



AUTO ALLIANCE

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STATEMENT

OF

THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:

ENERGY AND COMMERCE COMMITTEE

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

AND THE SUBCOMMITTEE ON ENERGY AND POWER

U.S. HOUSE OF REPRESENTATIVES

**HEARING TITLE: MIDTERM REVIEW AND AN UPDATE ON THE
CORPORATE AVERAGE FUEL ECONOMY PROGRAM AND
GREENHOUSE GAS EMISSIONS STANDARDS FOR MOTOR VEHICLES**

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PRESENTED BY:

Mitch Bainwol
President and CEO

Summary

The Alliance appreciates the opportunity to offer our views on the Midterm Evaluation (MTE) of Model Years 2022-2025 GHG and CAFE Program Standards for light-duty vehicles. It is imperative that policymakers, stakeholders, and the public utilize this MTE process to examine the assumptions that shaped the 2012 rulemaking.

The Alliance believes more technical work needs to be done, both in more accurately projecting the level of technology that will be required for compliance and in developing an understanding of consumer acceptance of those technologies, before the agencies move forward with a proposed determination or NPRM.

Automakers have sped the deployment of new fuel-efficient models in an effort to meet the aggressive standards. The question isn't whether automakers will continue to do so but rather how and by when? The agencies claim that the requirements can be met primarily with more efficient gas-powered vehicles and minimal electrification. Yet, studies clearly disagree and find that the standards can't be achieved without significantly higher sales of alternative powertrains – such vehicles accounted for less than 3% of all light duty vehicles sold in the U.S. last year.

The agencies largely ignore this consumer acceptance dilemma, devoting only 27 pages to the topic in the 1,200-page Draft TAR. Adoption of alternative powertrains hasn't lived up to expectations despite a 174% increase in such models being available to consumers since 2010. This is likely to continue in a low gas price environment.

Additionally, the Draft TAR doesn't fully examine consumer affordability. If consumers have difficulty affording the cost of new technologies required for compliance, they may hold onto their current vehicles longer, disrupting the "virtuous cycle" of fleet turnover that enables safer and more fuel-efficient vehicles on the roadways.

Unfortunately, the principle of "One National Program" (ONP) has not materialized as harmonization gaps remain and will increase in the future. It still amounts to three separate programs that are managed by three separate agencies. Compliance with one federal program does not guarantee compliance with all. These discrepancies are creating immediate problems that must be addressed now, outside of the MTE process.

Also creating direct conflict with One National Program are the actions of California, which is moving forward with a different schedule on the MTE process and proceeding with their costly ZEV mandate – adopted by CA and nine other states. The mandate requires automakers to sell enough ZEVs to reach at least a projected 15.4 % of total sales in each ZEV state. It provides no net GHG benefit but adds significant compliance costs for consumers nationally.

The agencies estimate the cost of ONP to be about *\$200 billion* from 2012-2025. A failure to take marketplace realities into account could result in unintended consequences consumers, industry, and society as a whole.

Testimony

On behalf of the 12 members of the Alliance of Automobile Manufacturers (Alliance), thank you for the opportunity to testify today on the Midterm Evaluation (MTE) of Model Years (MY) 2022-2025 Greenhouse Gas (GHG) and Corporate Average Fuel Economy (CAFE) Program Standards for light-duty vehicles. Alliance members account for 75 percent of annual car and light truck sales by revenue in the United States. The Alliance includes amongst its diverse membership companies headquartered in the U.S., Europe and Asia, including the BMW Group, Fiat Chrysler Automobiles US, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche, Toyota, Volkswagen Group of America and Volvo Car Group.

By creating jobs, fueling innovation, driving exports, and advancing mobility, automakers are driving the American economy forward. Nationwide, eight million workers and their families depend on the auto industry. Each year, the industry generates \$500 billion in paychecks, and accounts for \$205 billion in tax revenues across the country. Historically, the auto industry has contributed between 3 - 3.5 percent to America's total gross domestic product. No other single industry is linked to so much of U.S. manufacturing or generates so much retail business and employment.

