

STATEMENT

OF

THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE:

**THE U.S. SENATE COMMERCE SURFACE TRANSPORTATION AND
MERCHANT MARINE SUBCOMMITTEE**

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PRESENTED BY:

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The Alliance of Automobile Manufacturers (Alliance) is a trade association of nine car and light truck manufacturers including BMW Group, DaimlerChrysler, Ford Motor Company, General Motors, Mazda, Mitsubishi Motors, Porsche, Toyota and Volkswagen. One out of every ten jobs in the U.S. is dependent on the automotive industry.

Alliance members share the concerns of our customers and the American public about high gasoline prices and support the President's policy of reducing our consumption of petroleum. Member companies have consistently improved the fuel efficiency of their products and continue to offer ever-increasing numbers of advanced technology vehicles—such as hybrids, clean diesels, alternative fuel vehicles, and others—that reduce the automotive sector's consumption of petroleum.

For example, since the 1970s, new vehicles have continued to become more fuel-efficient. EPA data demonstrate that fuel efficiency has increased steadily at nearly one to two percent per year on average from 1975 for both cars and light trucks. Passenger car fuel economy has more than doubled from 14.2 mpg in 1974 to 29.1 mpg in 2004 and light truck fuel economy has increased by 60 percent since 1974. But as we have noted on many previous occasions, the ultimate decisions about what vehicles are purchased and how they are driven belong to American consumers.

And while consumers value fuel economy, they also want many other attributes in today's vehicles, such as safety, passenger and cargo room, performance, towing and hauling capacity. Our challenge is to develop advanced technology vehicles that combine these attributes with

improved fuel efficiency. Of particular focus is maintaining safety while improving fuel efficiency.

The auto industry leads the way when it comes to investing in research and development. Automakers are committed to being first to market with breakthrough technologies that can produce new generations of autos with advanced powertrains and fuels. Automakers are competing to bring these vehicles to market, as soon as the technology is feasible, affordable and meets consumer expectations. Each year many new advanced technology models are offered on dealer lots. In just five years, the Alliance has seen the number of these vehicles grow to more than 40 models on sale in dealer showrooms with an additional 35 models, that includes hybrids, clean diesels and alternative fuel vehicles in showrooms soon. In addition, vehicles using liquid hydrogen in internal combustion engines (ICE), fuel cells and electric vehicles are in development. Today, eight million advanced technology and alternative-fuel autos are on the road and automakers will continue to increase volumes and new product offerings for years to come. This year more than one million advanced technology and flexible fuel vehicles will be sold. Automakers support incentives that can help put more of these highly fuel-efficient autos on the road.

The result of all of this work is that today's drivers are learning a new vocabulary. The following is a brief description of some of the exciting advanced technologies and alternative fuel vehicles being sold or currently in development.

Flexible Fuel Vehicles

An important provision of the Energy Policy Act of 2005 (EPACT 2005) is the increased promotion of renewable fuels in the transportation sector. Since 1996, auto manufacturers have been producing vehicles capable of using high concentration blends of ethanol including E-85. There will be more than six million of these E-85 capable vehicles on the road by the end of the year and nearly one million more are being added each year. If fuel were available for all of these E-85 capable vehicles to refuel using only E-85, the U.S. would be able to reduce its gasoline consumption by nearly three billion gallons per year.

EPACT 2005 will help in E-85 infrastructure development by raising the requirement for the use of ethanol and other renewable fuels to 7.5 billion gallons per year by 2012 and providing tax incentives aimed at making more E-85 pumps available to the driving public and helping to reduce reliance on oil imports.

Hybrid-electric vehicles

Hybrid-electric vehicles are being offered today and are already saving fuel. The number of these vehicles will increase substantially over the next several years. They offer significant improvements in fuel economy - up to 50 percent and reduced emissions. These vehicles utilize electric motors for propulsion, to reduce some of the burdens on the traditional ICE. Hybrid-Electrics capture usable energy through regenerative braking. It is estimated that by 2010, more than 50 hybrid nameplates will be available in North America with volumes approaching one million vehicles. Hybrid technology can also be applied to diesels, alternative fuel and fuel cell vehicles.

