

**A BILL TO AUTHORIZE THE
NATIONAL HIGHWAY TRAFFIC
SAFETY ADMINISTRATION (NHTSA)
TO SET PASSENGER CAR FUEL
ECONOMY STANDARDS**

HEARING
BEFORE THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES

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**A BILL TO AUTHORIZE THE NATIONAL
HIGHWAY TRAFFIC SAFETY
ADMINISTRATION (NHTSA) TO SET
PASSENGER CAR FUEL ECONOMY
STANDARDS**

WEDNESDAY, MAY 3, 2006

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The committee met, pursuant to notice, at 10:04 a.m., in Room 2123 of the Rayburn House Office Building, Hon. Joe Barton (chairman) presiding.

Present: Representatives Barton, Bilirakis, Upton, Stearns, Gillmor, Cubin, Shimkus, Wilson, Bass, Pitts, Terry, Ferguson, Rogers, Myrick, Sullivan, Murphy, Burgess, Blackburn, Dingell, Waxman, Pallone, Brown, Rush, Eshoo, Stupak, Engel, Wynn, Green, Strickland, DeGette, Capps, Allen, Schakowsky, Solis, Gonzalez, Inslee, and Baldwin.

Staff Present: David McCarthy, Chief Counsel for Energy and Environment; Kelly Cole, Counsel; Peter Kielty, Legislative Clerk; and Jonathan Cordone, Minority Counsel.

CHAIRMAN BARTON. The committee will come to order. If members will take their seats at the dais, the audience will find their seat. The Chair would recognize himself for an opening statement.

Today, we are going to have a hearing on the committee print to authorize the National Highway Traffic Safety Administration to set passenger car fuel economy standards. This committee print is the first of many steps that this committee intends to take to foster the goal of minimizing dependence on foreign sources of energy, and over time, to make it possible for us to have energy independence in the United States of America.

In the wake of the 1973-74 Arab oil embargo, Congress passed the Energy Policy Conservation Act, which established Corporate Average Fuel Efficiency, which we know more commonly as CAFE standards, for passenger cars and light trucks sold in the United States. Under the CAFE system, we have come a long way with our light truck fleet. The Department of Transportation took a major step forward in March, announcing a reformed CAFE program for light trucks. This new

program will save the United States nearly 11 billion gallons of fuel over the lifetime of the vehicles sold between 2008 and 2011.

We cannot say the same thing for passenger cars. In 1975, Congress set a goal of doubling fuel economy for passenger cars, by 1985, to 27.5 miles per gallon. According to my math, that was 31 years ago. Yet today, the fuel economy mandate for passenger cars is unchanged. It continues to be 27.5 miles a gallon. What makes this static fuel economy number even more striking is that under the new light truck rule, there are now SUVs required to meet stricter CAFE standards than passenger cars. It really does appear that the time has come to at least allow for the possibility of change in the passenger car standard.

Today's committee print authorizes the Department of Transportation to set CAFE standards for passenger cars. Under current law, the DOT may modify the system for light trucks, but it lacks clear, explicit authority to alter requirements for passenger cars, since Congress sets that standard. The bill would give the Department of Transportation clear authority.

We may need to go further. Aside from just giving the Department of Transportation the authority to set passenger fuel economy standards, I would like for the NHTSA to take a hard look at reforming the entire structure of mileage estimates for passenger cars. The current outdated system hampers the potential for energy savings, raises vehicle safety concerns, and fails to treat competitive players fairly. Without question, our constituents want us to give the Department of Transportation statutory authority to fully reform the passenger car fuel economy program.

As Chairman of this committee, I plan to answer that need. This hearing is the first step in accomplishing that goal. I plan to ask each of our witnesses how we can best craft language to revamp the current passenger car system. How do we make the changes necessary to the passenger CAFE program to ensure that it is safe, fair, and reliable? It would be nice if we could have somebody explain what harmonic averaging really is.

I have no doubt that there will be calls by some in Congress to dramatically raise the fuel economy of passenger cars. For Congress to arbitrarily set a number, in my opinion, would be a mistake. As Secretary Mineta can tell us, establishing fuel economy standards is a complex and complicated process. If we get it wrong, it can create perverse incentives that result in more dangerous vehicles, reduced competition, and lost jobs. I do not want that to happen.

In advance, I want to thank our witnesses here today. We are going to have the Chairman of the Science Committee, Congressman Boehlert of New York; a former Member of the House of Representatives, the

Secretary of Transportation, Norman Mineta. Those are both excellent men and excellent witnesses. We look forward to hearing their testimony.

[The prepared statement of Hon. Joe Barton follows:]

PREPARED STATEMENT OF THE HON. JOE BARTON, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

This Committee Print is the first of many steps we plan to take toward energy independence.