Background

This hearing comes at a pivotal time for our industry. In 2011, NHTSA and EPA, in collaboration with the California Air Resources Board (CARB), established fuel economy and

greenhouse gas targets for MY 2017-2025 via its “One National Program” (ONP)¹. A key reason the automakers entered this agreement was that the agencies pledged to conduct a Midterm Evaluation of longer-term standards for MY 2022-2025 to consider whether fundamental assumptions made several years ago continue to be realistic for those years or if those assumptions should be changed or adjusted. The agencies have recently started this process by issuing a Draft Technical Assessment Report (Draft TAR) on July 18, 2016. A proposed determination on the appropriateness of the regulations for MY 2022-2025 is expected in 2017 and a Final Determination must be made by April 2018. The agencies have provided a 60-day public comment period through September 26, 2016 regarding the Draft TAR.

Just over four years ago, the goals set forth in One National Program were ambitious – setting an aggressive fleet-wide projected average target in the EPA program of 54.5 MPG by MY 2025.

The first phase of the One National Program has already yielded significant progress and automakers remain committed to continued improvements. However, it is imperative that policymakers, stakeholders, and the public utilize this Midterm Evaluation process to examine those factors and assumptions that shaped the joint rulemaking that was finalized in 2012 and evaluate the technical merits underpinning the ONP. Much has changed in four years – most notably, fuel prices and changes in consumer purchasing habits. These changes are important to keep in mind because automakers are ultimately judged not by what they produce but by what consumers buy. **A failure to take these marketplace realities into account could**

¹ One National Program covers two phases: one covering Model Years 2012-2016 and the other covering MY 2017-2025. Both phases are commonly referred to as “One National Program.”

result in unintended consequences for society as a whole. Especially important to this Committee and Congress is a full appreciation for how certain regulatory requirements may impact not just the auto sector but consumers, businesses and the broader economy when it comes to the ability of consumers to purchase newer automobiles that are more fuel efficient and safer than vehicles that are on the roadway today – which average just over 11 years old.

Draft Technical Assessment Report

The Draft TAR is intended to be the first formal step in the MTE process. In the Draft TAR, the agencies examined a wide range of technical issues, relevant to GHG emissions and augural CAFE standards for MY2022-2025. The release of the Draft TAR is the first chance for the public to formally comment on the MTE process and the feedback from which will enable the agencies to address any technical issues before moving on to future policy decisions. On August 1, 2016 the Alliance and several stakeholders requested an extension of the comment period of no less than 120 days. This technical report spans more than 1,200 pages and incorporates the findings of 1,099 studies. Additionally, some of the supporting documents and analyses were not available for public review at the beginning of the comment period. We strongly contend that the current 60-day timeframe is not nearly long enough for a comprehensive review of this information.

On August 22, 2016, EPA and NHTSA denied the requested extension, arguing that the 60-day comment period is appropriate. In their response, the agencies, among other things, noted that the Draft TAR was “publicly released nine days before the publication of the Federal Register

notice on July 27th.” These additional nine days hardly justify a denial for a reasonable extension of the comment period and raise concerns about the agencies repeated assurances of a “collaborative, robust and transparent process.”

The Alliance believes considerably more technical work needs to be done, both in more accurately projecting the level of technology that will be required for compliance and in developing an understanding of consumer acceptance of those technologies, before the agencies move forward with either a proposed determination or NPRM. The Draft TAR largely ignores consumer acceptance (a 27-page chapter in a 1,200-page document) and contains several technical and modeling errors that lead to an overly optimistic view of both technology effectiveness and cost to manufacturers and ultimately consumers. Thus, the Alliance continues to conduct an extensive review of this vast technical report and currently expect it will be necessary to submit additional comments after the September 26th deadline. We hope the agencies will fulfill their commitment to continue to consider new data and information after the approaching deadline and, specifically, we look forward to working with the agencies to better inform the MTE by improving agency modeling efforts as well as understanding the challenges related to consumer acceptance.

Throughout the Draft TAR, the agencies correctly point to the significant fuel economy gains that automakers have made across the light-duty vehicle fleet. Indeed, automakers have made tremendous strides in vehicle fuel-efficiency and continue to drive innovation. The auto industry invests more than \$100 billion annually in research and development to improve vehicle fuel economy and safety, and this investment is paying off as vehicles on the road today are safer, cleaner, and more fuel-efficient than ever before.

Automakers have accelerated the development of new fuel-efficient models in both conventional and alternative powertrains in an effort to meet future targets and consumer demand. According to www.fueleconomy.gov, the government's source for fuel economy information, the number of models achieving EPA label ratings of 30+ MPG highway fuel economy has grown by over 700 percent since 2006, while the number of models achieving 40+ MPG has increased tenfold over the same period. By MY 2015, light-duty vehicles included 46 models of hybrids (HEVs), 18 battery electric models (BEVs), and 12 plug-in hybrids (PHEVs), in addition to hundreds of new high MPG internal combustion offerings.

