January 11, 2011

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Upton:

As you are likely aware, Chairman Issa has contacted a broad cross section of industries to ask for input on the impact of existing and proposed regulations on job growth. The Alliance of Automobile Manufacturers (Alliance) submitted its views to Chairman Issa and we wanted to share them with you, as the Committee on Energy and Commerce has substantive jurisdiction over issues related to fuel economy, greenhouse gas emissions and vehicle safety. As discussed in more detail below, our key concern is the potential for state regulations that would undermine the ongoing effort to develop a single national program for motor vehicle fuel economy standards in the 2017-2025 model years (MY).

Auto manufacturing is a cornerstone of the U.S. economy, supporting 8 million private-sector jobs, $500 billion in annual compensation, and $70 billion in personal income tax revenues. The automotive sector's ability to continue to add jobs and contribute to the health of the U.S. economy depends on regulations that provide clarity and certainty, without pricing our customers out of the market or preventing them from choosing vehicles that meet their diverse needs. To that end, the single most important regulation facing automakers today is the upcoming joint rulemaking that will establish fuel economy/greenhouse gas (GHG) emissions standards for MY 2017-2025.

Congress has long recognized the competing interests that require careful balancing in setting fuel economy standards. As a result, the National Highway Traffic Safety Administration (NHTSA) is required by law to set maximum feasible fuel economy standards taking into account the impact of standards on the economy and jobs. This is because fuel economy standards are by far the most expensive regulations automakers face; the 2012-2016 standards are estimated to cost more than $50 billion, and the 2017-2025 standards are likely to be significantly more expensive.

Manufacturers have been working to make ever more fuel efficient vehicles affordable for consumers; today, more than 160 models are on sale that achieve 30 miles per gallon (mpg) or greater on the highway. But consumers ultimately will decide what types of vehicles succeed or fail in the marketplace, based on the cost of ownership and other factors. For instance, in spite of considerable media focus on advanced technology vehicles and many new hybrid electric vehicle entrants into the marketplace, consumer purchases of hybrid and battery electric vehicles made up less than 3% of vehicles sold in the U.S. in 2010. If consumers do not buy the vehicles that manufacturers are required to produce, sales will fall, production will slow and manufacturers will be forced to eliminate jobs. It is imperative – and possible – to promote economic growth and consumer vehicle choice while improving energy security.

Also important, for many reasons, is avoiding a patchwork of state and federal standards. State-specific motor vehicle GHG regulations would subdivide the U.S. market for motor vehicles, forcing manufacturers to alter and potentially restrict the mix of vehicles that they can sell in particular states, which in turn would harm the dealers and consumers in those states. Consumers' needs vary throughout the country based on geography, climate and local and regional economies. Allowing automakers to achieve compliance on a nationwide-averaged basis will help preserve consumer choice. Additionally, a single set of federal, nationwide requirements would significantly reduce compliance complexity and costs. Finally, and especially relevant to the issue of jobs, only the federal government can balance nationwide the need to reduce oil consumption and emissions with the preservation of a vital manufacturing sector that is a cornerstone of a productive national economy.

Last May, automakers committed to engage constructively with NHTSA, the Environmental Protection Agency (EPA), and other stakeholders, including the California Air Resources Board (CARB), to develop a single national standard for MY 2017-2025. In the summer of 2010, EPA, NHTSA and CARB officials conducted a series of joint meetings with automakers, parts manufacturers, non-governmental organizations (NGOs) and others to gather information for the MY 2017-2025 timeframe. This work culminated in EPA and NHTSA issuing a "Notice of Intent" (NOI) to conduct a joint rulemaking and an "Interim Joint Technical Assessment Report" (TAR).

Although CARB representatives participated in the meetings leading up to the NOI and TAR, and had a role in preparing these documents, it appears that CARB intends to pursue the development of its own separate rules for MY 2017-2025 light-duty vehicles. Shortly after the NOI and TAR were issued, CARB indicated that it would finalize California-specific 2017-2025 light-duty vehicle GHG emission regulations early this year – *more than a year ahead of the federal rule*.

Such unilateral action by California is of great concern to us; in particular, a rushed effort toward a state rulemaking is not in the spirit of a collaborative effort to develop a single national program for fuel economy/GHG standards. The current federal rulemaking process is still in the early stages. The NOI and TAR cite numerous instances where additional analysis is needed, including on critical issues such as the costs of advanced vehicle technologies and the potential impacts on motor vehicle safety and the broader economy and jobs. That work is ongoing and is not expected to be completed before September 2011. So, there is no reason at this stage for CARB to initiate its own regulatory process in advance of the federal regulatory process.