In the wake of the 1973-74 Arab oil embargo, Congress passed the Energy Policy Conservation Act, which established corporate average fuel efficiency, known as "CAFE," standards for passenger cars and light trucks sold in the United States.

Under the CAFE system, we've come a long way with our light truck fleet. The Department of Transportation (DOT) took a major step forward in March, announcing a "reformed" CAFE program for light trucks. This new program will save the United States nearly 11 billion gallons of fuel over the lifetime of the vehicles sold between 2008 and 2011.

Unfortunately, we can not say the same for passenger cars. In 1975, Congress set a 1985 goal of doubling fuel economy for passenger cars to 27.5 mpg. According to my math, that was 31 years ago. And today, the fuel economy mandate for passenger cars is unchanged. It continues to be 27.5 mpg. What makes this static fuel economy number even more striking is under the new light truck rule, there are now SUVs required to meet stricter CAFE standards than passenger cars. The time has come for a change.

Today's Committee Print authorizes the Department of Transportation to set CAFE standards for passenger cars. Under current law, the DOT may modify the system for light trucks but it lacks clear authority to alter requirements for passenger cars, since Congress set that standard. This bill would give DOT that clear authority.

But I want to go farther. Aside from just giving DOT the authority to set passenger fuel economy standards, I also want NHTSA to take a hard look at reforming the entire structure of mileage estimates for passenger cars. The current, outdated system hampers the potential for energy savings, raises vehicle safety concerns, and fails to treat competitive players fairly.

Without question, our constituents want us to give DOT statutory authority to fully reform the passenger car fuel economy program. As Chairman of this Committee, I plan to answer that need.

This hearing is the first step to accomplishing that goal. Today, I plan to ask each of our witnesses how we can best craft language to revamp the current passenger car system. How do we make the changes necessary to the passenger car CAFE program to ensure that it is safe, fair, and reliable?

I have no doubt there will be calls by some in Congress to dramatically raise the fuel economy of passenger cars. For Congress to arbitrarily set a number, however, would be a mistake. As Secretary Mineta can tell us, establishing fuel economy standards is a complex and complicated process. And getting it wrong can create perverse incentives that result in more dangerous vehicles, reduced competition, and lost jobs. That will not happen on my watch.

In advance, I want to thank our witnesses here today, in particular, Chairman of the Science Committee, Rep. Boehlert, and a former member of the House of Representatives, Secretary of Transportation Norman Mineta. Thank you all for being here today. I look forward to hearing from all of our witnesses.

CHAIRMAN BARTON. Now, I would like to recognize the gentlelady from California, Ms. Eshoo, for an opening statement. Three minutes, I think. Is it three or one? I beg your pardon?

MS. ESHOO. I'm going to get closer to the microphone here. I am sorry.

Good morning, Mr. Chairman, and is Secretary Mineta here? Not yet. I was going to say welcome back to the House. But it is good to have our colleague that we respect so much, Mr. Boehlert, here this morning.

I think this is really quite a day for our committee, because we are finally taking a cursory interest in fuel economy standards. Despite climbing oil prices and oil imports, the truth of the matter is, is that the Republican Congress and the Administration have done little to create more efficient vehicles.

Consequently, the fuel economy of the new vehicle fleet that came onto the road in 2005 was worse, it was worse than the fleet produced in 1985, and consumers are paying for this at the pump. The Administration has claimed that it wanted to reform the CAFE system for years. The truth is they have actually stood in the way of Congressional efforts to improve fuel economy, arguing that those efforts were "arbitrary."

In 2001, the Administration argued against Senate language to raise fuel economy standards. In 2005, they opposed legislation calling on the President to enact policies to cut oil consumption by one million barrels of oil per day because they said that might require an increase in fuel economy standards. In the House, the Administration has never stood with Representatives Markey, Boehlert, and myself in our efforts to raise fuel economy for cars and light trucks.

Now, with the President in his sixth year of office, gas has soared past \$3 a gallon. Suddenly, we are hearing an urgent appeal to give the National Highway Transportation Safety Administration additional authority to raise CAFE standards for cars. So much time and so much has been squandered with the time and the opportunity it presented.

In my view, the Administration has all the authority it needs. In the 1990s, the Republican leadership was so concerned that the Federal government would raise fuel economy standards they actually passed appropriation riders blocking new standards. If the Federal government didn't have the authority to promulgate any CAFE rules, why were appropriation riders needed to prevent the Government from acting?

The Administration, sadly, has done little with the authority it clearly has. It touts its recently announced revised fuel economy standards for light trucks and SUVs as saving 10 billion gallons of gas. This sounds like a big number, but the savings amount to less than a month's supply

of fuel, and it will take us 15 years to achieve the savings. We need a major increase in fuel economy standards if we are going to decrease dependence on foreign oil.

So I hope the Administration's rediscovered interest in this issue is actually sincere. I am not so sure that it is, and I am afraid that based on prior experience, this could be a high form of pandering at the pump.