Looking ahead, the question is not whether automakers will continue to innovate and implement technologies to improve fuel economy and reduce GHG emissions but rather how will automakers meet the aggressive standards currently in place, by when and at what cost to consumers, industry and the economy as a whole? The ONP requirements assume fuel economy gains of about 5 percent per year for cars and about 3.5 percent per year for trucks during the MY 2012-2021 portion of the program. The final four years of the program (MY 2022-2025) impose an expectation of fuel economy gains of about 5 percent per year for both cars and trucks. To understand the magnitude of this challenge, *WardsAuto* looked at the improvements needed in each vehicle category. They concluded that fuel economy targets must increase by 30 percent between MYs 2014 and 2021 and 57 percent between MYs 2014-2025.² This steep increase especially affects light trucks, which must improve mileage by 34 percent

² 2015 WardsAuto Fuel Economy Index

between MY 2014-2021 and 61 percent between 2014-2025.³ This is especially important to keep in mind when you look at the consumer purchasing habits in MY 2015 where approximately 57.3 percent of consumers purchased cars and 42.7 percent of consumers purchased trucks or SUVs.

More Electrification will be Necessary

In the Draft TAR, the agencies express optimism that automakers can continue to meet the aggressive requirements primarily with more efficient gasoline-powered vehicles and with minimal levels of electrification. However, the Alliance strongly believes that current facts, including consumer preferences, undermine such a conclusion. One way to assess the agencies' expectations is to examine what percent of MY 2015 vehicles meet future CO2 emission targets. The results are revealing when it comes to future compliance. Less than 4 percent of current models meet MY 2021 targets, and the sales of these most fuel-efficient vehicles remain extremely low.⁴ Currently, *no* diesel or gas-powered (non-hybrid) vehicles make the MY 2025 targets.⁵ The agencies have repeatedly stated that compliance with the MY 2025 standards will not require significant hybridization or electrification, but that clearly seems to reflect a leap of faith that transcends current technology realities.

³ Id.

⁴ U.S. EPA, "Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 through 2025"

⁵ Id.

A recent analysis by Novation Analytics (Novation) that relies on EPA and NHTSA data further illustrates this disconnect. Novation found that automakers will need to apply more, costlier technologies than was initially predicted to meet projected ONP targets, and that the post-2021 standards cannot be achieved without significantly higher sales of advanced technology vehicles, including HEVs, PHEVs and BEVs.⁶ Novation concludes, “Moving the entire industry to the current best spark-ignition powertrains would provide compliance only to MY 2020. Advanced SI technologies, unproven in production, and/or high rates of electrification will be required by MY 2025.”⁷

Additionally, a study published in June by the World Energy Council estimates that larger volumes of battery electric vehicle sales will be needed to plug an "EV Gap" between fuel economy targets and the improvements that can be realistically expected from traditional gasoline-powered engines.⁸ In the U.S., that translates to 0.9 million cars, or 11 percent of estimated 2020 new car sales. This represents a dramatic increase from the 70,823 BEVs that were sold in 2015.⁹

⁶Novation Analytics, Technology Effectiveness – Phase 1: Fleet-Level Assessment” (October 19, 2015), available at <http://www.autoalliance.org/index.cfm?objectid=CBB15950-3985-11E6-85D0000C296BA163>

⁷Novation Analytics Technical Briefing: Trade Association Studies; Powertrain Technology Effectiveness, Phase II”, prepared for the California Air Resources Board (May 17, 2016), available at <http://www.autoalliance.org/index.cfm?objectid=E4513660-3985-11E6-85D0000C296BA163>.

⁸ World Energy Council in collaboration with Accenture Strategy, “World Energy Perspectives 2016 Report on E-Mobility”

⁹ 2015 Ward’s Automotive

This stark contrast in the levels of electrification necessary to meet the aggressive standards versus actual sales of electric vehicles highlights the daunting challenge automakers currently face due to the nature of One National Program. This is because CAFE is effectively a mandate on consumption, not production – measured by what consumers take out of the showroom rather than what automakers put into the showroom. Unfortunately, consumer adoption of alternative powertrain vehicles has simply not lived up to expectations despite a 174 percent increase in such models being available to consumers since 2010. This is likely to continue in a low gas price environment -- which the Energy Information Administration (EIA) projects.

