 85% instead of 100%. However, the proposal also introduces high uncertainty as BEV sales would fall between 50% and 95%, depending on the powertrain mix strategy adopted.
- The 2030 target would be weakened by a 3 year averaging (2030-2032) of the target with super-credits given to small BEVs Made-in-Europe. This implies a 10 percentage point reduction in BEV share in 2030: from 57% to 47%.
- Based on the proposal, cars would emit an additional 720 million tons of CO_2 ($MtCO_2e$) between 2025 and 2050 - eight years of emissions from the German car fleet.

T&E's recommendations aim to fix the proposal's major flaws:

- Remove the fuel credit mechanism and reject any mechanism that rewards biofuels under the car CO_2 law.
- Remove the 3 year average, or at the minimum introduce a limit to borrowing.
- Low-carbon steel credits should be limited to "Made-in-Europe" green (fossil fuel free) steel.
- Limit small EU BEV credits to cars under 4.1 meters with a 1.2 multiplier and cap.
- On car labelling, provide real-world information (for both electric and combustion) in addition to laboratory test values (WLTP) and allow for differentiation based on the vehicle carbon footprint.

T&E analysis of the European Commission proposal for the revision of the car CO_2 regulation is available here.

1. Introduction: The EU's car CO_2 emission standards

The CO_2 emission standards for cars and vans is the most important climate and industrial legislation for new passenger vehicles in Europe. Switching from polluting engines to emission-free electric vehicles is crucial to decarbonising cars, which are responsible for 13% of all greenhouse gas emissions in Europe. To achieve a net zero transport system by 2050, only emissions-free cars should be sold from 2035. In 2022, the European Parliament and the Council agreed to end sales of new combustion engine cars by 2035 in the EU. Since then, the regulation has become the scapegoat of the automotive industry's difficulties.

The 16th December 2025, the European Commission, following an intense lobbying from the automotive and the fuel industries, published its review of the CO_2 emissions standards for cars and vans regulations. In its text, the Commission proposes to:

- Replace the zero-emissions target in 2035 with a -90% CO_2 reduction target.
- Ensure this 10% flexibility to be compensated through the use of low-carbon "Made-in-Europe" steel, and from so-called "sustainable renewable fuels" (i.e e-fuels and biofuels).
- Reduce the 2030 objectives for vans by 10 percentage points (40% instead of 50%)
- Average the 2030 target over a three-year period from 2030 to 2032 instead of meeting the 2030 target in 2030.
- Offer a supercredit for electric cars "Made-in-Europe" with a maximum length of 4.2 meters. De facto, those cars will count as 1.3 cars when calculating a manufacturer's CO_2 performance.

In this position paper, T&E details the Commission proposal (1), highlights the causes of the automotive sector's current difficulties (2), assesses the implications of the Commission's proposal (3), and sets out recommendations (4) to ensure that the revised CO_2 regulation for cars and vans benefits the EU, its citizens, and its industry.

2. The European automotive industry in transition: from the Covid-19 to 2025

Since the Covid-19 pandemic, automotive sales volumes in Europe have declined significantly, by around 3 million units, with no return to pre-pandemic levels. However, this decline stems primarily from manufacturers' own strategic choices, not climate policy. Automakers deliberately prioritized profits over volumes, shifting production toward larger, more expensive models like SUVs and premium vehicles. The result: fewer cars sold, but higher profits per vehicle.

As a consequence, the segment of small cars has been shrinking (-1.6 million units since 2019 according to the European Commission), making it more difficult for citizens to buy new affordable vehicles.

Employment rates also took a toll. Between 2019 and 2024, employment in the automotive sector fell by 25% in France, by 9% in Italy and by 7% in Germany.

Meanwhile, the electric transition is progressing successfully. According to the ACEA market registration data published in January 2026, the market share of battery-electric cars (BEV) reached 17.4%, up from 13.6% last year. In terms of volume, 1.8 million new BEVs were registered, a 30% increase compared to 2024.

Supporting this momentum, charging infrastructure is also expanding rapidly across Europe, nearly 1.14 million public charging points have been installed in Europe by the end of 2025.

Additionally more than €108 billion have already been committed to gigafactory projects across Europe. With them Europe could reach around 1.4 terawatt-hours of battery production capacity by 2030, enough to meet domestic demand. These strategic investments are key to strengthening EU sovereignty but also face significant risks in the scale-up phase, especially in the absence of strong industrial policy.

3. Backtracking on 2035 puts Europe at risk

3.1 Global competition: risk of Europe falling behind on EVs

The EU risks losing ground in the global EV race and falling behind global competition. While the EU is discussing the 2035 target, global markets are going electric fast: Turkey (18% EVs) has caught up with the EU while some markets have already surpassed the EU (in the first half of 2025): Thailand (24%), China (30%), Vietnam (42%). If the EU automotive industry doesn't transform fast, it will lose to its international competition, with consequences for the workers and the EU sovereignty.

