

STATEMENT

OF

THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE**

**SUBCOMMITTEE ON
ENERGY AND AIR QUALITY**

JUNE 7, 2007

PRESENTED BY:

Dave McCurdy
President and CEO

Mr. Chairman,

Good morning. My name is Dave McCurdy and I am the president and CEO of the Alliance of Automobile Manufacturers. The Alliance is the auto industry's leading trade association representing nine manufacturers including BMW, DaimlerChrysler, Ford Motor Company, General Motors, Mazda, Mitsubishi, Porsche, Toyota and Volkswagen.

On behalf of our members, I'd like to thank you for giving me an opportunity to be here today to comment on the draft legislation before the Committee. Alliance members share the interests and concerns of our customers, the Congress and the American public about increasing vehicle fuel economy and reducing carbon dioxide emissions.

At a March 14, House Energy Subcommittee hearing, CEOs from DaimlerChrysler, Ford Motor Company, General Motors and Toyota all committed to working with Congress to find ways to address these issues. That is our focus today. Let me summarize my main points:

- First, the Alliance of Automobile Manufacturers supports several of the provisions in the proposed legislation, and we want to work with policymakers to create a bill that is effective, achievable and inclusive.
- That said, we urge the Congress to recognize that automakers are investing significantly in advanced technology vehicles powered by electricity, biofuels, clean diesel, hydrogen and compressed natural gas.
- While many fuel-efficient and advanced technologies are on sale today, more technology is being developed for future introduction.
- Promising technologies, such as plug-in hybrids and hydrogen-powered autos, need significant research and development before they will be commercially available on an even larger scale.
- Through the Corporate Average Fuel Economy (CAFE) program, the light duty vehicle segment has been carbon-constrained for more than 30 years. We recognize that fuel economy requirements will continue to increase for our products, but these regulations need to recognize the competitive conditions of the automotive market, the vehicle needs of American consumers, and the resource and economic challenges involved in achieving future fuel economy levels.

Increasing Fuel Efficiency, Decreasing Carbon Dioxide

Auto engineers are working hard to include a diverse range of highly fuel-efficient technologies in new vehicles, because in the short term, this is the only feasible way to reduce the amount of carbon-based fuel used by automobiles. At the same time, it is equally important to start now to reduce the carbon intensity of our fuel infrastructure.

I must stress one key point here:

Alliance members support the goal of improving fuel economy to the maximum feasible level. Improving fuel economy is a consumer issue, an economic issue, a climate change issue, an energy security issue, and a high priority.

Automakers pursue the goal of increasing fuel economy as they develop vehicles that meet the various needs of American families in every segment. But while consumers value fuel economy, they also want many other attributes in today's vehicles, such as safety, passenger and cargo room, performance, and towing and hauling capacity. In 2006, for the fifth year in a row, light trucks, including pickups, minivans, vans and SUVs, outsold passenger cars. More than 53 percent of all new vehicles purchased last year were light trucks. Our challenge is to develop automobiles that combine all the vehicle attributes demanded by Americans...with improved fuel efficiency...and at an affordable price.

Automakers are competing to bring these vehicles to market as soon as the technology is feasible, affordable and meets consumer expectations. We have made the investments, and we are beginning to see results.

Alliance members are working now to offer more alternative fuel and advanced technology autos, including vehicles that run on hybrid-electric technology, clean diesel, and alternative fuels like E-85 ethanol and hydrogen, because these autos will help our country address the growing concerns about U.S. gasoline consumption and oil imports, as well as carbon dioxide emissions.

Just this week, the Alliance reported that sales of alternative fuel autos continue to grow. According to R.L. Polk & Company, the first quarter of 2007 showed record sales for alternative fuel autos. In the first three months of this year, more than 430,000 alternative fuel autos were sold nationwide, an increase of more than 27 percent over the same period last year.

Last October, government, auto industry and fuel suppliers partnered to introduce the ultra-low-sulfur diesel needed for clean diesel engines. Since the year 2000, sales of light-duty diesel vehicles have almost doubled.

Today, more than 11 million alternative fuel autos that run on hybrid technology or fuels like clean diesel, ethanol, hydrogen and others are already on the road. Automakers are offering 60 models of alternative fuel autos on sale today, up from 12 in 2000, and many more models are planned for future production.