In 2011, you may recall President Obama’s goal to put one million electric vehicles (PHEVs or BEVs) on the road by 2015. Yet, automakers have only sold 448,837 of these vehicles since the President declared this goal in his 2011 State of the Union speech – approximately 0.17 percent of the 260 million-plus U.S. passenger vehicle fleet.¹⁰ Furthermore, despite seeing a record-breaking 17.5 million vehicles purchased in 2015, sales of HEVs, PHEVs and BEVs combined were only 492,683 (378,402 of which were HEVs), representing approximately 2.5 percent of total light-duty vehicle sales.¹¹ To put that in perspective, 2015 sales of a single popular pickup truck line more than doubled the entire universe of HEVs sold (780,000 units versus 378,402).

¹⁰ IHS Polk data

¹¹ 2015 Ward’s Automotive

Beyond that, in its 2015 *Annual Energy Outlook*, the EIA only projects PHEVs and BEVs at about one percent each of new LDV sales in 2040.¹²

Consumer Acceptance in Question

This begs the question, why are the majority of consumers not adopting these advanced technology vehicles, even in a record-breaking sales environment? The primary driver is record-low gas prices. The assumptions about gas prices that the agencies relied upon in the 2012 rulemaking deserve examination. One National Program was launched with an expectation of structurally high gas prices but is unfolding in a period of sustained low gas prices, profoundly impacting consumer choice. In the agencies' original analysis of the 2017-2025 joint rule, they predicted gas prices would be \$3.87 in 2010 dollars by 2025, or about \$5 a gallon. This assumption was made when fuel prices were at their highest level in the past 40 years, exceeding those of the late 1970s and early 1980s.¹³

The fuel market has shifted quite dramatically since the original ONP rulemaking in 2012. Earlier this month, the AAA National Average was \$2.22 and in August, gas prices in 14 states were below \$2.00 per gallon.¹⁴ While various uncertainties have the potential to disrupt the world oil market, in its 2015 *Annual Energy Outlook*, the U.S. EIA projects gas

¹² U.S. Energy Information Administration Short-Term Energy Outlook, Page E-8, [http://www.eia.gov/forecasts/aeo/pdf/0383\(2015\).pdf](http://www.eia.gov/forecasts/aeo/pdf/0383(2015).pdf)

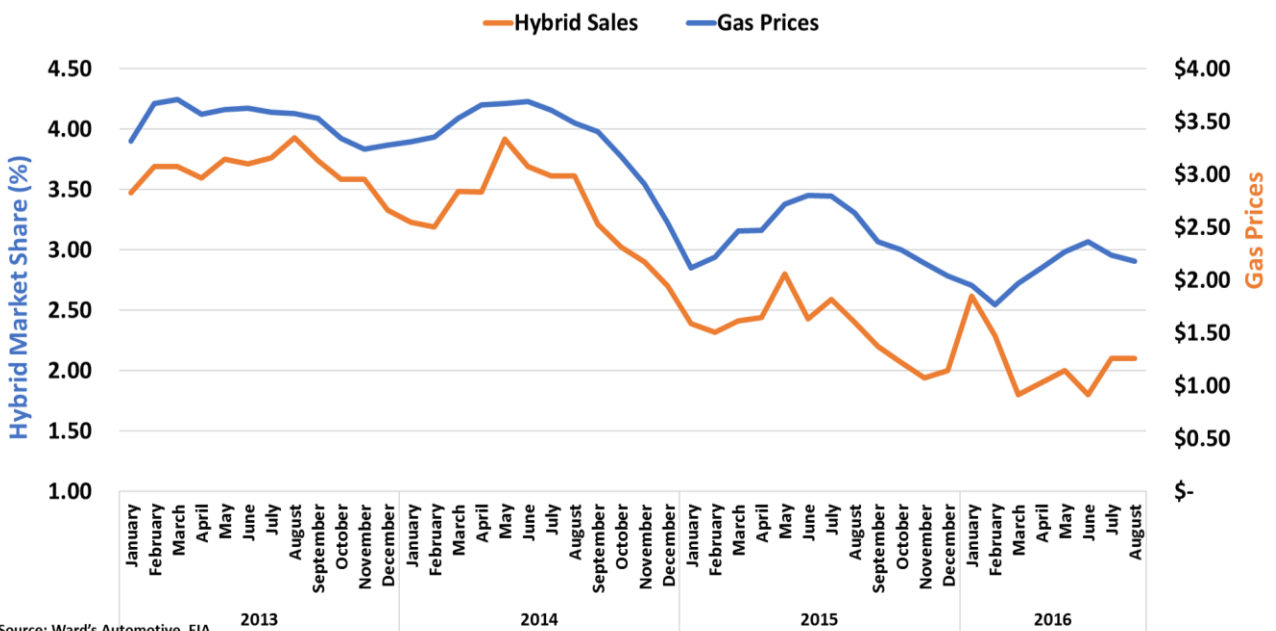
¹³ U.S. Energy Information Administration Short-Term Energy Outlook Real Prices Viewer, <http://www.eia.gov/forecasts/steo/realprices/>