I yield back.

[The prepared statement of Hon. Anna Eshoo follows:]

PREPARED STATEMENT OF THE HON. ANNA ESHOO, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Good morning, Mr. Chairman, and welcome back to the House, Secretary Mineta.

This is quite a day for our Committee because we're finally taking a cursory interest in fuel economy standards.

But let's be honest, today's Committee activity and the legislation on House floor are just exercises in political damage control not serious policymaking.

Despite climbing oil prices and oil imports, this Republican Congress and this Administration have done little to create more efficient vehicles.

Consequently, the fuel economy of the new vehicle fleet that came onto the road in 2005 was worse than the fleet produced in 1985, and consumers are paying for it at the pump.

The Administration has claimed that it wanted to reform the CAFE system for years. The truth is they've actually stood in the way of Congressional efforts to improve fuel economy, arguing that those efforts were "arbitrary."

In 2001, they argued against Senate language to raise fuel economy standards. In 2005, they opposed legislation calling on the President to enact policies to cut oil consumption by 1 million barrels of oil per day, because, they said, that might require an increase in fuel economy standards.

The Administration has never stood with Representatives Markey, Boehlert, or myself in our efforts to raise fuel economy for cars and light trucks.

Now, with the President in his sixth year of office, gas has soared past \$3.00 a gallon. Suddenly, we're hearing an urgent appeal to give the National Highway Transportation Safety Administration additional authority to raise CAFE standards for cars.

The Administration has all the authority it needs. In the 1990's, the Republican leadership was so concerned that the federal government would raise fuel economy standards, they passed appropriations riders blocking new standards.

If the federal government did not have the authority to promulgate any CAFE rules, why were appropriation riders needed to prevent the government from acting?

The Administration has done little with the authority it clearly has. It touts its recently announced revised fuel economy standards for light trucks and SUVs as saving 10 billion gallons of gas. This sounds like a big number, but the savings amounts to less than a month's supply of fuel – and it will take us 15 years to achieve this savings.

We need a major increase in fuel economy standards if we're going to decrease dependence on foreign oil.

I hope the Administration's rediscovered interest in this issue is sincere, but I'm afraid that based on prior experience, this is just a high form of pandering at the pump.

CHAIRMAN BARTON. We thank the gentlelady. The gentleman from Florida, Mr. Bilirakis, is recognized.

MR. BILIRAKIS. Thank you, Mr. Chairman. I do commend you for scheduling this hearing.

As we know, Congress first established car fuel economy standards as part of the Energy Policy and Conservation Act of 1975, after the Arab oil embargo led to the tripling of the price of oil in the early 1970s. And just as it did in the early '70s, our Nation is facing a dramatic spike in oil, and consequently, gasoline prices. Higher prices certainly have the attention of all of our constituents, and like all Americans, we all painfully put gas into our car, and suffer the painful awareness of the cost.

It is important, I think, Mr. Chairman, that Congress and the Administration revisit this issue at a time when we are working to lessen our dependence on foreign oil. For some time now, I have supported increasing fuel efficiency standards for vehicles. I think I should add in there that we do it in a responsible, accountable manner. In fact, I voted for several floor amendments which would have raised CAFE standards in this country, and I am pleased that we are reviewing legislation that will give NHTSA the authority to raise those standards for passenger cars.

However, I am not certain that the draft bill goes far enough--and you said as much, Mr. Chairman, and I agree with you--but as I understand it, the committee print before us today is intended to be a discussion vehicle, and modifications are expected as the bill moves through the legislative process. And I would say, probably better sooner than later in that process, Mr. Chairman.

I am withholding judgment on the committee print until all interested parties have had an opportunity to weigh in on the proposal, and like you, I am anxious to hear from today's witnesses, and look forward to working with you and with the others on this very important issue.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Michael Bilirakis follows:]

PREPARED STATEMENT OF THE HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF FLORIDA

Thank you, Mr. Chairman.

I want to commend you for scheduling today's hearing on draft legislation pertaining to the setting of corporate average fuel economy standards (CAFE). Congress first established car fuel economy standards as part of the Energy Policy and Conservation Act of 1975 (EPCA) after the Arab oil embargo led to the tripling of the price of oil in the early 1970s.

Just as it did in the early 1970s, our nation is facing a dramatic spike in oil, and consequently, gasoline prices. High gasoline prices certainly have the attention of my constituents and the rest of the American public. Like all Americans, I am painfully aware of rising gasoline prices every time I go to fill my car's gas tank.

Although NHTSA recently established new CAFE standards for light trucks, the current passenger car standard of 27.5 miles per gallon (mpg) was set in statute in 1990. Therefore, I think it is important for Congress and the Administration to revisit the issue of CAFE standards at a time when we are working to lessen our dependence on foreign oil.