3.2 Climate: increase CO_2 emissions amid a global climate urgency

T&E assesses that based on the Commission proposal, cars would emit an additional 720 $MtCO_2e$ between 2025 and 2050, 10% more than under the current regulatory scenario. Indeed, EV transition will be slower and compensation mechanisms in place don't save additional CO_2 emissions, since they are already counted under other legislations (i.e steel sector in ETS1 and fuels under RED).This change will make it hard to reach our climate goals (2030, 2040 and 2050). It will also be more expensive to reach those targets given that in comparison to other sectors, car electrification is one of the most mature and affordable decarbonisation pathways.

3.3 Higher costs for consumers

Allowing plug-in hybrids and cars running on biofuels and e-fuels to be sold after 2035, is also bad news for consumers: a slower uptake of electric cars will delay the purchase price parity

point (when electric cars get cheaper than conventional models) and locks drivers into more expensive mobility.

Plug-in hybrids sell for around €55,000 on average and cost up to an extra €0.92 per litre for third-hand vehicle drivers compared to a petrol car. Synthetic fuels would cost €6 to €8 per litre. Advanced biofuels would also remain costly due to their scarce supply. By contrast, electric cars are already cheaper to run in most cases thanks to much lower operating costs (up to three times cheaper per kilometer when charged at home or at work), and are expected to be cheaper to buy than petrol cars by 2030 at the latest.

3.4 Investments and jobs at risk

Over 200 CEOs and business leaders from tomorrow's electric mobility industry have called on the EU to preserve the 2035 target in order to protect their investment and much needed guarantee market certainty for technology deployment ('Take Charge' coalition). This call is supported by T&E analysis, which shows that Europe must urgently establish global electric car leadership to sustain economic value and create new jobs across its automotive value chain and surrounding industries, such as batteries and charging. A scenario where the EU walks back from its 2035 goal and fails to deliver adequate industrial policy action would result in a sharp decline in car and battery production (including the loss of two-thirds of planned domestic battery capacity), employment (up to one million jobs), and economic value (a €90 billion drop in automotive value added). Weakening local EV deployment directly allows foreign car and battery manufacturers to extend their technological lead and increase exports to Europe.

4. How to protect Europe's electric transition: T&E recommendations

4.1 Fuel credits for cars jeopardize decarbonisation of cars as well as aviation and shipping

The 2035 zero-emission target for new cars and vans has been significantly undermined through the introduction of a Carbon Correction Mechanism (CCM). This mechanism allows for a 3% weakening of the CO_2 targets (equivalent to 3.3 gCO_2/km), provided that sufficient quantities of renewable fuels, i.e e-fuels and advanced biofuels derived from waste and residues (including biogas), are placed on the market to compensate for the added emissions. This a "free lunch" for the industry as it rewards them for action from fuel suppliers (which are covered under the RED).

As shown many times already by T&E, biofuels are a dead end for cars. Allowing e-fuels and advanced biofuels in cars will only increase the costs for decarbonisation, especially for consumers (see above) and slow down the transition towards affordable electric mobility.

In particular, advanced biofuels (animal fat, used cooking oil) are expensive, largely imported and highly prone to fraud (often relabelled virgin palm oil). A car running on animal fats would

require the equivalent of 120 pigs a year while a car running on used cooking oil would need 25 kg of fries per day.

In addition, advanced biofuels are severely limited in terms of domestic supply and would be better prioritised for hard-to-abate sectors such as aviation and shipping. Diverting these fuels to cars would jeopardise the decarbonisation of those sectors.

Recommendation
Remove the fuel credit mechanism and reject any mechanism that rewards biofuels under the car CO_2 law.

4.2 The 2030 averaging over 3 years delays the EV transition

The Commission proposal includes an averaging of the 2030 target which means carmakers will be allowed to average their emissions over 3 years, rather than achieve their objectives in 2030. As a consequence carmakers can under perform in 2030 as long as they compensate with over performance in 2031-2032.

T&E analysis estimates BEV sales would fall to 47% in 2030 instead of 57% under the current regulation.

By limiting the averaging to 2 years (2030-2031) or adding a 5% borrowing cap, BEV sales would represent around 50% in 2030, ensuring the sufficient BEV momentum and mass market adoption. On the contrary, a 5 years averaging (2028-2032) would be disastrous, limiting BEV sales to 39%.

Recommendation
Remove the 3 year average, or at the minimum introduce a limit to borrowing.

4.3 Low-carbon steel credits should only reward fossil fuel free steel

In the Commission proposal, the 2035 target is weakened by 7% (i.e. cap at 7.7 g CO_2/km), providing carmakers compensate for the additional emissions by using low carbon steel in their cars.

