Automobiles

Why carmakers are falling back in love with petrol

Revival comes as industry confronts higher tariff-related costs and rising threat posed by cheap Chinese EVs

Only China has charged ahead in its green transition with electric vehicles © FT montage/Alamy

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Despite investing billions of dollars into electric vehicles, a large swath of the legacy car industry is quickly — and happily — adapting to a new reality of longer life for the traditional internal combustion engine.

Ford's chief executive Jim Farley has called the shift "a multibillion-dollar opportunity", while rival General Motors is making a $900mn bet on the future of a cleaner V8 engine that can be used for petrol and hybrid trucks and sport utility vehicles.

However, analysts warn that the pivot comes with big risks given China's rapid ascent in electric vehicles.

The refocus on petrol and hybrid vehicles, which both use internal combustion engines (ICE), follows an expected slowdown in EV demand in the US after President Donald Trump cancelled tax credits for EV purchases and proposed revoking rules on greenhouse gas emissions.

"It's a game-changer," Farley said last month as the EV tax credits expired, adding that he "wouldn't be surprised" if US EV sales fell from about 10 per cent to 5 per cent of the market.

Ford and GM are not alone. Stellantis also resurrected the Hemi V8 engine in Ram's light-duty pick-up trucks and a Dodge Charger with a petrol engine.

US petrol vehicle sales forecasts rise as EV demand slows

% share of total

Forecast year: 2026

ICE*
Hybrids**
BEV

Source: AlixPartners
* Internal combustion engine ** Includes full, mild and plug-in hybrids

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Japan's Honda has reduced its future EV spending and postponed an $11bn EV and battery plant investment in Canada by two years, while South Korea's Hyundai recently announced plans for a new midsized pick-up truck in the US.

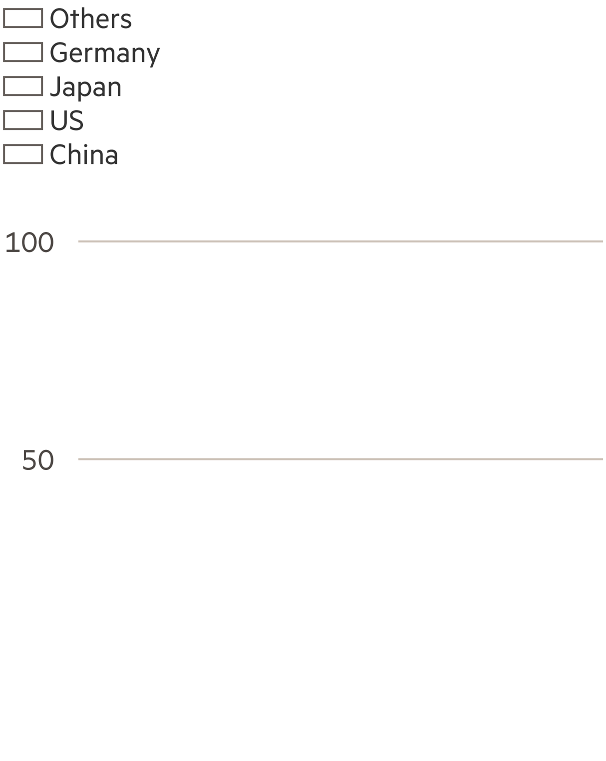
Even in Europe and the UK, where sales of EVs have risen this year to account for 20 per cent of new registrations in August, according to industry body Acea, a turnaround could happen. Brussels and the car industry are in the midst of "a strategic dialogue" as European auto executives call for the 2035 ban on petrol engines to be relaxed to allow other technologies, such as hybrids.

Only China has charged ahead in its green transition with electric vehicles, which are expected to outsell petrol cars on an annual basis for the first time this year.

For an industry pressured by the higher costs of Trump's tariff war and the cut-throat competition posed by affordable Chinese EVs, the longer petrol life in its most lucrative market could not have come at a better time.

Until recently, China was the engine driver of growth in the car industry

Sales, units (mn)



Source: Automobility

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"The ICE tail is now fatter and longer than anybody ever thought it was going to be," GM's chief financial officer Paul Jacobson said at a recent conference, even as the company continued to invest in new EVs. "That is going to be a much bigger cash flow engine."

The significant loss of market share in China by foreign brands also leaves the industry with little choice but to seek more sales in the US.

"The danger is that in the long run, does this become the buggy whip challenge?" said Mark Wakefield, global automotive market lead at AlixPartners. "In 10 years, they could wake up and be very regional companies, relevant in the US only and that would be quite limiting of their long-term potential."

China is the world’s biggest auto market

Global share, 2024 (%)

Despite the recent decline in battery prices, EVs are less profitable than their petrol counterparts, with margins even higher for pick-up trucks and large-sized SUVs. Ford last year posted a $5bn operating loss on its EV business but made $5.3bn from its ICE division.

AlixPartners has nearly halved its EV forecast for the US and now expects pure EVs to account for 7 per cent of car sales in 2026, with petrol making up 68 per cent and hybrids 22 per cent. Even in 2030, EVs are now expected to make up only 18 per cent in the US — sharply lower than the 40 per cent in Europe and 51 per cent in China.

Among the few losers of the reversal in the US regulatory environment are EV specialists such as Tesla, which last week warned that changes in emissions rules would “deprive consumers of choice and extensive economic benefits” and “have negative effects on human health”.

Another loser is German sports-car maker Porsche, which recently warned of a €1.8bn hit to annual operating profit as a result of the cost of expanding its petrol and hybrid line-up as its radical EV shift backfired.

“The death of an internal combustion engine is not going to happen in our lifetime,” said Joseph McCabe, president of AutoForecast Solutions.

Among those analysts say are the most vindicated are BMW and Toyota with their “multi-pathway” approach to carbon neutrality. BMW chief executive Oliver Zipse recently said the carmaker had always pursued a “flexible strategy”, and that ignoring continued demand for petrol cars was a “mistake”.

Despite an estimated annual tariff bill of ¥1.4tn ($9.3bn), strong sales of hybrids in the US have helped power Toyota’s global sales to a record high in the first eight months of the year, rising 6.2 per cent to 7.4mn units. Hybrids made up about 40 per cent of sales and US inventory of those vehicles was only five days’ worth as of May — far lower than the industry average.

“For internal combustion engine vehicles, we are continuing to refine our elemental technologies,” said Toyota president Koji Sato in May.

The view from China, now the world’s biggest auto market, is starkly different, and analysts warn about the dangers of legacy carmakers, particularly the US groups, slowing down on electrification to refocus on petrol engines.

Chinese groups have been pushing ahead with investment in electric cars and now dominate EV production. China produced 18.6mn petrol cars last year — of which more than 4mn were exported — compared with a peak of 28.1mn in 2017, according to data from Automobility.

China accounts for two-thirds of global EV sales, compared with just 9 per cent in the US. China also has about 70 per cent of the world’s battery market share, as well as dominance across the processing of nickel, cobalt and graphite and production of cathodes and anodes.

While 100 per cent tariffs mean BYD and other Chinese carmakers are cut off from the US market, they are making aggressive forays into European markets with both EVs and hybrids packed with advanced technology.

“The EV market isn’t just growing rapidly — its very nature is changing,” said Tanya Sinclair, chief executive of Electric Vehicles UK. “That’s why it's disappointing to see delays [in EV models].”

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