Advanced lean-burn engines

Vehicles that are powered by clean advanced lean-burn technology such as lean burn gasoline engines and direct injection diesels offer greater fuel economy and better performance than conventional gasoline-powered engines. Diesel-powered vehicles are very popular in Europe – where environmental standards and economic incentives have been provided to enhance their appeal. These types of vehicles could provide fuel economy gains of up to 30 percent compared to conventional vehicles. In addition, most diesels are capable of running on good quality biodiesel blends of up to five percent (B5) and many are designed to use up to twenty percent or one hundred percent biodiesel fuel (B20 or B100).

Fuel Cells

From a vehicle perspective, hydrogen-powered fuel cells offer the greatest potential improvement in fuel efficiency and emissions reductions. They also create a great opportunity for eliminating dependency on petroleum. However, widespread commercialization of this technology is some years away.

Hydrogen Internal Combustion Engines

Another promising and enabling technology is hydrogen-powered ICEs. The concept of using hydrogen ICEs offers several advantages: near-zero emissions, maintaining the utility, flexibility, and driving dynamic of today's automobile, assisting in the development of hydrogen storage technology, and developing hydrogen distribution channels and helping to promote hydrogen refueling infrastructure.

All of these advanced technologies and alternative fuel vehicles will help the U.S. address concerns about its over-reliance on imported oil. But they will take time to be effective. Tomorrow's transportation needs will be met by a diverse collection of technologies each offering drivers a unique set of attributes to help move their families down the road.

For its part, the auto industry is committed to advancing the state of technology and bringing new vehicles using these technologies to the market as quickly as possible. Competition among automakers will drive this process far better and with fewer disruptions to the marketplace than any regulations that can be adopted. Furthermore, stimulating consumer demand can help accelerate this process. Tax credit provisions enacted as part of EPACT 2005 have helped to spur the purchase of these highly fuel-efficient vehicles.

Today, automakers are providing consumers with a wide range of fuel-efficient choices, but when gasoline prices rise, not all consumers are in a position to purchase the highly fuel-efficient models on sale today. There are over 200 million vehicles on U.S. roads, and the quickest way to reduce gasoline usage is through conservation. There are many simple, easy gas-saving tips for consumers. American drivers can save gasoline immediately by keeping their engines tuned and their tires properly inflated. Smooth accelerations save gas, along with closing windows at higher speeds. The U.S. Department of Energy provides excellent gas-saving tips to drivers, and we urge the government to highlight this information as the summer driving season begins. In addition, there are opportunities for infrastructure improvement such as improved traffic light timing that can help reduce fuel consumption.

Corporate Average Fuel Economy (CAFE)

For over 30 years, the CAFE program has been in place to provide fuel economy requirements as to what each automaker's fleet of passenger cars and light trucks must achieve. While vehicle fuel-efficiency has improved, vehicles miles traveled has increased an average of about 1.7 percent per year for the past 30 years with a net result of little impact on energy conservation. Currently, CAFE requires each automaker to meet an average fuel economy level of 27.5 mpg for all new passenger cars that it sells each year. For light trucks, NHTSA recently announced an increase in the CAFE standards for the 2008–2011 model years, marking seven straight years of fuel economy increases (from MYs 2005-2011) and an increase of nearly 20 percent over that period. Meeting these higher fuel economy standards will be a challenge, even with all the new fuel-efficient technologies that manufacturers are placing in vehicles today.

When setting new standards, NHTSA must consider many elements including technological feasibility, economic practicability, the need of the U.S. to conserve energy and the effect of other motor vehicle standards, such as safety and emissions on fuel economy. It is in the best interest of the public that we maintain a balance between improved fuel economy, highway safety and employment.