For some time now, I have supported increasing fuel efficiency standards for vehicles. In fact, I have voted for several floor amendments which would have raised CAFE standards in this country. I am pleased that we are reviewing legislation that will give NHTSA the authority to raise CAFE standards for passenger cars. However, I am not certain that the draft bill goes far enough, but as I understand it, the Committee print before us today is intended to be a discussion vehicle and modifications are expected as the bill moves through the legislative process. Therefore, I am withholding judgment on the Committee print until all interested parties have had an opportunity to weigh in on the proposal.

Consequently, I am anxious to hear from today's witnesses, and I look forward to working with my colleagues on this important issue.

Thank you, Mr. Chairman.

CHAIRMAN BARTON. Thank you, Mr. Bilirakis. We have our distinguished Ranking Member, the Dean of the House from Michigan, Mr. Dingell, with us. He is recognized for an opening statement.

MR. DINGELL. Mr. Chairman, thank you for those gracious comments, and thank you for holding this hearing.

I would like to bid an especially warm welcome to our dear friend, Mr. Mineta, the Secretary of Transportation. He is an outstanding public servant, and a former member of this committee. Welcome, Mr. Secretary.

Mr. Chairman, thank you for holding the hearing, and I hope that this is the first in a series of hearings on a very complex issue that will thoroughly examine the difficult issue of motor vehicle fuel economy. It is a matter of national importance that affects our environment, the security of our Nation, and our economic wellbeing. It must be addressed deliberately and with extraordinary care.

The circumstances under which we receive testimony this morning, however, give rise to questions. It is my hope that our witnesses will shed light on some of these matters throughout the morning.

First, the President has asked Congress to give him authority to increase passenger car fuel economy standards, yet that authority exists under current law. The Departments of Justice and Transportation have continuously opined, over a 20-year period, that the Supreme Court's decision in *Chadha* did not invalidate that authority.

This committee, in which the underlying law originated, has conducted hearings and received testimony from the Department of Transportation maintaining the authority of that agency to increase standards, and as one of those who has authored the Energy Bill of which CAFE is part, it is my recollection, and a clear one indeed, that this was

the intent of the Congress, that the President at later times, and the Administration, would have authority to increase the CAFE requirements on passenger automobiles.

The question, then, is why is it that the President requests such authority? Second, the Secretary of Transportation, for whom I have great respect and affection, has asked the Congress to allow his Department to reform the CAFE system. I am anxious to be of assistance, and it may well be that this is a good thing. But we need to learn how this reform will take place, and what effects it will have on safety, fuel consumption, and manufacturing, and is it necessary to do this, and if it is done, how will it be done, and what impact will it have upon American manufacturing, American jobs, and American workers?

So why, then, has the Administration not yet offered legislative proposals for us to examine? We have seen nothing of this kind, and to me, not having legislation clearly before us at the time we begin to focus on questions of this kind is an invitation to serious danger and peril. We need to know what it is the Administration wants, so that it can be properly tested, not only before the members of this committee, but also before the public at large, before the industry, before the unions, and before others.

Changing our system of regulating fuel economy is not a simple exercise. Rather, it is very complicated. Even for the best-intentioned persons, there are pitfalls and potential for mischief throughout the process of reform, and of course, the law of surprises and unintended consequences will work splendidly here.

Details and nuances matter greatly, and we cannot sufficiently evaluate the merits of major changes without an adequate opportunity to examine the legislative language line by line with extraordinary care. The Chairman did circulate a draft bill on Friday of last week, and I thank you, Mr. Chairman, for this. But I note that the three pages of text did not address the thorny issue of reform. I note that the witnesses on the third panel have already identified technical errors in the draft that was submitted on Friday which, quite simply, sought to restate existing law. This should serve as a very important cautionary note and warning to all concerned.

Fourth, I find it most curious that the committee addresses these matters in an apparent attempt to stem the tide of gasoline prices. Stated clearly, increasing CAFE standards will not reduce gasoline prices, at least over the next 6 to 10 to 15 years. New CAFE standards will not begin to improve fuel economy of vehicles until the model year of 2010 or beyond. It would then take another 10 to 15 years for these more efficient vehicles to reduce the demand for fuel, and any reduction of gas prices remains to be seen. If increased fuel economy standards have any

effect on fuel price, it would be minimal, and as much as 20 years in the offing.

I am troubled about the reform, and I would note that there is great risk here. The current situation is one in which we calculate these matters on a fair, objective, and scientifically sound basis. To move to something new, like footprints or some other thing which is undefined, and perhaps unattached to responsible science, may be a very dangerous matter. And I would--

CHAIRMAN BARTON. If the gentleman could--

MR. DINGELL. --extraordinary care. These are perilous times for American auto industries, workers, and the American consumers. I ask my colleagues on the committee and the House to approach matters of CAFE with great care and close attention to detail. Much depends on it.