¹⁴ <http://gasprices.aaa.com/>

prices to remain relatively low through 2030.¹⁵ Such low gas prices have resulted in a disconnect between consumer preferences and the CAFE/GHG emission standards. The original 2012 ONP rulemaking projected the 2025 vehicle fleet to be comprised of 67 percent passenger cars and 33 percent trucks. However, the agencies updated assessment in the Draft TAR now projects that the fleet mix in 2025 will likely be 52 percent cars and 48 percent trucks – acknowledging the direct impact low gas prices have on the vehicle fleet.

When gas prices fall, especially in the context of improving mileage across segments of the market, the desire to walk out of the showroom with a hybrid (or other alternative powertrain) diminishes (see Figure I).

Figure I: Retail Market Share of Hybrid and Gas Prices: 2013 – August, 2016



Source: Ward's Automotive, EIA

¹⁵ <https://www.eia.gov/forecasts/archive/aeo15/>

Some would point to the attribute-based CAFE requirements for cars and trucks as a complete solution to counteract any shifts in consumer choice due to low gas prices. Although attribute-based standards help ensure the entire fleet improves regardless of large shifts in demand, consumers still choose how much they are willing to spend on features other than fuel-efficiency improvements *within the same vehicle platform* (even within the same footprint and class). Often *within a model*, consumers demand options for different levels of performance and features that affect fuel economy and GHG emissions. **For example, consumers are overwhelmingly choosing to purchase a model with a conventional powertrain in lieu of that same, costlier model with a hybrid electric powertrain. As a result, achieving fuel economy targets even within a particular vehicle footprint/platform depends on consumers' willingness to pay for the greater fuel economy options within that platform, if at all available. We believe that the EPA and NHTSA incorrectly assume via the draft TAR that consumers will make such vehicle efficiency decisions irrespective of the costs involved.**

Even without the recent fall in gasoline prices, consumers show signs that their interest in buying models and options that provide the “super” fuel efficiency gains has diminished either because fuel economy is a less important factor or they are very pleased with the existing fuel economy gains or they can't afford the costlier technology. In effect, some consumers seem to be saying “enough is enough – let's bank these savings” – and allocate what they might have spent on larger fuel-savings alternatively on other safety, style and performance attributes – or other household priorities such as retirement savings or college tuition.

Strategic Vision conducts a comprehensive post-purchase survey of over 300,000 new car buyers each year, investigating the motivations driving consumer choices. The 2015 National Academy of Sciences (NAS) Report on fuel economy acknowledges that Strategic Vision provides “the most reliable information about consumer preferences.”¹⁶ **Although fuel economy matters to consumers, buyers have multiple priorities to balance when making a vehicle purchase. Strategic Vision’s polling showed that the decision on what vehicle and what options to buy is informed by many other factors, as well. Figure II indicates that fuel economy/mileage ranks 26th as a purchase rationale.**

Figure II: Vehicle Buyer Purchase Reasons

Rank	Purchase Reasons	Percent
1	Overall Safety of the Vehicle	64%
2	Overall Driving Performance	63%
3	Safety Features	62%
4	Front Visibility	60%
5	Braking	59%
6	Overall Value for the Money	58%
7	Price/Deal Offered	57%
8	Overall Impression of Durability/Reliability	56%
9	Riding Comfort	54%
10	Comfort of Front Seat	54%
11	Handling	53%
12	Rear Visibility	53%
13	Warranty Coverage	53%

¹⁶ 2015 NAS Report, p. 325.

