Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

STATEMENT OF:
THE UNION OF CONCERNED SCIENTISTS

BEFORE THE:
HOUSE COMMITTEE ON FINANCIAL SERVICES

BY
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Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify before you today. I am a research director and senior engineer with the Union of Concerned Scientists (UCS). UCS is a leading science-based nonprofit that has been working for a healthy environment and a safer world for over 30 years.

As an engineer, I hope to bring a different perspective to this hearing. But first, I would like to point to the perspective of the American taxpayers whose money would be on the line. As I am sure you are all aware, Americans have, by and large, lost confidence in the Detroit automakers. Recent polling indicates that over 60% of those polled oppose government financial assistance to automakers. This is despite the fact that half the cars and trucks sold this year (and significantly more than half on the road) were made by the Detroit 3.

There are a lot of reasons for this lack of confidence, but if this committee, the House, the Senate and the American people are going to support giving money to automakers, we need to find a way to ensure that it is NOT a bailout. Instead the package should be structured as an investment where taxpayers are given a very clear return.

To help rebuild that confidence, I would suggest 4 steps:

1. **Acknowledge what we already know:** that the future survival of the Detroit auto industry depends on the ability to deliver the products consumers need in a world of volatile oil prices and a changing climate. No matter how they restructure themselves, if automakers fail to produce millions of highly fuel efficient vehicles every year, they will not be able to compete and they will not become profitable.

2. **Require a return on taxpayer investment under Sections 404 and 405 of your draft bill:** To guarantee a financial benefit for taxpayers in return for financial assistance, automakers should be required comply with fuel economy standards three years early, as GM has effectively said it is going to do in the plan they just submitted. If the Detroit automakers met their projected 2015 fleetwide fuel economy three years early, we have done a rough estimate showing that consumers would see net savings of more than $10 billion through 2020 and more than $30 billion through 2025 even if gasoline averages just $2 per gallon. If

they are not held to something higher than the existing standards, it could be interpreted as automakers being given taxpayer money to meet the law.

3. **Require that automakers not bite the hand that feeds them:** In return for taxpayer money, automakers should be obligated to drop lawsuits seeking to block states that want auto companies to deliver cleaner cars. These states, representing over 35% of taxpayers (likely soon to be more than 40% if and when Florida joins), are demanding cleaner cars through a single global warming pollution standard, and it would be a slap in the face to ask their residents to put up money to help an industry that is undermining their efforts. Further, if all of the Detroit automakers were required to follow a fuel economy plan similar to GM's, they could already be in a position to comply with California's standard.

4. **Preserve the EISA Section 136 advanced technology loan package and do not, even temporarily, bypass its modest requirement of a 25% increase in fuel economy for qualifying investments:** First, the automaker recovery plans are premised on using the Section 136 money to invest in advanced technology to help them meet or surpass the fuel economy requirements in EISA—that quid pro quo has already been established and should not be undermined. The relatively weak DOT regulatory target for 2015 fuel economy standards already requires more than a 25% increase in fuel economy, ensuring that most of the retooling investments automakers will be making in the next couple of years will qualify for this low bar. In fact, Ford noted in their submission to this committee that three quarters of their nameplates will already qualify by 2011. If there are other hurdles that limit automakers ability to access these funds perhaps the committee should consider how to address them, but clearly the fuel economy requirement is not one of them. If anything, submissions from Ford indicate that the DOE's interpretation of the EISA advanced technology criteria were too weak.

If these steps cannot come together as you seek to finalize a package over the next week, I suggest that you take advantage of the well-designed partitioning between short term and long term funds in your draft bill. You could limit a bailout package this month to help automakers only with the short term bridge funds and then develop a supplemental package for the long-term liquidity and restructuring that ensures that there is a guaranteed return on investment for taxpayers in return for the added financial assistance for automakers.

Mr. Chairman, the reason I am so focused on building confidence and ensuring a return on investment is because I had very mixed emotions in studying the automaker plans

There is a lot of reason for hope in some of the plans the automakers submitted. From a promise to essentially meet 2015 fuel economy requirements three years early to the planned introduction of a hybrid family car that beats the competition by at least six miles per gallon, the automakers appear to be laying out a more positive direction than they have followed in the past. Multiple references to the potential for "green jobs" and investments in plug-in hybrids, battery electric and other high tech vehicles sound encouraging. From what they wrote, it sounds like the automakers have bought in to the first of my proposed steps—that their future depends on more efficient, cleaner cars and trucks.