Thank you, Mr. Chairman.

[The prepared statement of Hon. John D. Dingell follows:]

PREPARED STATEMENT OF THE HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MICHIGAN

Mr. Chairman, thank you for holding this hearing, which I hope is the first in a series of hearings that will thoroughly examine the complex issue of motor vehicle fuel economy. It is a matter of national importance that affects our environment, our security, and our economic well-being. It should be addressed deliberately and with great care.

The circumstances under which we receive testimony this morning, however, give rise to some most curious questions. It is my hope that our witnesses will shed light on some of these matters throughout the morning.

First, the President has asked Congress to give him authority to increase passenger car fuel economy standards, yet that authority exists under current law. The Departments of Justice and Transportation have continuously opined over a twenty-year period that the Supreme Court's decision in *Chadha* did not invalidate that authority. This Committee, in which the underlying law originated, has conducted hearings and received testimony that the Department of Transportation maintains its authority to increase standards. So why is the President now requesting such authority?

Second, the Secretary of Transportation, for whom I have great respect and affection, has asked Congress to allow his Department to reform the CAFE system. I am anxious to be of assistance and to learn how this reform might take place and what effects it may have on safety, fuel consumption, and manufacturing. So why has the Administration not yet offered legislative proposals for us to examine?

Changing our system for regulating fuel economy is not a simple exercise. Even for the well-intentioned, there are pitfalls and potential for mischief throughout the process of reform. Details and nuances matter greatly, and we cannot sufficiently evaluate the merits of major changes without an adequate opportunity to examine legislative language line by line.

The Chairman did circulate a draft bill on Friday of last week, but the three-pages of text did not address this particularly thorny issue of reform. I note that witnesses on our third panel have already identified technical errors in the Chairman's draft, which quite simply sought to restate existing law. This should serve as a cautionary note to all concerned.

Third, I find it most curious that the Committee addresses these matters in an apparent attempt to stem the tide of rising gas prices. Stated plainly, increasing CAFE

standards will not reduce gas prices. New CAFE standards will not begin to improve the fuel economy of vehicles until model year 2010 or beyond. It would then take another 10 to 15 years for those more efficient vehicles to reduce demand for fuel, and the significance of any reduction in gas prices remains to be seen. If increased fuel economy standards have an effect on fuel prices, it could be minimal and as much as 20 years in the offing.

These are perilous times for the American automobile industry, the American auto worker, and the American consumer. The matters we consider today are serious. I ask that my colleagues on the Committee and in the House approach changes to CAFE with great care and with close attention to detail. Much depends on it.

CHAIRMAN BARTON. We thank the gentleman from Michigan.

Mr. Upton.

MR. UPTON. Mr. Chairman, I am going to defer and would like my additional time for panel two, as I get to see Mr. Boehlert all the time.

CHAIRMAN BARTON. All right. We will go to Mr. Ferguson, then since Mr. Upton deferred.

MR. FERGUSON. Thanks very much, Mr. Chairman. Thank you, Mr. Upton, for deferring.

Thanks for holding this important and timely hearing on passenger car fuel economy standards, as well as thanks to the witnesses for coming to testify on this important topic.

In recent months, our country has reached a turning point in our Nation's approach to using our energy resources. We have never realized how crucial it is to our energy security that we begin to work our way towards energy independence in the upcoming years. The recent rise in gas prices has made every American take notice of how our Nation uses its energy resources, and we, as leaders, must do all that we can to ensure that our Nation is using our energy wisely, whether it is imported or domestic energy. We must realize that we can't drill our way to energy independence. It is essential that we not only devote an unprecedented amount of resources to alternative energy research and development, but also that we ensure that we are conserving our natural resources by using them in the most efficient manner.

I appreciate the committee's commitment to alternative energy and diversifying our Nation's energy portfolio. It is important that we, as Americans, begin to realize the potential these alternative fuels hold for lowering energy bills for all Americans, and conserving our own resources. Aside from increasing our commitment to alternative energy, we also have to put in place numerous provisions to help citizens and manufacturers efficiently use our Nation's energy resources.

CAFE standards have done well to save fuel and protect the environment. Over the past two decades, manufacturers have nearly doubled the fuel economies of their car fleets. CAFE standards also slash urban smog by reducing carcinogenic hydrocarbon emissions, a key

ozone smog precursor. This is an especially important issue in my home State of New Jersey, which struggles to meet our clean air standards. I have a strong record of supporting stronger CAFE standards in the past. I will continue to support responsible CAFE reform for the sake of our Nation's energy security. I am anxious to see what reforms the final legislation will contain, and hope that it will take steps to allow our Nation to become more energy efficient.

Again, I would like to thank you, Mr. Chairman, for your work on this issue, and I appreciate our witnesses for coming before the committee today. I yield back.