While the law holds manufacturers responsible for meeting CAFE standards, it is important to recognize that in reality, consumer purchases actually determine whether a manufacturer meets, exceeds, or falls short of the standards in any given year. Because of this, CAFE compliance depends not only on what products are offered but also on what products consumers purchase.

Proposed Changes in the Law

The Administration has requested new authority to permit reform of the passenger car CAFE program. With the ink barely dry on the recent light truck rule and no actual experience with the truck reform proposal, it may be a bit premature to think of locking in this new system for passenger cars at this time. Inclusion of some broad guidance that CAFE reform, based on use of vehicle attributes and classes, may be of some value to the agency when it does consider increasing passenger car CAFE requirements.

The Alliance also believes that NHTSA should very carefully weigh, the timing of any increases in passenger car standards in view of the current economic health of the industry. No one likes high gas prices, but increasing passenger car standards – which takes time to effect and then years to fully become phased into the overall fleet of vehicles on the road - should not be viewed as a panacea to combat rising fuel costs. Alliance members are only in the second year of seven years of increasingly stringent light truck standards. In addition, the passenger car fleet average already exceeds the current 27.5 mpg standard – driven by consumer choices of the many very fuel-efficient cars offered for sale.

If NHTSA is granted authority to reform the structure of the passenger car standards, the agency should administer the new authority in a nondiscriminatory manner among manufacturers.

The rulemaking for CAFE standards is a labor-intensive and resource-intensive process both for NHTSA and for the manufacturers. Therefore, NHTSA should have the authority to

establish a standard that could remain in effect for more than one year, as long as the agency determined by rulemaking that the standard is “maximum feasible” for that multiyear period covered by the standard.

The discussion of passenger car CAFE policy has also raised two additional issues--credit trading and the so-called, two fleet rule. Credit trading is intended to provide flexibility options for manufacturers as they pursue compliance with the CAFE program. Credit trading has been examined numerous times in the past without agreement as to its actual value. Department of Transportation recently considered adding credit trading to the light truck rule and decided not to do it.

As regards to the two fleet rule, the CAFE statute requires separation of the domestically-manufactured and non-domestically manufactured vehicles in the passenger car fleet, with separate compliance required by each sub-fleet. The original policy justification for the two fleet rule was to discourage manufacturers from shifting their production of smaller, more fuel efficient cars to foreign factories. Recognizing that a fleet-wide average structure for the fuel economy standards would effectively require manufacturers to include smaller, more fuel-efficient cars in their fleets, Congress wanted to avoid any inducement to increase the importation of foreign-produced cars. If there are any proposed changes to the two fleet rule they should be carefully reviewed.

Conclusion

We believe the most effective approach to pursuing reductions in U.S. gasoline consumption is to expand the availability of alternative fuels such as ethanol and to help promote the sale of advanced technology and alternative fuel vehicles that are currently gaining traction in the market.

As previously stated, Alliance members are currently offering for sale more than one million of these advanced technology and alternative fuel autos, and more will be offered in the future. We are pleased that Congress passed consumer tax incentives for the purchase of some of these vehicles last year, and we urge Congress to focus on expanding the production, infrastructure and distribution network for alternative fuels. Getting more of the American-based renewable and biofuels into the market and available to consumers will displace much more gasoline than a new passenger car CAFE requirement.

However, if NHTSA does initiate a passenger car rulemaking, the Alliance and its members will work closely with the agency in its consideration and promulgation of a final rule. Setting CAFE standards is a complicated, rigorous and arduous process. NHTSA considered over 45,000 comments and spent countless man-years in the consideration of its light truck rule.

The automakers remain committed to populating America's roadways with the latest innovative vehicle technologies. Competition among the companies will drive much of this innovation. And the changing needs and wants of American consumers also play a huge role in driving automaker decisions.

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