But these promises also sounded a bit too familiar. They sounded too much like the unfulfilled promise to deliver an 80 mpg family car or a commercially available hydrogen car in return for billions in R&D money under the Partnership for a New Generation of Vehicles and the FreedomCar program. They sounded like unfulfilled promises to deliver a 25% improvement in SUV fuel economy, hybrid trucks from a plant in Delaware, and a million fuel cell vehicles.

I honestly think the automakers that made these promises can carry them out. That has never been the question. Detroit's automakers already have the technologies to deliver cars and trucks that exceed proposed fuel economy standards. In addition to conventional technology improvements, their engineers are hard at work on hybrids, plugins and fuel cell vehicles. They have an extremely talented workforce and I am genuinely excited about the products they can produce. The question is not whether they can deliver, it is whether they will—their legacy of unfulfilled promises and repeated efforts to fight progress on fuel economy, advanced technology, and lower emissions means we cannot take them at their word. As the saying goes, fool me once, shame on you … well, I think you know how that one goes.

The problem is not as simple as the current credit crisis tripping up an auto industry recovery process that was already well underway. The sales of Detroit's bread and butter SUVs had ALREADY been cut in half between 2002 and 2007. One gas guzzling model that had passed 400,000 in sales—outselling the most popular cars— struggled to sell more than 150,000 units in 2007, well before the credit crunch peaked. As a result of these and other factors, sales of imported vehicles grew by more than 1.25 million vehicles between 1999 and 2007 while domestic sales dropped by almost twice as much (2.2 million), leaving overall sales to drop by nearly 1 million vehicles. In other words domestic sales were hemorrhaging, along with the American jobs fueled by those sales, well before the credit crisis.

I have been a critic of the auto industry, so it probably does not surprise you to see me pointing out the risk in accepting them at their word. But I also strongly believe that we need a viable domestic auto industry to tackle America's oil addiction while avoiding the worst impacts of climate change. Without a domestic auto industry founded on a strong research, development and manufacturing base, we will not be in a position to supply even ourselves with the clean and efficient cars and trucks consumers need to save money and cut global warming pollution. We certainly won't be able to capitalize on the economic and political opportunities that would arise from being in a position to export these products and technology to countries like India and China so they can do their part to cut oil use and reduce global warming pollution.

In addition, our economy needs a broader stimulus and it will be important to address some of the weaknesses in our manufacturing and transportation systems when that package is put together. Among the greatest of ironies last year was that as gas prices skyrocketed, sales of hybrids from Ford actually fell. Sales of hybrids from Toyota, the industry leader on hybrids also fell. It was not because of a lack of interest, it was because there was insufficient capacity for manufacturing advanced batteries throughout the world and especially in the United States. We need to have the tools to fight the next oil and gas price spikes (which will come as the world economy recovers), so we should not only save our existing auto industry, but we will have to provide stimulus funds to expand manufacturing capacity for the advanced batteries, fuel cells and fuels our country needs for a stronger and cleaner economy. We also need stimulus funds to dramatically expand public transportation which was also found wanting as consumer needs shifted. As with the current package, these stimulus funds must also be tied to guaranteed returns for consumers in the form of reduced oil use, reduced emissions and money saved.

If we avoid something that looks like an auto industry bailout, and instead invest in them while guaranteeing a return on our investment by requiring cleaner and more efficient cars and trucks, we will see tens of billions of dollars back in consumers pockets, cut gasoline use by nearly 30 40 billion gallons and avoid producing hundreds of billions of tons of global warming pollution. The best part is that we can do all of this while preserving and even creating jobs in the auto industry, rather than spending that money on imported oil. For the last several years, Detroit's business, energy and environmental strategies have not been good for America, but you have a chance to help change that today.

Thank you.

Table 1. Estimated returns on an investment to stabilize and provide liquidity for the Detroit automakers in return for meeting proposed fuel economy standards three years early.

	Net Consumer Savings	Gasoline Savings (gallons)	Reduction in Global Warming Pollution (MMTCO2-E)
2011-2020	$13 billion	14 billion	160
2011-2025	$32 billion	28 billion	310