



## Ceres report: Under **strong vehicle standards**, **U.S. auto suppliers win**; automakers **reduce risk** and enhance **competitiveness**

Stringent fuel economy standards would make all automakers operating in the U.S., including the Detroit Three (GM, Ford, and Stellantis), more globally competitive, and provide them with a cost-effective insurance policy against future fuel price shocks. Stronger standards would benefit suppliers in particular, regardless of whether gas prices rise or fall, because they reap greater profits from cleaner vehicles than from current internal combustion engine (ICE) vehicles. Since suppliers employ 3.5 times as many Americans as the automakers, that's good news for the U.S. economy.

That's according to a policy brief commissioned by Ceres and produced by independent automotive industry analysts. The analysis, which compared the economic impacts of the weakest fuel economy standards [proposed](#) by the National Highway Traffic Safety Administration (NHTSA) with the strongest, found that the strongest standards are feasible and result in greater benefits for the industry. Below are a few of the analysis' key findings:

### **Standards increase clean tech sales by suppliers.**

Our analysis shows that under stronger standards, suppliers earn up to \$1.61 billion more pretax profit because automakers are more likely to outsource products needed for electrified vehicles, and therefore suppliers make more profit supplying parts for hybrids, plug-in hybrids, and especially battery electric vehicles (EVs). Since suppliers account for about 78% of auto industry jobs and are less geographically concentrated than the automakers, strong standards would also benefit the industry on a national basis.

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## **Stronger standards provide a hedge for the Detroit Three, enhance global competitiveness, and help put the industry on a glide path to meet future requirements.**

Stronger standards act as an insurance policy against the possibility that gas prices rise. By driving the Detroit Three to offer more clean vehicles, stronger standards would cushion the drop in profits they would see with high gas prices, helping them preserve market share. The Detroit Three have focused their efforts on framed trucks (pickups and SUVs), making their sales and profits more sensitive to sales declines when gas prices rise. The strongest proposed standards will encourage automakers to adopt more fuel-saving technologies and encourage them to accelerate their efforts to improve fuel economy.

Since strong standards also increase the number of clean vehicles sold globally, they reduce the Detroit Three's expenses by increasing economies of scale. As production increases, the cost of development and production drops for both automakers and suppliers, which reduces their costs and boosts their profits.

Stronger standards also help put the industry on a glide path to meet President Biden's goal of 50% zero-emission vehicle (ZEV) sales by 2030 (note that the analysis shows only a 12.0% or 12.6% EV share in 2026 for the total industry, depending on gas prices, under the most stringent standards proposed). Finally, greater production of EVs will create strong incentives to build a domestic EV supply chain that can operate at higher volumes, which is critical to keeping jobs in the U.S. and maintaining a large supplier footprint in the U.S. as the industry transitions to cleaner technologies.

## **The Detroit Three profit regardless of fuel prices.**

The analysis, which looked at two potential gas price scenarios, found that the Detroit Three would be profitable in both, and that higher gas prices would be far more detrimental to Detroit Three profitability than the most stringent regulatory alternative. Note that the most stringent standards result in only a modest pretax profit decline for the Detroit Three, a 1.7% decline, for example, in a scenario with low priced fuel compared to the least stringent alternative proposed.

Assuming higher fuel prices in the regulatory period, stronger standards will actually result in \$1.387 billion more in pretax profits for all automakers than the weakest standards proposed. That's because consumers would realize greater fuel savings and would therefore be willing to pay more for new, more fuel efficient vehicles, and because battery costs will be lower as more electrified vehicles are produced.

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## Profits may be even higher as sector moves to **electrification**.

Vehicle electrification is generally associated with increased computing power, which can enhance other vehicle functions, such as navigation, online services, and semi-autonomous driving. Automakers can then generate additional and ongoing revenue streams and profits by charging drivers for those features on a subscription basis. And, as noted, as battery prices come down and both automakers and suppliers realize increasing economies of scale, they will see additional profits. Suppliers stand to profit more from EVs, and greater EV production will create powerful incentives to build out a full-blown domestic EV supply chain, creating more jobs. Currently, North America lags behind the EU and China in this regard, due to less stringent regulatory requirements. As a result, North American production of EVs currently relies on a significant share of imported content.

## Regardless of fleet mix, strong standards deliver **fuel savings** and **lower emissions**.

Federal fuel economy standards are footprint-based, which means that the required miles per gallon are lower for bigger vehicles. So no matter the mix of cars, trucks, crossovers and SUVs sold, automakers will still be able to meet the standards – and Americans will buy more efficient vehicles, no matter which models they choose to drive.

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