T&E is in favour of supporting and strengthening the EU production of green steel and if done right, low-carbon credits could establish a lead market for green steel at very little cost for the consumers, only adding a maximum of 100 euros to car prices. However, the effectiveness of these credits as well as their potential impact depends on future outcomes of the Industrial Accelerator Act (IAA) and the delegated act.

Recommendation
Low-carbon credits should be limited, well designed, based on robust and effective methodologies and definitions. The focus should clearly be on delivering "Made-In-EU" green (fossil fuel free) steel.

4.4 Small BEV supercredits should be strengthened to limit windfall credits

Under the revised CO_2 standards, carmakers can count each small "Made-in-EU" BEV (up to 4.2 meters in length) as 1.3 cars when calculating their CO_2 compliance between 2030 and 2034. The new vehicle category, designated as M1E in the Auto Omnibus regulation, is intended by the Commission to capture BEVs priced below €25,000.

The supercredits for small "Made-in-Europe"effectively allows manufacturers to sell fewer electric vehicles overall while still meeting their regulatory targets.

T&E calculated that the Commission proposal will reduce BEV sales by 1.5% in 2030. The 4.2-meter threshold captures all A-segment BEVs, which regroups small compact urban cars, 71% of B-segment models, and only 1% of C-segment vehicles, meaning roughly 25% of BEVs sold in 2030 are expected to be below the 4.2m threshold. Assuming that a two third of small BEVs meet the made-in-EU criteria (to be defined in the IAA), this would lead to 17% of the BEV sold in 2030 to earn supercredits.

Raising the length threshold expands eligibility and further weakens the CO_2 target. At 4.3m with a 1.5 multiplier, BEV sales fall by 2.4% in 2030, while a 4.1 m threshold with a 1.2 multiplier limits the impact to 0.9%.

Recommendation
Limit small EU BEV credits to cars under 4.1 meters with a 1.2 multiplier and cumulative cap of 5 gCO_2/km over 2030-2034. Use strict "Made-in-Europe" definitions.

T&E position on "Made-in-Europe" (find more at T&E IAA position paper).
T&E promotes a stronger Made-in-Europe approach as a way to build Europe's economic resilience, safeguard jobs and advance its climate and security objectives. The EU should ensure a significant and increasing share of the EV electric technology stack – batteries and their key components, electronics, e-motors, chips, software - is produced in Europe, including by non-European firms that onshore supply chains and enter genuine value-creating partnerships.

4.5 Car labelling: using real-world information to empower consumers

The Commission has also proposed an update of the EU's car labelling rules which aims to provide consumers with information about their cars - via a label and on promotional material. Dating back to 1999, the rules were outdated and resulted in fragmented national implementation.

Electric energy consumption and electric range for both BEVs and PHEVs will now also be included (alongside CO_2 emissions and fuel consumption data), with all information - as well as additional points including real-world driving emission (RDE) and life cycle emissions (LCA) data - available for consumers to access on a product database via a QR code.

Also welcome is the move to ensure second hand vehicles - with 80% of Europeans buying their vehicle second hand - are covered by the scope. Distributors will now be required to provide consumers with information on a vehicle's battery state of health (SoH), which will be crucial if Europe wants to have a well performing used car market.

Whilst the Commission proposal is a positive step, there is still room for important additions, which will further increase transparency and help better inform consumers in their vehicle purchase decisions.

Recommendation: provide real-world information (for both electric and combustion) in addition to laboratory test values (WLTP)

For all cars (including used cars), real-world data should be available in the product data-base (accessible to consumers via the QR code). Whenever possible, this information on the product database should be based on vehicle fleet averages from the official on-board-fuel-consumption meters (OBFCM) data and updated on an annual basis. This includes:

- For ICEs: fuel consumption and CO_2 emissions. For new cars, where real-world data is not yet available, labels for specific vehicle models should include real-world CO_2 emissions, based on an OEM-specific 'uplift factor' (calculated using OBFCM data averaged for each model).
- For BEVs: range and electric consumption (city, highway and combined; for both mild weather and cold weather), as well as charging power (max rated charging capacity, and time to charge from 20% to 80% at the max power based on real-world charging curves).

Recommendation: allow for differentiation based on the vehicle carbon footprint

Vehicle emission classes (rankings) should allow for differentiation based on carbon footprint, including between ZEVs. Under the Commission proposal, only category A would

be for zero emission cars. T&E proposes to reserve at least the top two categories (e.g. A-B) for ZEVs, to allow for differentiation based on the vehicle carbon footprint from the materials and production phase. The car label should include the carbon footprint value (in tons of CO_2) for all vehicles, as soon as an EU methodology exists.

Further information

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