MR. BILIRAKIS. [Presiding] The Chair thanks the gentleman. Mr. Waxman?

MR. WAXMAN. Thank you, Mr. Chairman.

Gasoline prices have been skyrocketing throughout the country, from Florida to California to Connecticut to Wisconsin. Consumers are now paying more than \$3 a gallon for gas, and as the prices rise, we are spending more and more of our Nation's wealth, sending it overseas to purchase foreign oil. This problem has been building for years under the Republican Congress and the Bush Administration's energy policies. From day one, this Administration and the Congress have bestowed on the big oil companies subsidies, exemptions, loopholes, and tax breaks.

Upon taking office, Vice President Cheney convened an energy task force that secretly met with energy executives to develop the Nation's energy policy. He never even met with consumers and environmental groups. The result is a national energy policy that fails to restrain energy prices, that fails to plan for the future, and fails to take into account our environmental and national security.

Congress endorsed and expanded these misguided policies in the energy bill we passed last year. Five years later, we are reaping the fruit of the Administration's energy policy. Gasoline prices have doubled, home heating prices have soared, natural gas prices have risen to unprecedented levels. Now, with these consequences coming home to roost, the President plays to the press, and urges the Congress to give him the authority to raise CAFE standards for passenger automobiles.

Well, Mr. Chairman, I would like to place in the record a letter from David Vladeck, a professor of law at Georgetown University. Professor Vladeck has 30 years of experience in complex Federal legislation, and at my request, he reviewed the CAFE law in light of the President's statement. After review of the statute and its history, he concludes that the Department of Transportation already has the authority to revise fuel efficiency standards for passenger automobiles.

The reality is that this Administration has exhibited no serious interest in reducing the Nation's dependence on oil. They opposed

CAFE increases in the energy bill. They opposed oil savings provisions in the Energy Bill. They adopted an increase in fuel efficiency standards for light duty trucks so small as to be negligible, and they worked to pass lopsided tax subsidies to promote sales of the least efficient vehicles.

The Republican Congress took a similar approach. The Republican Congress repeatedly passed appropriation riders to ensure that when Clinton was President, he did not use this power to increase fuel economy standards. We have got to reduce our dependence on foreign oil. CAFE is the best tool we have for doing it. The Administration could have used authority under CAFE years ago to address this issue. Now, we ought to get on with it. The President ought to just do it, and it is hard to hear the Republicans say they want it when they voted over and over and over again against raising the CAFE standards.

MR. BILIRAKIS. The gentleman's time has expired. Mr. Murphy, for an opening statement?

MR. MURPHY. Thank you, Mr. Chairman. I appreciate the committee taking on this important issue, as this committee has done on so many things with energy.

When it comes to dealing with the cost of gasoline and oil, there are three things that this committee has, and there are differences between different sides of the aisle, but I think the issue of conservation and improving efficiency has to be an area that we come together, for unless we reduce our consumption, we are going to continue to be dealing with that old issue of supply and demand. And demand will go up, supplies can't meet it, and as we all know, we continue to be more and more dependent upon sources of foreign oil.

But we must also continue our work on exploration, and that means we have abundant supplies of petroleum products here in the United States off our Atlantic Coast, our Gulf Coast, our Pacific Coast, Alaska, and the Rocky Mountain range, and many of those areas are already approved, but it is taking so long for the permitting process. But as it is, unless we move forward with getting some of our own oil out of our own land, we continue that dependence upon foreign countries who oftentimes have their volatile politics, which keeps the noose around our neck for the cost of gasoline.

And the third area, the diversification, which we have touched on here--and we are moving forward, as we do with the energy bill, and some things such as using nuclear energy, clean coal technology, but unfortunately, we are also in a situation with some of the renewables that although we may support them in word, when it comes to building windmills in someone's district, or hydroelectric plants, et cetera, it usually becomes an issue that there used to be NIMBY, not in my back yard, and now, it is that term BANANA that is used, build absolutely

nothing anywhere near anybody, and that is not going to work for us, either.

If we are going to be serious about reducing the cost of gasoline, this issue of conservation is important. I am told that if each citizen reduces driving, and cuts as much as one gallon a day, or one gallon a week, the savings are so massive that the price of gasoline starts to go down at the pump, because now, we are meeting some of our needs, and so even though we are talking today about improving efficiency in vehicles, and I would like to see us do that in a significant way, we have to recognize that the immediate thing we can do is encourage citizens to be themselves the best conservers of energy, to look upon how they can save gasoline, how they can reduce their own miles consumed, how they can combine trips into such ways that they are driving less and wasting less.

That is the immediate thing we can do, but the purpose of this hearing hopefully will give us some information on those age-old questions, can we have safe cars and better mileage at the same time? Is this achievable with gasoline cars, or do we have to use hybrid engines or hydrogen-based engines, and can we do all this in a way that brings this to the marketplace fast and in an affordable way for citizens?

