

Transportation Regulation To Watch: Midyear Report 2026

By **Linda Chiem**

Law360 (July 2, 2026, 1:37 PM EDT) -- Revised vehicle fuel economy standards, negotiations on a new infrastructure and transportation funding package and the next iteration of a North American trade deal are some of the transportation industry's top regulatory developments to watch in the latter half of 2026.

Ongoing restrictions on nondomiciled commercial driver's licenses for foreign truckers carry heavy implications for the nation's supply chain, while potential new autonomous vehicle regulations could spur U.S. competitiveness in the fast-growing sector.

Here, Law360 highlights transportation policy developments to watch in the latter half of the year.

Infrastructure Funding Legislation

The House Transportation and Infrastructure Committee in May advanced a \$580 billion five-year surface transportation reauthorization bill to fund roads, bridges, transit and rail-improvement projects, highway and motor carrier safety programs, and establish the first federal regulatory framework for autonomous commercial vehicles.

Congress will continue negotiations on H.R. 8870, known as the BUILD America 250 Act, a sweeping infrastructure investment package that would replace the most recent five-year surface transportation reauthorization bill that was included in 2021's Infrastructure Investment and Jobs Act. The IIJA, also known as the Bipartisan Infrastructure Law, expires in September.

The BUILD America 250 Act also includes the Railway Safety Act, a rail safety package that was initially floated in the wake of the fiery February 2023 Norfolk Southern train derailment and toxic chemical spill in East Palestine, Ohio.

The U.S. Department of Transportation under President Donald Trump has prioritized traditional highway, road, bridge reconstruction or airport improvement projects, and shelved clean energy, mass transit, transportation equity or environmental justice projects.

The federal government's shift in transportation and infrastructure funding priorities has led to revised guidance for vetting projects that are eligible for grant awards and a rethink on funds allocated to climate resiliency or electric vehicle-related infrastructure projects.

While the IIJA of five years ago was packed with electric vehicle-boosting initiatives, the BUILD America 250 Act bill is far less receptive to EVs. The bill would establish a \$130 annual registration fee for electric vehicle owners that would serve as another revenue stream for the Highway Trust Fund, which pays for surface transportation projects nationwide. The Highway Trust Fund is primarily funded by the federal gas tax, so EVs don't pay into the fund.

"As it relates to the growth of the EV industry in the United States, particularly, consumers, manufacturers, sector participants who are pro EV, there's certainly a reason to be optimistic about the trajectory of the industry, but in my view, the reason for the optimism is not rooted in any federal policy directives or legislative initiatives," said Levi McAllister, head of Morgan Lewis & Bockius LLP's electric vehicles working group, energy decarbonization working group, and energy commodity trading and compliance working group. "We continue to see efforts to deemphasize federal policy support for continued growth of the EV industry."

"The imposition of a new fee is not a positive development," McAllister told Law360. "The rationale for the fee is that the EV owners would then pay their share for road maintenance, but there is some debate about whether that actual amount of \$130 would essentially equate to EV owners paying more than an [internal combustion engine] vehicle owner."

Vehicle Emissions and Fuel Economy

The dismantling of stringent Biden-era rules that were meant to boost fuel economy and reduce tailpipe emissions from passenger cars and trucks continues to spell regulatory whiplash for the automotive industry.

The DOT's National Highway Traffic Safety Administration in December proposed new corporate average fuel economy standards for passenger cars and light trucks covering vehicle model years 2022 to 2031. The CAFE standards would replace the most recent batch of 2024 standards that the Trump administration declared invalid and improperly calculated.

The auto industry, which had already been contending with tepid consumer demand for electric vehicles, scaled back its electrification plans. The new standards are far more relaxed, giving manufacturers flexibility to continue embracing traditional gas-powered or hybrid vehicles without the threat of federal penalties for not hitting ambitious emissions-reduction targets.

Holland & Knight LLP senior policy adviser Michal Ilana Freedhoff told Law360 that a fundamental question is whether the CAFE standards, when finalized, satisfy the statutory requirement that they're the "maximum feasible" standards.

"Ultimately, if you're an automaker, and you want to be able to plan ahead for what is the multiyear design and manufacturing cycle associated with your vehicle fleet, you really just need to know what the requirements are well in advance," Freedhoff said. "I don't think it's actually helpful for the sector to have wide swings in requirements every couple of years and constant litigation and conflict that underpins every single set of standards that are written."