Guiding Principles

Automakers understand the desire of Congress to reduce carbon dioxide, and we support that goal. Reducing carbon is dependent on three intertwined factors: consumers, fuels, and vehicle technology. Attempts to address concerns about energy security and carbon dioxide emissions cannot succeed by focusing only on one component.

There are many provisions in the proposed legislation that treat fuels and autos as a system. In 1999, EPA finalized its landmark regulations called Tier 2, which for the first time regulated autos and fuels as a system. Future legislation needs to consider fuels and autos together.

Today, I will limit my testimony to provisions that affect autos, but I would like to recite several principles that have guided automakers in responding to this legislative proposal.

A consumer-sensitive approach is needed. Many segments of our economy depend on cars and light trucks. Farmers, tradesmen, small businesses and others need vehicles, especially larger cars and light trucks, for their livelihoods. Any program that reduces the availability of these work vehicles or significantly raises their costs represents a burden on the U.S. economy, and especially a burden on independent and small businesses.

A market-driven, market-responsive approach is needed. Any effective program needs to consider the realities of the marketplace. For example, incentives in place for the renewable fuels program enable competitive pricing of ethanol, which is resulting in increased consumer demand for this alternative fuel.

Incentives are needed to encourage real reductions in carbon dioxide. Incentives can encourage consumers to purchase advanced technology autos on sale today and encourage energy providers to increase availability of alternative fuels and to reduce the overall carbon intensity of the fuels that power them.

Consideration of effects on competitiveness is needed. Any effective program to reduce carbon dioxide needs to allow for companies to grow and thrive, without imposing provisions that would result in job loss. Sufficient lead time is critical in this industry, since auto manufacturing requires five years to develop and introduce a new model, and seven years to make significant changes to powertrains.

Finally, any effective approach needs to be comprehensive and nationwide. The United States needs a consistent national policy that avoids the marketplace chaos that would surely arise from a patchwork of conflicting state fuel economy/carbon dioxide mandates. Therefore, it is crucial that there be federal pre-emption of State laws.

Provisions in the Proposed Legislation

With these principles as a guide, let me address several of the specific provisions in the proposed legislation.

1. The Alliance Supports Granting NHTSA Authority to Reform Passenger Car CAFE Standards.

The Alliance supports providing authority to NHTSA to reform the way it sets fuel economy requirements for passenger cars. A rulemaking process that maximizes consumer choice and avoids safety trade-offs, without injuring competition or any individual automaker is

clearly desirable. Attribute-based approaches, when properly designed, can help achieve these objectives. But ultimately, success in meeting these objectives depends on the provisions of the program, such as the specific attributes or set of attributes that are chosen, the level at which standards are set, and the adequate provision of lead-time. Whatever attributes are considered for cars must preserve the diverse types of passenger cars.

The Alliance supports authorizing NHTSA to reform the CAFE standard for cars into an attribute-based system, but NHTSA should not prejudge the issue by assuming that the footprint-based system used in the light truck reform rulemaking makes the most sense for cars.

When reforming light truck CAFE standards, NHTSA used an attribute-based approach that acknowledged consumers require different sized vehicles for their business and family needs. NHTSA's attribute-based approach addressed some of the previous concerns about safety and about inequitable effects on different manufacturers arising from the previous "one size fits all" standards.

2. The Alliance Supports Preserving the Distinction between Cars and Light Trucks.

The proposed legislation preserves consumer choice by maintaining the 30-year-old statutory distinction between cars and light trucks. Americans value fuel economy, but they also want passenger and cargo room, performance, towing ability and more. The fuel economy of light trucks can and should increase, but we need to acknowledge that light trucks and cars need separate fuel economy standards. Existing federal law rightfully separates cars and light trucks in the CAFE program by setting different fuel economy standards for each.

3. The Alliance Supports Setting CAFE at the Maximum Feasible Level.

The Energy Policy and Conservation Act directed NHTSA to set national fuel economy standards at the "maximum feasible" level taking into account key elements such as the need of the U.S. to reduce energy use, as well as technological feasibility, affordability, safety, emissions controls, consumer choice, disparate impacts on manufacturers and effects on American jobs. This approach balances petroleum conservation needs with technological feasibility, safety, affordability, jobs and consumer choice.