These are questions that I will have today for the panel, and I look forward to hearing their testimony on these, and as always, Mr. Chairman, I appreciate your leadership on these issues.

I yield back.

MR. BILIRAKIS. The Chair thanks the gentleman. Mr. Markey, your opening statement.

MR. MARKEY. Thank you, Mr. Chairman.

In 1961, President Kennedy challenged America to put a man on the Moon within 8 years, by 1969, because the Soviet Union was threatening to control outer space, the high frontier. The American people responded technologically, so that we could leapfrog the Soviet Union and Communism.

Unfortunately, a new challenge that confronts us today has not seen a similar response from a Republican President or a Republican Congress. Thus far President Bush's claim that it is impossible, rocket science, President Kennedy was able to master, using the will and the skill of the American people, but auto mechanics, President Bush and the Republican leadership have said, is not possible to be conquered.

In 1975, in response to the first oil shock, President Ford and the Congress passed a law which doubled the fuel economy standards of the American automotive fleet over a 10-year period. It doubled it from 13 miles per gallon to 27 miles per gallon. It actually reduced, over that 10-year period, the importation of oil from 36 percent of all of our oil down to 27 percent of all of our oil. It was a powerful response to OPEC.

But since then through President Bush I, through the Newt Gingrich Congress, which prohibited each year, legislatively, President Clinton from acting to improve the fuel economy standards, prohibited President Clinton, right through the entire Bush Administration, where they have refused to act on fuel economy standards, we are now 60 percent dependent upon imported oil. We have gone from 44 percent dependency on the day the Republican Congress took over in '95 to 60 percent dependent today with no action by the Republican President or by the Republican Congress.

Sherry Boehlert and I have made an amendment each year, each Congress, for the last three Congresses. Last Congress, we received 177 votes. We started with 160 in 2001; it went up to 162 in 2003. Now, it is 177 votes. At 33 miles per gallon, which is what our amendment does, it backs out all of the oil from the Persian Gulf, all 2.5 million barrels a day. This is the year to do it. This is the year to vote for it. But we don't need that authority. The President has it.

So I call on the President to use his authority and issue a challenge to America. Tell us, Mr. President, what the number for the fuel economy standard should be. Pick a number, Mr. President. Don't duck. Don't pass the buck. Pick a number. Because in the end, it is not a lack of authority that is missing, it is a lack of leadership from President Bush. Pick a number. Is it 33 miles per gallon, 35 miles per gallon, 40 miles per gallon? Until you name a number, Mr. President, there will be no leadership--

MR. BILIRAKIS. The gentleman's time has expired.

Mr. Waxman has asked for unanimous consent that a letter from the Institute for Public Representation at Georgetown University Law Center, dated May the 2nd, 2006, be inserted as part of the record. Without any objection, that will be the case.

[The information follows:]



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May 2, 2006

The Honorable Henry Waxman
 Ranking Minority Member
 House Committee on Government Reform
 Rayburn Office Building
 Washington, DC 20515

Dear Representative Waxman:

You have asked that I consider whether a reviewing court would likely sever the legislative veto provision of the Energy Policy and Conservation Act (EPCA) of 1975, § 502(a)(4), Pub. L. No. 94-163, 89 Stat. 871, 903 (codified as amended 49 U.S.C. § 32902(c)(2)), from the remainder of the statute. This issue arises because the Supreme Court of the United States, in the landmark case of *INS v. Chadha*, 462 U.S. 919 (1983), sweepingly invalidated the use of the legislative veto on Bi-cameralism and Presentment clause grounds. EPCA is an important statute. Among other things, EPCA delegates authority to the United States Department of Transportation to set Corporate Average Fuel Economy (CAFE) standards. Based on the structure of the EPCA, its history, and the interpretation of other legislative veto provisions found in it and other statutes, my conclusion is that a court would find section 32902(c)(2) severable, leaving the Department of Transportation's authority to revise fuel efficiency standards for passenger automobiles intact.¹

The EPCA sets the CAFE standard for passenger automobiles at 27.5 miles per gallon for all cars manufactured after model year 1984. See § 32902(b). It also gives the Secretary of Transportation power to amend that standard, through notice and comment rulemaking under the Administrative Procedure Act, to whatever level the Secretary deems is the "maximum feasible

¹ I am well-aware of the law governing severability. Among other things, I was lead counsel for many of our nation's major cities in *City of New Haven v. United States*, 809 F.2d 900 (D.C. Cir. 1987), which held, in the wake of *Chadha*, that the Impoundment Control Act's grant of authority to the President to defer spending appropriated funds was inseverable from the Act's legislative veto provision. I have also been engaged in the practice of complex federal court litigation for thirty years, and have frequently litigated severability issues.

average fuel economy level.” § 32902(c)(1). Congress, however, tied this power to a legislative veto. Under the 1975 Act, if the Secretary raises the standard above 27.5 miles per gallon or lowers it below 26 miles per gallon, the legislative veto provision is triggered, giving Congress sixty days to act on disapproval. See § 32902(c)(2).