14	Road Holding Ability	51%
15	Engine Performance	50%
16	Affordable to Buy	50%
17	Haul Cargo in Bed	50%
18	Fun To Drive	50%
19	Overall Seat Comfort	50%
20	Maneuverability	48%
21	Overall Thoughtful Engineering	48%
22	Past Experience With Brand	47%
23	Driver Seat Adjustability	47%
24	Overall Experience with Selling Dealership	47%
25	Front Seat Roominess	47%
26	Fuel Economy/Mileage	46%

Source: NVES 2016 Survey

In 2015, after reviewing the Strategic Vision survey results, the NAS panel concluded that, “...while consumers value fuel economy, they do so in the context of other attributes they also value... they look for the most fuel-efficient version of a vehicle they already want to purchase... Consumers are buying fuel efficient versions of vehicles that suit their wants and needs.”¹⁷

During the initial years of One National Program, automakers have generally been able to meet fuel economy targets by introducing available, affordable fuel-saving technologies to consumers. However, as previously discussed, the future CAFE targets will require newer,

¹⁷ 2015 NAS Report, p. 327.

costlier technologies and higher rates of electrification versus what NHTSA and EPA project in their updated Draft TAR modeling. Consumer acceptance entails more than their preferences or willingness to pay for efficiency – factors that are often influenced by fuel prices as previously discussed. It also entails their ability to actually pay for the increased costs associated with highly efficient technologies that will be needed to comply with future targets. This is a complex issue requiring analysis of new vehicle costs, household disposable income and the cost of capital among other factors.

Over the past 23 years, automakers have added new emission control and fuel-efficient technologies, safety features (electronic stability control, backup cameras, tire pressure monitors, automatic braking systems, etc.), connectivity and infotainment technologies, and other features that drivers increasingly demand. These new features, combined with the growing demand for SUVs and light trucks, caused average new car prices to increase by more than 60%. In December, 2015, Kelly Blue Book reported the estimated average transaction price for light vehicles in the United States had reached an all-time high of \$34,428.¹⁸

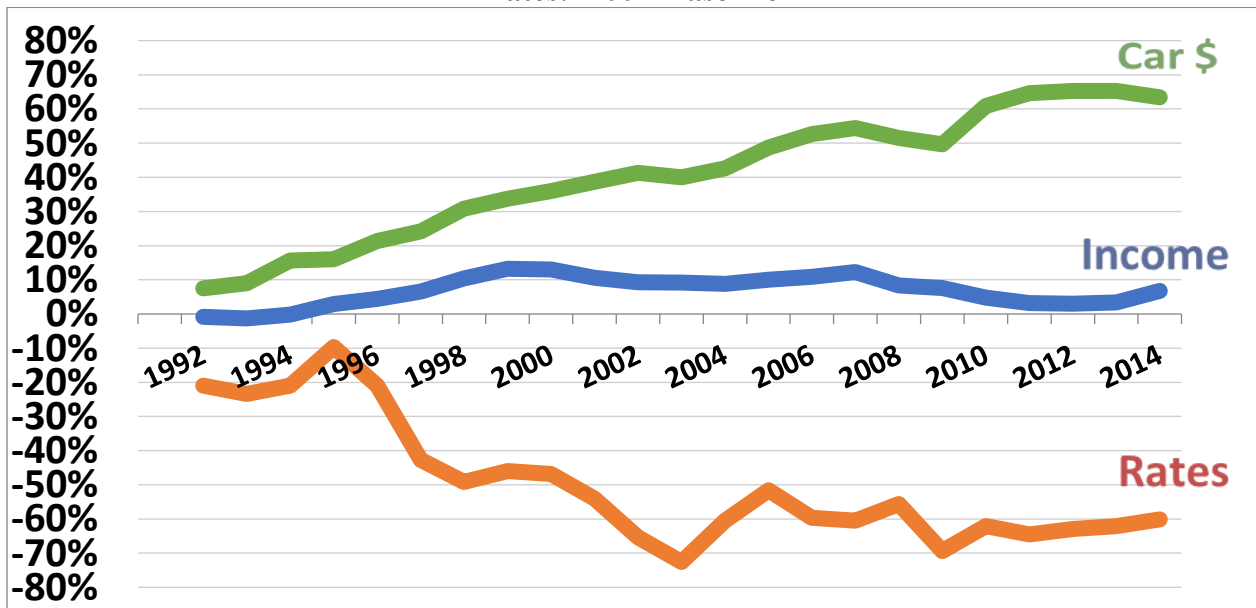
Affordability is Key

As noted in Figure III, over the past 15-20 years as new car prices increased, interest rates dropped dramatically and remained low, making it possible for consumers to continue buying new light-duty vehicles; in essence, the increased vehicle cost was offset by the low cost of capital. In addition, average loan terms have lengthened significantly, approaching seven-year

¹⁸ <http://mediaroom.kbb.com/record-new-car-transaction-prices-reported-december-2015>

terms and more consumers are leasing vehicles as well. While this has allowed consumers to keep their monthly payments affordable during a period of stagnant household income, the assumptions that EPA and NHTSA rely on in the Draft TAR for future compliance is based on overly optimistic modeling.