Additionally, California's unique authority to set stricter greenhouse gas emissions standards and run its own zero-emission vehicles program under a Clean Air Act waiver remains uncertain.

The first Trump administration revoked that waiver in 2019, and the Biden administration restored it in

2022. In June 2025, Trump signed three Congressional Review Act resolutions introduced by Republican lawmakers to disapprove waivers granted to California for its so-called Advanced Clean Trucks, Advanced Clean Cars II, and Omnibus Low NOx regulations. California and other states promptly sued.

More recently, the U.S. Environmental Protection Agency said June 12 that it intends to reclassify four Clean Air Act preemption waivers that had been previously granted to California as "rules" subject to Congressional Review Act scrutiny. The waivers applied to the California Air Resources Board's 2008 Greenhouse Gas Emission Standards for model year 2009 and subsequent vehicles; 2012 emissions standards for cars known as Advanced Clean Cars I, or ACC I; the Biden administration's 2022 reinstatement of parts of the ACC I waiver; and the 2022 Small Off-Road Engine Rule amendments.

California officials have called the EPA's move to reclassify those earlier waivers as "rules" and submitting them to Congress for purported disapproval "an unlawful attempt to end-run administrative procedure and tee up a congressional attack on California's vehicle emissions rules."

U.S.-Mexico-Canada Agreement

The automotive industry, shippers and manufacturers are closely monitoring what's next for the United States-Mexico-Canada Agreement after the Trump administration announced July 1 that it won't renew the USMCA "in its current form." The administration said it "will continue to engage with Mexico and Canada to address the agreement's shortcomings and our trade deficits with these countries."

The USMCA took effect in 2020, and July 1 marked the first scheduled six-year review deadline for the three governments to decide how to proceed. The deal remains in effect until 2036, but the nonrenewal means the U.S. is instead opting for annual reviews with Mexico and Canada to work out new or revised terms. In the interim, however, the countries may decide to renew or Trump may choose to cancel the agreement early.

"Given the current administration's approach to trade, it wouldn't be surprising to see some significant changes being pushed through on that front. There are a lot of different things on the table," Foley & Lardner LLP supply chain partner Nick Ellis said. "There's even some possibility that rather than a tri-party agreement with the U.S., Mexico and Canada, there could be a push for different types of agreements between different parties, different rules for Canada, different rules for Mexico, or maybe some type of direct agreement between Canada and Mexico without the U.S. involvement."

"While USMCA remains in place for now, there is a strong probability that the administration will use the nonrenewal, and the resulting annual reviews, and threats of an early exit by the U.S., as leverage in negotiations," Ellis added.

The supply chain also is still adjusting to Trump's sweeping tariffs in 2025, which prompted companies to renegotiate contracts and stockpile inventory to blunt the financial impacts in the short term as they iron out long-term strategies. A 25% tariff on foreign-made cars and light trucks imported into the U.S., as well as automobile parts such as engines, transmissions and power train systems — alongside other tariffs — triggered higher production costs and uncertain supply and demand for new vehicles, among other challenges.

Autonomous Vehicles

Federal and California regulators have been working on new rules carrying the promise of boosting

development of the next generation of cars that can drive themselves, but the U.S. is still a ways from seeing wide-scale commercial deployment, despite a growing number of robotaxis and autonomous trucks popping up in cities.

Carmakers and technology developers that have spent years awaiting updated regulations governing autonomous vehicle design and operations might be encouraged by recent proposals from NHTSA and the California Department of Motor Vehicles that could ramp up AV development.

NHTSA recently issued a notice of proposed rulemaking to update Federal Motor Vehicle Safety Standards to eliminate a requirement for manual brake pedals in vehicles designed to be driven exclusively by automated driving systems. The agency proposed amending FMVSS 135, "light vehicle brake systems," to remove requirements for hand- or foot-operated brake controls for vehicles designed never to be operated by a human.

Meanwhile, the California DMV in April adopted new AV regulations — which it says are "the most comprehensive AV regulations in the nation" — allowing AV manufacturers to apply for permits to test and deploy heavy-duty autonomous vehicle technology on California roadways.