By directing NHTSA to continue to set annual standards at the maximum feasible level, this legislation acknowledges that progress may be faster some years than others. While the draft bill includes targets that must be ultimately achieved, this approach acknowledges that progress and breakthroughs are not always governed by the calendar. Fuel economy varies depending on the introduction of models and technologies, along with consumer purchases. For example, a new model may sell well in its first few years, but then decline in popularity.

The dual approach of ultimate targets and standard-setting year-by-year allows NHTSA to make adjustments based on available technologies and manufacturers' product plans to fine-tune progress toward the legislation's ultimate fuel economy targets. The ultimate fuel economy targets, however, remain extremely ambitious and challenging to our member companies.

4. The Alliance Supports Funding the Development of Promising Technologies.

While fuel-efficient technologies are on sale today, more technology is being developed for future introduction. Thousands of automotive engineers are working on innovative technologies every day, but many emerging technologies, such as plug-in hybrids, fuel cells and hydrogen internal combustion engines, still need significant research and development before they will be commercially ready. Moreover, the hydrogen fueling infrastructure needs to be developed.

Setting aside funds collected from the automakers under the CAFE program to speed up commercialization and production of advanced technology vehicles and vehicle components in the U.S. makes sense. Added to the billions of dollars automakers are already investing in research and development each year, this money can assist in getting more fuel efficient vehicles to market less expensively and faster. Similarly, the advanced battery loan guarantee program in Section 305 will help make leap-ahead technology a reality.

5. The Alliance Supports Improving the Availability of Alternative Fuels to Keep Pace with the Availability of Alternative Fuel Autos.

Autos and the alternative fuels to power them must be developed in harmony. Automakers are putting millions of alternative fuel autos on U.S. roads, but many consumers are still searching for the alternative fuels to power them. Today, there are 6 million E85 ethanol-capable vehicles on our roads. In the first quarter of 2007, sales of E85 autos were up 40 percent over the same period last year. But only about 1,200 of the 170,000 gas stations in the U.S. offer E85 and even fewer offer alternative fuels like hydrogen and biodiesel. As a general matter, the Alliance does not support mandates, but we do support incentives that can help speed up the introduction of biofuels and other fuels to the marketplace.

6. The Alliance Supports Increasing Consumer Information.

This proposed legislation would seek to raise consumer awareness in three important areas.

First, a public campaign would be undertaken to inform consumers of the availability of both Flexible Fuel Vehicles and where alternative fuels can be purchased. Automakers have been advertising their vehicles, and we support groups like the National Ethanol Vehicle Coalition and the Clean Diesel Fuel Alliance that provides a consumer website on fuels availability at www.E85.com and www.clean-diesel.org.

Second, a Fuel Conservation Education Program would be created to ensure consumers are given more information on how to conserve fuel through proper use and maintenance of their vehicles. The Alliance has already initiated this effort, working with EPA, through the website, www.MileageWillVary.com. On this site, consumers can test their knowledge of fuel savings practices. We have been advertising the website on consumer sites like www.Edmunds.com, and certainly we support further education.

Third, this legislation proposes to educate consumers on replacement tire fuel efficiency. The Alliance currently educates the public about the influence that tires have on vehicle fuel economy through its website, www.CheckMyTires.com. According to the National Academy of Sciences, a 10 percent reduction in average rolling resistance, if achieved for the population of passenger vehicles using replacement tires, promises a 1 to 2 percent increase in the fuel economy of these vehicles. About 80 percent of passenger cars and light trucks are equipped with replacement tires. Assuming that the number of miles traveled does not change, a 1 to 2 percent increase in the fuel economy of these vehicles would save about 1 billion to 2 billion gallons of fuel per year. This fuel savings is equivalent to the fuel saved by taking 2 million to 4 million cars and light trucks off the road¹.

We support the tire manufacturers' providing additional information about the contribution of tires to vehicle fuel consumption, either at the point of sale or through other means like advertising.

7. The Alliance Supports the Focus on Carbon Emissions.

For more than 30 years, corporate average fuel economy has been focused on reducing oil consumption, but CAFE alone cannot address the broader problem of climate change. To affect climate change, the Congress must address carbon dioxide emissions through a comprehensive program that touches fuel producers, vehicle manufacturers and consumers.

This proposed legislation expands the policy focus to carbon dioxide (CO₂) emissions in several ways. For example, the Department of Transportation would be required to issue fuel economy standards in both "grams per mile of CO₂" and miles per gallon. In addition, EPA would be directed to develop a Low Carbon Fuels Standard.