Congress has expressly prohibited states and municipalities from adopting or enforcing laws or regulations "related to" fuel economy standards. An effort by a single state to become the nation's *de facto* regulator of fuel economy standards, using authority originally granted by Congress to regulate smog-forming emissions, is wholly inconsistent with Congress's prohibition. A single state cannot appropriately or adequately consider the consequences of its actions on critical national interests such as jobs, the economy, costs to consumers, motor vehicle safety, or consumer acceptance of the types of vehicles that their standards would require manufacturers to make. For example, in setting state-specific regulations, CARB does not need to take into account their effect on the auto industry in other states or even on the national economy. CARB is a state agency whose sole focus is on California's environmental agenda. CARB does not need to take into account the economy or jobs in states like Michigan, Ohio, Kentucky, Missouri, Texas, Alabama, Indiana, Oklahoma, Wisconsin, North

Carolina, or other states with significant auto industry-related employment. And it is not required to consider factors like highway fatalities on U.S. roadways. Thus, California should be fully engaged in the effort to establish an effective and workable national program, rather than regressing to a California-only approach.

Finally, under the Clean Air Act, California may establish emissions standards only when the EPA Administrator grants California a waiver to do so. Section 209(b) of the Clean Air Act prohibits a waiver if the Administrator finds that California does not need separate regulations to meet compelling and extraordinary conditions, or if the Administrator finds that the California regulation is not consistent with federal standards set under Section 202(a) of the Clean Air Act. It is highly doubtful that California could demonstrate a need for separate state-level GHG regulations to meet "compelling and extraordinary conditions" once EPA and NHTSA have nationwide standards in place for 2017-2025.

At the federal level, it is critical that standards carefully balance the important national interests of reducing oil use and GHG gas emissions while supporting continued economic growth and jobs. Great uncertainties for the 2017-2025 timeframe remain, and though some are acknowledged in the NOI and TAR, neither document suggests a process for satisfactorily addressing them. For the upcoming rulemaking, the federal government must develop a more integrated process that takes into account factors upon which greater vehicle efficiencies depend, such as infrastructure, fuels and fuel quality, and consumer acceptance.

The Alliance is concerned that the NOI and TAR systematically underestimate the costs of the proposed standards and overstate the benefits to consumers. In several key areas, the agencies' analysis departs significantly from a recently completed study by the National Academies of Sciences (NAS). For example, the NAS estimates costs of more than $3,000 per vehicle to achieve fuel economy levels of 40 mpg by <u>2035</u>, while the NOI estimates costs of $1,000 (or less) to achieve 47 mpg by 2025, ten years earlier. Similarly, the NOI and TAR assume that all of the efficiency gains are converted into fuel economy; in other words no advances in performance, comfort or safety technologies can occur in the 2017-2025 timeframe. The NAS analysis is based on a much more realistic scenario that roughly 50% of efficiency gains will go to increase fuel economy, while the remaining 50% will offset other important new features.

In addition, the NOI and TAR cost estimates of the MY 2025 scenarios for the entire new vehicle fleet range from $770 to $3,500 per vehicle. The agencies also estimate a consumer fuel savings range from $5,000 to $7,400 during the life of the vehicle. However, a recent Center for Automotive Research (CAR) analysis calculates fuel economy costs to be from $4,190 to $6,435 per vehicle and a lifetime fuel savings of only $1,690 to $2,693. The CAR analysis shows a 10.2% net vehicle price increase at 41.7 mpg and a 22.3% net vehicle price increase at 60.1 mpg. According to CAR's analysis, such a steep price increase could depress light vehicle sales by 25% and result in a loss of as many as 220,000 automotive jobs.[1]

While the NOI and TAR represent a good start for the continuation of the program for MY 2017-2025, it is clear that much work remains before new standards are proposed. The Alliance remains committed to working constructively with EPA and NHTSA – and California – to develop a national rule based on sound science and assumptions that fairly reflect the cost of technology and

[1] McAlinden, S. 2010, "Calculating the Net Cost or Price to the Consumer", *CAR Breakfast Briefing Series: The U.S. Auto Industry and the Market of 2025*, Ypsilanti, MI, Ann Arbor Marriott Ypsilanti at Eagle Crest, pp. 30-45.

consumers' willingness to pay for advanced technology. We are confident that a rigorous analysis and a fair and open process will lead to standards that will deliver significant environmental and energy security benefits for the entire nation without negatively impacting the economy or jobs.

We appreciate the opportunity to provide input on the impact government regulation has on the economy and job growth and we would encourage the Committee to review the proposed EPA and NHTSA MY 2017-2025 fuel economy/GHG gas regulations in conjunction with this examination. It is in the best interests of the economy, jobs, and consumers in the U.S. for all stakeholders to work together towards a single national program that is both effective and workable. It would be inconsistent with this approach for California to move forward unilaterally with its own rulemaking.

While the 2017-2025 standards are our top priority, the industry is also facing new federal regulations in a variety of areas, including mid-level blends of ethanol, fuel economy labeling, and rearward visibility. These rules have the potential to impose significant additional costs on the car buying public, and therefore also bear careful scrutiny. The Alliance is working closely with the appropriate agencies to minimize any negative impacts that could be associated with these rules. We will keep the Congress informed as the process moves forward.

We trust the information we have provided will be helpful. Please contact me if you or your staff have any questions or need any additional information. Thank you for your consideration.

Sincerely,

Shane Karr
Vice President
Federal Government Affairs

cc: The Honorable Henry Waxman