The regulations establish safety and oversight requirements for all classes of AVs, enables law enforcement agencies to cite AV companies for moving violations committed by their vehicles, requires AV companies to respond to first responder calls within 30 seconds and authorizes local emergency officials to issue electronic geofencing directives to clear AVs from active emergency zones, among other things, according to the California DMV.

Autonomous Vehicle Industry Association CEO Jeff Farrah lauded California's move, saying in an April statement that "autonomous vehicle innovators operating in California have a clear, workable path to test and deploy, ensuring the state will continue to benefit from autonomous technology through safer roads, enhanced accessibility, and strengthened supply chains."

NHTSA, carmakers and developers of autonomous vehicle technology follow standards set by the engineering organization SAE International defining six tiers of vehicle automation. They range from Level 0, with no automation, to Level 5, with full vehicle autonomy.

Currently, the highest level of vehicle automation that's widely available for sale to U.S. consumers is Level 2 advanced driver assistance systems. With Level 2, the car can steer, brake or accelerate by itself when the ADAS is engaged, but the human driver still has to be alert and able to take control of driving tasks at any time. Examples of Level 2 ADAS systems include Tesla's Autopilot and Full-Self Driving, or FSD, Ford's BlueCruise, and General Motors' Super Cruise systems.

However, Mercedes-Benz USA is the first automaker in the U.S. to receive regulatory approval to sell vehicles in California and Nevada equipped with a Level 3 automated driving system — called Drive Pilot — that doesn't require a human driver to constantly supervise the vehicle's driving functions.

Existing federal policy on autonomous vehicles remains mostly advisory and doesn't yet establish binding regulations. AV 4.0, which was issued in January 2020, reinforced safety guidelines for developing autonomous vehicles and unified federal agencies' efforts regarding developing and testing automated car technologies. The policy spelled out the federal government's wish list for tackling safety, security, privacy, mobility and other concerns, but it didn't offer any binding regulations.

AV 4.0 continued the federal government's mostly hands-off approach to regulating autonomous cars through voluntary consensus-based technical standards. The previous version of the policy, AV 3.0, was released in October 2018. The one before that came out in September 2017, while the first federal policy on autonomous vehicles was rolled out in September 2016.

CDL Crackdown

Motor carriers, freight brokers and ground-based shippers are also treading carefully as the federal government aggressively enforces its new restrictions on immigrant commercial truck drivers.

Numerous states' licensing agencies have paused issuing or renewing nondomiciled commercial driver's licenses and commercial learner's permits altogether. And states like New York and California stand to lose out on millions in highway funding for not complying with the stricter vetting requirements and revoking CDLs from ineligible drivers, according to the federal government.

The Federal Motor Carrier Safety Administration issued the final rule in February, and it went into effect March 16, enshrining many of the restrictions the FMCSA laid out in an emergency interim final rule in September.

The rule bars foreign drivers who have not been subject to consular and interagency screening from getting a nondomiciled CDL. To that end, the FMCSA strictly limited eligibility for nondomiciled CDLs to H-2A, H-2B and E-2 nonimmigrant status holders. The H-2A program is for temporary agricultural workers, the H-2B program is for temporary nonagricultural workers, and the E-2 program is for foreign investors in U.S. businesses.

And an employment authorization document, or EAD, is no longer accepted as proof of eligibility. Applicants must present an unexpired foreign passport and specific Form I-94 documentation.

The restrictions came about after a federal audit last year unearthed what the administration described as troubling oversight lapses in state licensing offices. It said far too many unvetted and unqualified drivers — many with limited or no English-language proficiency and unauthorized status — were obtaining CDLs that allowed them to operate tractor-trailers cross-country and endangering Americans.

For months, the FMCSA has been putting states on notice to strengthen their screening procedures and purge CDLs for drivers who might have previously had work authorizations, but are now no longer eligible for CDLs under the new final rule.

An estimated 200,000 nondomiciled CDL holders have been impacted by the restrictions, prompting worries about unpredictable rates, driver turnover and service disruptions.

Hanson Bridgett LLP partner Greg Reed, a transportation litigation and regulatory attorney, told Law360 this year that "practically speaking, ever since the emergency regulation, transportation companies have been taking steps to limit their exposure to nondomiciled CDL holders. As much as they are a significant component of the transportation industry and a significant provider of capacity, nevertheless, they're not aligned with the 'America First' and safety and security initiatives of the Trump administration and in particular, the Department of Transportation."

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