

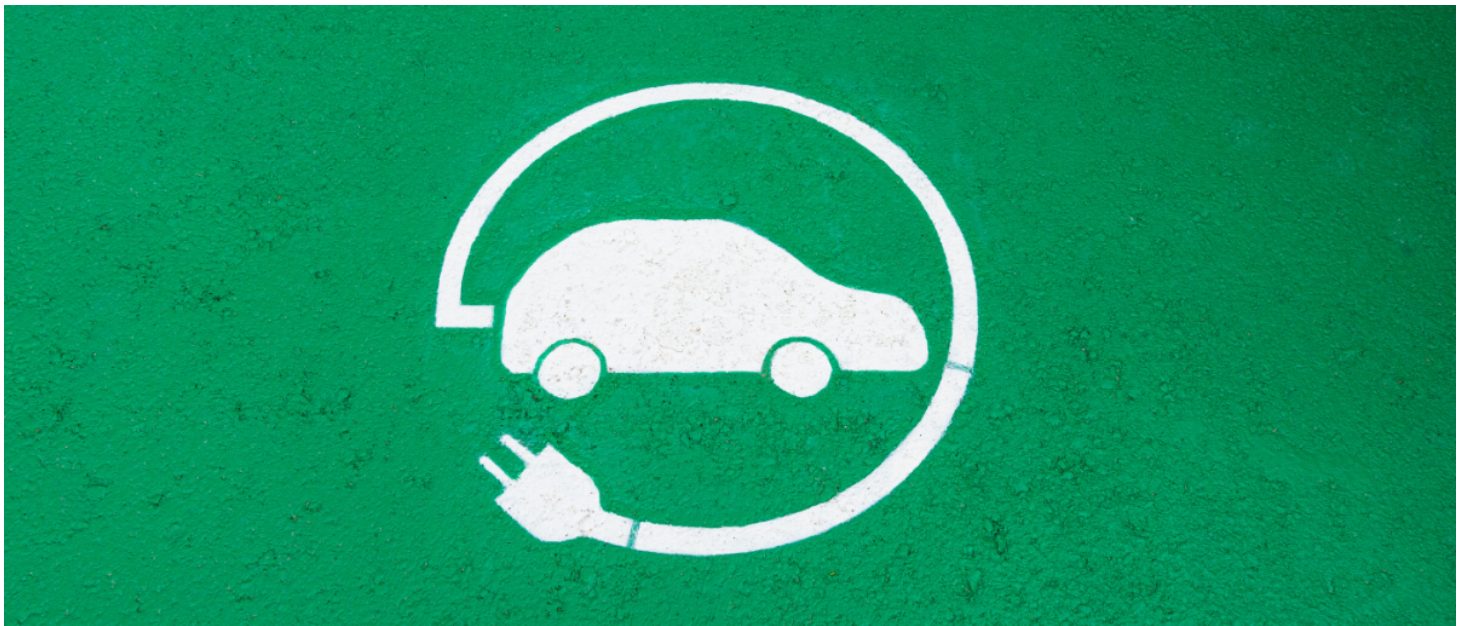
BLOG POST December 18th 2025

European automotive package: behind the political compromise lies the risk of a two-speed transition

Auteur

Jean-Philippe Hermine

Director of the Mobility in Transition Institute and Associate Researcher at IDDRI

 Reading time: 6 min

After months of intense negotiations between Member States, manufacturers, equipment suppliers and civil society, the European Commission yesterday unveiled its new '[automotive package](#)'. Most analysts and commentators have rightly highlighted the relatively balanced and politically skilful nature of the proposal: clearly reaffirming the primacy of electric vehicles as an industrial and climate goal, while allowing for the possibility of selling a limited number of internal combustion engine vehicles or plug-in hybrid vehicles beyond 2035, subject to compensation mechanisms. However, in this blog post, the Institut Mobilités en Transition examines the full reach of this automotive package and potential impacts in both economic-industrial and social terms.

What flexibilities? For what purposes?

A symbolic and highly political measure is making headlines in the press, claimed as a trophy by certain European parties: the possibility of selling a minority share of internal combustion engine vehicles beyond 2035. Under strong political pressure, Brussels is introducing flexibility into the CO₂ trajectory of new passenger vehicles sold each year: a carbon credit of 11 gCO₂/km in 2035 may be granted to manufacturers under certain conditions (the EU would therefore abandon the 100% reduction in exhaust emissions planned since 2021, but would still require a 90% reduction compared to this reference year). In concrete terms, this allowance will enable manufacturers to retain a minority share of internal combustion engine models in their sales from 2035 onwards—around 10% for 100% combustion engines, or up to around 30% for plug-in hybrids or range extenders. The condition attached to this flexibility is that the CO₂ emissions from these non-zero-emission engines must be fully offset, partly through the marketing of low-carbon fuels (second-generation biofuels, biogas or e-fuels), and partly *via* the integration of low-carbon steel in vehicle production (produced for example in electric furnaces without the use of coal, as in current blast furnaces). While the second condition makes sense, sending a very clear and strong signal in terms of demand to a European steel industry that is hesitant to transform its industrial facilities to produce carbon-free steel, the first condition (relating to low-carbon fuels) raises questions in view of the challenges of supply shortages and comparative costs for the road sector, while other sectors that are difficult to electrify will have to be given priority in order to meet their decarbonization commitments.