Figure III: Percent Change of Median Household Income, New Car Prices, And Interest Rates: 1991 Baseline



For the Midterm Evaluation, the agencies (as well as Congress, state officials, and the general public) must evaluate how the slowdown in growth of disposable personal income,¹⁹ combined with the Federal Reserve’s recent decision to begin increasing interest rates (thereby increasing the cost of capital), will impact consumers’ ability to afford the increasingly expensive technologies needed to meet the future CAFE and GHG standards. All this while keeping in mind that other regulations will simultaneously have an impact on vehicle production costs and

¹⁹ <http://www.tradingeconomics.com/united-states/disposable-personal-income>

achievable fuel economy. If consumers have difficulty affording the cost of new technologies required for compliance, they may decide to hold onto their current vehicles longer or purchase from the used vehicle market. In either case, the “virtuous cycle” of fleet turnover with safer and more fuel-efficient vehicles is stalled and the standards do not achieve their anticipated benefits.

“One National Program” has not Materialized: Better Harmonization Needed

As previously discussed, a key reason automakers supported the extension of One National Program to cover MY 2017-2025 was the inclusion of the Midterm Evaluation in the final rulemaking. Another expectation was that “One National Program” truly became One National Program for motor vehicle fuel economy standards – eliminating a piecemeal, fragmented automotive policy that is inefficient and costly to consumers. In fact, this principle was touted in the 2009 announcement of phase one of One National Program (covering MY 2012-2016) with then Assistant to the President for Energy and Climate, Carol Browner, stating: *“A clear and uniform national policy is not only good news for consumers who will save money at the pump, but this policy is also good news for the auto industry which will no longer be subject to a costly patchwork of differing rules and regulations.”* And again in the 2012 EPA Regulatory Announcement of the MY 2017-2025 Standards, by stating: *“Continuing the National Program ensures that auto manufacturers can build a single fleet of U.S. vehicles that satisfy the requirements of both federal programs as well as California’s program, thus helping to reduce costs and regulatory complexity while providing significant energy security and environmental benefits to the nation as a whole.”*

Unfortunately, the principle of One National Program is not materializing as significant harmonization gaps exist in the federal program. One National Program still amounts to three separate regulatory programs that are managed by three separate regulatory agencies.²⁰ As a result, the mechanics of the three programs and the flexibilities permitted in each are different. Compliance with one federal program does not guarantee compliance with all. These discrepancies are creating more immediate, near-term problems that must be addressed outside the Midterm Evaluation process.

The primary concern is the treatment of “credits” earned for exceeding the fleet requirements in a given model year. Under both the NHTSA and EPA programs, automakers can earn credits by producing cars and trucks that exceed the requirements in a given year -- and can then apply those credits to deficits that may occur in future years when the requirements are more stringent. As customer demands shift, or when the increasing stringency of the federal requirements exceed the automakers current fleet mix, credits are a key tool for a manufacturer to remain in compliance.

The credit program is a clear recognition that as the ONP requirements increase annually, the specific products that an automaker has in the market change over multiple years (typically every three to five years for cars and five to seven years for trucks). The goal for automakers is to have new products exceed the requirements in the early years (which generates credits) and apply

²⁰ The National Highway Traffic Safety Administration’s (NHTSA) Corporate Average Fuel Economy (CAFE) program; the Environmental Protection Agency’s (EPA) vehicle carbon dioxide/Greenhouse gas reduction program; and a similar greenhouse gas reduction program overseen by the California Air Resources Board (CARB)

those credits in the later years of that “product cycle.” As such, the intent of the credit program was to give automakers an opportunity to manage fleet compliance over time, rather than year by year. However, the CAFE and EPA credits programs are not the same and as automakers assess where they are currently and forecast future product development and customer demands, many are anticipating problems in managing compliance with the two different programs. In some cases, the inconsistencies between the EPA and NHTSA will likely create a situation where an automaker may be in compliance with the more stringent federal program (EPA) yet subject to fines in the other program (NHTSA).