These are good initial efforts that focus on carbon dioxide and climate change while maintaining the options to develop a broader climate change policy.

Provisions for Further Discussion

1. The CAFE Targets Are Very Aggressive and Will Be Difficult for Manufacturers to Achieve.

Under the proposed legislation, car CAFE standards would increase by more than 30 percent while light truck standards would increase by 35 percent. The legislation's proposed standards of 36 mpg for passenger cars by 2022 and 30 mpg for light trucks by 2025 represent significant increases over the current standards. Indeed, the proposed increases in fuel economy requirements would present major technology challenges for automakers, requiring tremendous investments over a sustained period of time. An automaker can spend well over \$1 billion to develop a brand new engine or transmission or a new vehicle that is not based on an existing platform. If passed into law, this legislation would result in the largest increase in CAFE standards to cars and light trucks.

¹ *Tires and Passenger Vehicle Fuel Economy: Informing Consumers, Improving Performance*, Transportation Research Board Special Report 286, National Academy of Sciences, Washington, DC, 2006.

Automakers traditionally have supported standard-setting by NHTSA, the expert agency with long experience with CAFE. The NHTSA notice and comment rulemaking process is based on thorough development of a factual record regarding technical feasibility, affordability, effects on safety or jobs, and environmental benefits, that is built with input from all interested parties. While the 2002 NAS Committee on CAFE² believes that the identification of trade-offs should reside with elected officials, the consideration of these trade-offs in the selection of fuel economy targets and levels is appropriate for the expert federal government agency to set.

Automakers are deeply committed to working with Congress and NHTSA to develop standards that achieve the fuel savings and CO₂ reductions desired, while at the same time maintaining jobs, a sound economy and a vibrant automotive industry.

In May, Standard and Poor's issued a report stating that stringent fuel economy and vehicle emissions legislation would "pose a real risk to global automakers' financial performance, particularly as some are already under pressure from razor-thin margins."

As a result, overly aggressive fuel economy standards could undermine the economic health and stability of automakers, and they could raise costs to consumers and result in restrictions on certain models.

2. The Flexible Fuel Mandates Offer No Flexibility if Circumstances Change.

As a general matter, the Alliance does not support technology mandates, and we are extremely concerned about the technology mandate for flex fuel vehicles proposed in the discussion draft. This mandate proposes targets that may be unachievable, as well as a time frame that is very aggressive, and it allows no alternatives should E85 fail to make it to the market in the anticipated volumes and needed locations. Company product plans for 2012 are firming-up now and legislating a 45 percent mandate by that date would impose an enormous resource burden on some companies. This mandate would compete with engineering resources needed to improve vehicle fuel economy. Moreover, 2012 provides insufficient lead time for small-to intermediate-size automakers that are not already producing those types of vehicles.

3. Doubling the CAFE Penalty Unfairly Hurts Small-Line Manufacturers.

The Alliance does not support the doubling of the CAFE penalty. This proposal discriminates against smaller manufacturers and those with limited product lines. Ultimately, it will cause consumers to pay more for certain vehicles, while similar, possibly less efficient, vehicles from manufacturers with a wider product range will not carry the additional costs.

² *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards*, Transportation Research Board, National Academy of Sciences, Washington, DC, 2002.

4. Extending Flex Fuel Credits Will Incentivize Production and Reduce the Cost of Compliance.

The Alliance does support two provisions that are *not* currently in the proposed legislation. First, the Alliance supports extending CAFE credits for flexible fuel vehicles. An incentive-based approach such as this will continue the growth in numbers of Flexible Fuel Vehicles without harming manufacturers. Second, the Alliance supports extending the carry-forward, carry-back credits to five years from three years for additional flexibility in adjusting to constantly varying market conditions.

There are also many provisions in the proposed legislation that require further review and analysis, and we want to continue constructive discussions with policymakers to move this bill forward.

Again, thank you for the opportunity to comment on this legislation. We look forward to working with you and all members of the House of Representatives as this legislation moves forward. We want to ensure that the important priorities of climate change and energy security are addressed in a meaningful way without disproportionately harming consumers or an industry that provides jobs to millions of Americans.

I welcome any questions you may have regarding the Alliance's positions on improving fuel economy and reducing carbon dioxide.

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