The text also activates several levers clearly geared towards affordable electric vehicles (city car segment¹), which meet a need identified by all experts, including [the Institut Mobilités en Transition \(IMT\)](#) in a report dedicated to the root causes of the recent increase in vehicle prices in the EU. Sales of electric vehicles in segments A and B will thus be 'overweighted' in the calculation of manufacturers' CO₂ targets, and Member States are invited to provide them with financial or non-financial advantages *via* national regulations or taxation. The objective is clear: encouraging the production and sale of more reasonably sized, more affordable electric vehicles. In addition, quotas for the electrification of corporate fleets are proposed in each Member State in order to supply the second-hand market with electric vehicles more quickly. Finally, local content measures are being introduced: bonuses for small electric vehicles and low-carbon steel used in vehicles will be conditional on localized production in the European Union. There are also other flexibilities specific to commercial vehicles (a one-fifth reduction in the 2030 interim target) and heavy-duty vehicles, focused on the mechanism for smoothing efforts over several years.

It should however be noted that these proposals still need to be debated in the European Parliament and the Council of the EU. But above all, and as is often the case, details might prove problematic. The key technical details—definition of low-carbon steel, certification of biofuels, precise criteria for 'Made in Europe' and means of valorization—will be set out at a later date in the Industry Acceleration Act of January 2026 and by delegated acts of the Commission, expected later this year. The actual effectiveness of the package, as well as its industrial and economic consequences, will largely depend on these future technical decisions.

What impact on manufacturers and consumers?

Few analysts have considered the industrial and social risks of allowing the sale of internal combustion engine vehicles after 2035. However, the consequences or knock-on effects could prove problematic in terms of fairness and social justice. When combustion engines are restricted to very limited sales volumes—in other words, to a niche market—manufacturers will certainly reserve this niche for the most expensive models, which are also the most profitable.

If this is where things stand, the scenario that emerges after 2035 is one in which combustion engines are concentrated in a few sports cars and PHEVs (plug-in hybrid electric vehicles) or EREVs (extended-range electric vehicles), in the form of large or high-end vehicles aimed at wealthy families or the so-called luxury segment.

The result being: electric vehicles for the middle classes and mainstream manufacturers; and combustion engine and hybrid vehicles for more powerful, more expensive vehicles purchased by wealthier households wishing to travel long distances without constraints. A [recent study by the IMT](#) shows that after 2035, these vehicles will be significantly more expensive to use than electric vehicles, particularly due to the continuing fall in battery prices over time. This additional cost, which can be absorbed by buyers of new vehicles, who are generally more affluent, will be particularly damaging for the middle and working classes, who will inherit these vehicles on the second-hand market. This is despite the fact that, with rapid advances in the range and fast charging of 100% electric vehicles, their heavy and complex dual powertrains will gradually lose their appeal: the benefits of PHEVs will therefore diminish over time, while their disadvantages will remain.

The benefits are clear for high-end specialist manufacturers with global models—they are the ones who have strongly called for this post-2035 flexibility, with the support of German politicians and trade unions. They are also the ones who will find it easiest to pass on to their customers the additional cost of the low-carbon steel required to benefit from this measure, as this additional cost will represent a relatively smaller share of the total cost of these vehicles.

On the other hand, this flexibility could be a trap for generalist manufacturers. Since the regulations allow combustion engines and rechargeable engines to continue to be used after 2035, they will be under strong commercial and competitive pressure to introduce a variety of engines (electric, combustion and rechargeable) into their range of medium to large vehicles that are likely to incorporate them, which are difficult to make profitable on low volumes. How could their competitiveness be strengthened? This is particularly true in the face of Chinese car manufacturers who, contrary to popular belief, do not only control the sales of 100% electric vehicles, but also very skilled at selling rechargeable technologies, which are their core market in terms of segment.

Furthermore, producing more plug-in hybrid vehicles will not solve the volume crisis currently facing the European automotive industry. Although they offer a higher margin per vehicle, PHEVs remain and will continue to be structurally expensive vehicles, mainly positioned in the C and D segments, with high selling prices, purchased by households in the upper income deciles and therefore in limited volumes. The recovery of volumes lost over the past five years (which have resulted in a slowdown in renewal and an increase in the average age of vehicles on the road) will automatically require the production and sale of smaller vehicles (segments A and B), which account for most of the potential demand to be recovered in Europe and for which the best and only technological option is electric due to their characteristics.

The post-2035 flexibility could thus become a real puzzle for the product and engineering departments of generalist manufacturers. As for 'technological neutrality', held up as a principle of freedom and common sense, it could well turn out to be a Pyrrhic victory in the long run: penalizing for some manufacturers and irrelevant for most users.

1

EU classification of vehicle types : <https://alternative-fuels-observatory.ec.europa.eu/general-information/vehicle-types>