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AUTOS INDUSTRY

# GM, Volkswagen Say Goodbye to Hybrid Vehicles

Two of the world's largest auto makers say they see no future for hybrid vehicles in their U.S. lineups. Their view contrasts with Toyota and Ford, which are working on full electrics but also expanding their U.S. hybrid offerings.

*By Mike Colias*

Auto makers for two decades have leaned on hybrid vehicles to help them comply with regulations on fuel consumption and give customers greener options in the showroom. Now, two of the world's largest car manufacturers say they see no future for hybrids in their U.S. lineups.

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General Motors Co. and Volkswagen AG are concentrating their investment on fully electric cars, viewing hybrids—which save fuel by combining a gasoline engine with an electric motor—as only a bridge to meeting tougher tailpipe-emissions requirements, particularly in China and Europe.

GM plans to launch 20 fully electric vehicles worldwide in the next four years, including plug-in models in the U.S. for the Chevy and Cadillac brands. Volkswagen has committed billions to producing more battery-powered models, including introducing a small plug-in SUV in the U.S. next year and an electric version of its minibus around 2022.

“If I had a dollar more to invest, would I spend it on a hybrid? Or would I spend it on the answer that we all know is going to happen, and get there faster and better than anybody else?” GM President Mark Reuss said in an interview.

GM’s view contrasts with other auto-making giants, including Toyota Motor Corp. and Ford Motor Co., which are working on full electrics but also expanding their U.S. hybrid offerings. The differing strategies show a division within the auto industry over what is the best path to full electrification, as manufacturers pivot from their more than century-old reliance on gas-powered vehicles.

Last week, Continental AG, one of the world’s biggest car-parts makers, said it would cut investment in conventional engine parts because of a faster-than-expected fall in demand—yet another sign the industry is accelerating the shift to electric vehicles.

Toyota, Ford and other car companies have made hybrids a core part of their plans for both the U.S. and overseas markets, seeing them as an interim product for the majority of the car buyers that still drive gasoline vehicles and may not be ready for an all-electric ride.

Ford, for instance, plans to add hybrid versions of popular models like the F-150 pickup truck and Ford Explorer, in an effort to boost the fuel economy of its fleet in the near-term while continuing to develop fully electric models for farther down the road.

“We can’t say to the customer ‘You have to take an all-electric vehicle,’” said David Filipe, Ford’s head of powertrain engineering. “We’re going to be aggressively chasing this space of hybrids.”

Today, auto companies generally lose money on each electric car they sell, mostly because of the high cost of lithium-ion batteries. Concerns about the battery range, along with a lack of places to plug in, also deter buyers from considering electric vehicles. Those factors make going straight to all-electric cars a risky strategy, analysts say.

While hybrid and all-electric vehicle sales have increased over time, the technology has failed to catch on more broadly.

Hybrids, which were popularized by Toyota’s Prius last decade as a social statement, accounted for about 3% of U.S. sales in 2018, according to research firm LMC Automotive. Sales of plug-in electric vehicles were around 1% of the total market—mostly thanks to the success of Tesla Inc.’s offerings.

Still, pouring investment into both hybrids and electrics strains car-company finances, Morgan Stanley

analyst Adam Jonas said. “It’s time to pick a path and commit to it,” he said.

VW and GM are focused on all-electric cars largely because of China, where new regulations require car companies to sell a minimum number of zero-emissions vehicles to avoid financial penalties.

VW plans to use its electric-car expansion in China to build scale and drive down prices faster in the U.S., said Scott Keogh, VW’s U.S. chief.

“Our strong preference is to go all-in where the market is heading, as opposed to hybrids as a way to hedge our bets,” Mr. Keogh said.

GM’s move away from hybrids follows years of false starts. About a decade ago, the company introduced hybrid versions of its big SUVs, including the Cadillac Escalade and Chevy Tahoe, but sales flopped and the models were discontinued.

Later, GM found some success with the Chevy Volt, a plug-in hybrid that runs on electric power but also has a backup gas engine. The car was expensive, though, and GM ended production this year. A plug-in hybrid version of the Cadillac CT6 big sedan introduced in the U.S. a few years ago met the same fate.

Auto companies are spending \$225 billion to develop more than 200 new plug-in vehicles through 2023, a figure that doesn’t include hybrids, consulting firm AlixPartners estimates. But predictions vary on how soon electrics will go mainstream.

For now, both hybrids and electric cars are more expensive to produce than comparable gas-powered vehicles. A hybrid system can add roughly \$2,000 to a vehicle’s cost, while a fully electric version costs an

additional \$6,000 to \$10,000, said Alan Baum, an independent Detroit-area auto analyst.

Toyota also has long-term plans for fully electric cars, but for now it seeks to build on the success of the Prius—one of the company’s more-recognizable nameplates—by expanding its hybrid lineup. That includes making hybrid versions of existing models, such as the Highlander SUV. The goal is to make hybrids 15% of their total U.S. sales. Bob Carter, Toyota’s sales chief for North America, said that with U.S. electric-vehicle sales expected to lag behind Europe and China, the company needs a nearer-term remedy. “That’s why we feel so confident in hybrids,” Mr. Carter said.

**Corrections & Amplifications**Auto companies are spending \$225 billion to develop more than 200 new plug-in vehicles through 2023, a figure that doesn’t include hybrids, consulting firm AlixPartners estimates. An earlier version of this article incorrectly gave the dollar figure as \$255 billion. (Aug. 12, 2019)

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