Again, this is inconsistent with the Administration’s stated objective under One National Program which hasn’t materialized for automakers. As the stringency of the ONP requirements escalate in the coming years, automakers will need all of the tools possible to manage compliance. Instances where the existing regulatory programs are not harmonized hurt the integrity of the overall fuel economy program. It is important to note that addressing these harmonization gaps will not alter the stringency of One National Program as they do not require changes to the more stringent EPA GHG program. The Alliance, along with the Global Automakers, recently petitioned NHTSA and EPA to address these harmonization gaps; however, some cannot be addressed administratively and will require Congressional action. As previously mentioned, this is a more immediate problem that must be addressed outside of the scope of the Midterm and we look forward to working with the Administration and Congress to ensure the principle of One National Program is truly realized.

CARB not Fully Aligned with Federal Agencies

Also creating direct conflict with One National Program are the actions of the California Air Resources Board, who is once again driving the regulatory policy agenda by moving forward with a different schedule on the Midterm Evaluation process and proceeding with their costly Zero Emissions Vehicle (ZEV) mandate, a program adopted by California and nine other states that, collectively represent 30 percent of new vehicle sales.²¹

By the end of 2016 -- a full 16 months before the Federal government might issue a final decision on its Midterm Evaluation and roughly two years before NHTSA is required to promulgate a CAFE rulemaking -- CARB is expected to determine its Midterm Evaluation results.²² This early determination could threaten the ONP, unless the Federal agencies later reach the same conclusion as CARB. To date, CARB has not provided any rationale for reaching conclusions earlier than the Federal agencies.

While the CAFE/GHG programs both are effectively technology-neutral consumption mandates, the ZEV program is a consumption mandate that is not technology-neutral. It requires automakers to sell an increasing percentage of ZEVs such as fully electric vehicles, plug-in electric vehicles or hydrogen fuel-cell vehicles. By 2025, automakers will be compelled to sell enough ZEVs to reach at least a projected 15.4 percent of total new vehicles sales in each ZEV state. Despite various state sales incentives, there are concerns that the future ZEV sales

²¹ Section 177 of the Clean Air Act allows states to either follow the federal requirements or adopt California's vehicle emission regulations. Nine other states adopted the California ZEV regulation: Connecticut, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island, and Vermont.

²² Mobile Source Strategy, California Air Resources Board, <http://www.arb.ca.gov/planning/sip/sip.htm>

requirements cannot be met in the time required, particularly in the cooler, less-populous Northeast states that have adopted the ZEV requirement. The ZEV mandate provides no net GHG benefit but adds significant compliance costs for consumers nationally. In fact, using data provided in the Draft TAR, the Alliance estimates that the ZEV mandate results in an average vehicle cost increase of \$356 – even for consumers who don't purchase a new vehicle in a ZEV state. Unfortunately, the Draft TAR doesn't factor in the cost of complying with the aggressive ZEV program. The ZEV and CAFE and GHG regulatory obligations cannot be isolated from one another. Both require compliance; they are not necessarily complementary and industry has a limited capacity to nudge buyers to purchase vehicles they either don't want or are not willing to pay the actual cost for.

Conclusion

The Federal government estimates the total cost of the current ONP to be about *\$200 billion* from 2012-2025.²³ This is a significant regulatory burden on the auto industry and an accurate and thorough evaluation of potential employment impacts is critical for both the success of One National Program and the continued health of the manufacturing sector and the overall U.S. economy. It is imperative that we utilize this Midterm process to ensure we are on the right track. Also critical to success is ensuring that the principle of “One National Program” is finally realized and automakers can truly build a single fleet of vehicles to comply with the various programs. Automakers remain committed to achieving our environmental goals and are

²³ See <http://www.epa.gov/otaq/climate/regulations/420r10009.pdf> (EPA RIA for 2012-16 rule) and <http://www.epa.gov/otaq/climate/documents/420r12016.pdf> (EPA RIA for 2017-25 rule).

producing more fuel-efficient vehicles than ever. If One National Program was based solely on ensuring that fuel-efficient vehicle choices are offered, the industry would be well-positioned to meet the aggressive future standards. But consumers are in the driver's seat when it comes to raising the fuel economy of our nation's vehicle fleet. Developing new technologies and building safe, reliable, efficient vehicles is not the end of the challenge.

Thank you again for the opportunity to offer our views on One National Program. The Alliance stands ready to work with this Committee, Congress and the Administration during this critical Midterm Evaluation process.