

## California's plan to sunset gasoline car sales by 2035 *Implications for Latin America & the Caribbean*

### A Policy Brief

In late August, the state of California's Air Resources Board, or CARB, set forth a new rule aimed at limiting in the near term and eliminating in the longer-term vehicular greenhouse gas emissions. The rule, pending federal legal challenges, will prohibit the sale of internal combustion engines (ICE) in California by 2035 with interim targets set for 2026 and 2030 on the path to the total ban.

This policy brief sets forth the importance of these policy developments in California and their relevance for Latin America and the Caribbean (LAC).

The state of California is the largest market in the United States and ranks as the fifth largest economy in the world. California's policies drive purchasing decisions which have global impacts. Clean fuel and renewable portfolio standards, and a host of other state policy directives and mandates have had major international implications over the last decade.

While the world's automakers had already begun to respond to consumer and climate action demands with decisions to phase out production of ICE cars, the California policy-driven market signals will accelerate the sunsetting.

In broad terms, the accelerated end of ICE will provide opportunities and challenges across several facets of Latin America and the Caribbean economies beyond their transportation sector including policy, infrastructure, power sector, workforce, and air quality. In addition, opportunities for stronger cooperation and regionalization efforts among economies could pave the way for a smooth transition to zero emission vehicles.

In our view, there are several overarching areas crucial to understanding the implications of the CARB rule across LAC:

- Reduced fossil fuel consumption and economic upsides
- Improved health from reduced emissions
- Infrastructure demands
- Workforce considerations
- Need for coordinated and inclusive policies

For starters, there are significant impacts derived from replacing transport fossil fuels with electricity. Eliminating sales of ICE vehicles in LAC would contribute to reduced fuel subsidies. In many countries, the savings could approach billions of dollars annually. In addition, Zero Emission Vehicles (ZEVs) can help countries hedge against fuel price volatility. Many LAC countries already use renewable energy as their primary source of electricity, which can help reduce dependency on imported fuels.

On a related note, ZEVs can offer considerable savings in medical costs by eliminating vehicular emissions in urban centers that cause health problems. Furthermore, by replacing aging city buses and shared vehicles with new ZEVs will also help modernize the transportation sector and make rides more comfortable. Of course, promoting zero carbon vehicles is key for governments to meet their emission reduction goals.

The California example underscores the need for deploying infrastructure and meeting demands set in motion by consumer and policy decisions to be considered. Robust charging infrastructure should be in place ahead of a large influx of ZEVs. Years before producing its most affordable sedan, the Model 3, Tesla deployed thousands of EV charging stations promising its costumers life-long free charging throughout the United States.



While California has been a leader in deploying charging infrastructure, Costa Rica and Tesla present a regional example as to how proactively building charging infrastructure supports EV sales. And across the border, the wine country region in Baja California has deployed charging stations to welcome EV drivers from across the border in the United States to their wine tasting rooms and restaurants.

There are also evolving labor and workforce issues. As the number of new ICE vehicles decrease, so will demand for traditional auto mechanics, and the need for specialized technicians will increase. Technical schools and car manufacturers should work together to train current mechanics on how to maintain and repair EVs. As the number of non-passenger car EVs such as e-bikes, scooters, etc. grow, so will the demand for repairs by skilled workers.



The intersection of climate and energy as highlighted by the rapidly evolving context in California also underscores the importance of consensus and inclusive policies and regulations. Increased uptake of EVs can stress electricity infrastructure at certain times of the day, which can present challenges to the electric system and companies. Regulators and utility companies must work together on creating strategies to build a robust charging network that would benefit the electrical grid.

Government and local utilities can also help transform the urban mass transit system. Transit authorities and companies can work together with the utilities on the strategic placement of charging infrastructure. Governments can provide incentives including tax exemptions and loan

guarantees to support the replacement of aging mass transit units, which are some of the largest GHG emitters in cities across LAC.

The potential secondary market for EVs that LAC could represent must also be considered. A flood of used ICE cars from the US to the region could lower their prices and delay the uptake of ZEVs. Countries with relatively lower per capita income in LAC would likely be left out the ZEV market unless a concerted effort is made to support robust and inclusive policies and regulations.

The evolution of California’s policy and market position given the 2035 ICE ban is organic. The lessons and implications are in motion and demand continued review and assessment. This is particularly true for countries across Latin American and the Caribbean in terms of leveraging lessons from the Golden State.

It is not unreasonable for some leaders in the region to believe today that transitioning their transportation sector to ZEV would be too costly for their constituents. But when considered from a more holistic vantage – not to mention coupled with the economies of scale we believe the California decision will deliver - the opposite could be true given the amount of savings from imported fuel and health costs derived from poor air quality due to vehicular emissions.

*This policy brief was prepared by Cecilia Aguillon, Energy Transition Initiative Director and Jeremy M. Martin, Vice President, Energy & Sustainability*

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