Thus, the legal question presented by the presence of a legislative veto provision in the standard-setting provision of EPCA is this: Is it evident that Congress would not have authorized the Secretary of Transportation to adjust CAFE standards had Congress understood that the legislative veto device would be unavailable? See *Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 684 (1987); see also *United States v. Booker*, 543 U.S. 220, 258 (2005); *Denver Area Educ. Telecoms. Consortium, Inc. v. FCC*, 518 U.S. 727, 767 (1996). In my view, the answer to that question is “no.”

The legal standards for determining severability are well-settled. The Court’s opinion in *Alaska Airlines*, which addressed the impact of *Chadha* on legislative veto provisions, remains the key decision. In *Alaska Airlines*, the Court unanimously ruled that the legislative veto provision in the Employee Protection Program of the Airline Deregulation Act of 1978 was severable. In so holding, the Court reiterated the general rule that a “court should refrain from invalidating more of the statute than is necessary.” 480 U.S. at 684 (citations omitted). The Court then said that the most relevant inquiry “is whether the statute will function in a manner consistent with the intent of Congress.” *Id.* at 685 (emphasis in original). The Court recognized that, in cases involving legislative vetoes, the underlying statute would remain functional even with the veto removed, because Congress contemplated that the substantive activity authorized by the statute’s provisions would take place so long as Congress refrained from exercising its veto. *Id.* Thus, where legislative vetoes are concerned, the relevant inquiry is “the importance of the veto in the legislative bargain” and “the nature of the delegated authority that Congress made subject to a veto.” *Id.*²

Severing the legislative veto provision in section 32902(c)(2) would neither significantly alter the manner in which EPCA operates nor upset the congressional bargain that resulted in EPCA’s passage. As the Court put it in *Alaska Airlines*, danger signals counseling against severance would be with statutes that were “so controversial or so broad that Congress would

² It is also useful to recall that the *Chadha* Court found the veto provision it struck down severable from the Immigration Act, and that most of the post-*Chadha* cases have found legislative veto provisions severable from the underlying statute. See, e.g., *EEOC v. Hernando Bank, Inc.*, 742 F.2d 1188, 1190 (5th Cir. 1984) (finding a veto provision severable from the Equal Pay Act); *American Fed’n of Gov’t Employees v. Reagan*, 806 F.2d 1034, 1036 (D.C. Cir. 1987) (finding a veto provision severable from the Federal Pay Comparability Act); *United States v. Romero-Fernandez*, 983 F.2d 195, 196 (11th Cir. 1993) (finding a veto provision severable from the International Emergency Economic Powers Act); cf. *University of Washington v. EPA*, 86 F.3d 1214, 1222 (D.C. Cir. 1996) (dicta suggesting that veto provision in the Comprehensive Environmental Response, Compensation, and Liability Act is severable).

have been unwilling to make the delegation without a strong oversight mechanism.” 480 U.S. at 686; *see also City of New Haven v. United States*, 809 F.2d 900 (D.C. Cir. 1987) (holding the legislative veto provision of the Impoundment Control Act non-severable because the purpose of the act was to control presidential action). Those dangers signals are not present here.

Congress’ purpose in the EPCA was, in part, to “provide for improved energy efficiency of motor vehicles.” *See* EPCA, § 2(5), 89 Stat. at 874. Although questions about energy efficiency are often politically charged, they do not go to the fundamental balance of power between the Executive or Legislative Branches, let alone implicate basic separation of powers concerns, as did the Impoundment Control Act at issue in *City of New Haven*.

Equally important, Congress has given clear guidance to the Secretary to constrain his discretion in setting CAFE standards. And Congress still exercises significant control over the Secretary’s actions, even though it has made no effort to invoke the legislative veto provision of the Act in the more than two decades following *Chadha*. Even if, as I believe, a court would find the legislative veto provision of subsection (c)(2) unconstitutional and sever it from the remainder of the provision, EPCA *still* gives Congress considerable power to reject or alter the Secretary’s action. The provision contains a “report and wait” mandate that gives Congress the opportunity to review the proposed Departmental action and to reject or modify as it sees fit, subject only to *Chadha*’s Presentment and Bi-cameralism limitations. *Cf. Alaska Airlines*, 480 U.S. at 689–90 & n.12 (noting the “report and wait” provision of the Airline Deregulation Act allowed the congressional oversight structure Congress had devised to remain largely intact even after the legislative veto provision had been severed). Indeed, Congress has exercised this and other oversight authority repeatedly to limit the Secretary’s actions. *See, e.g.,* Department of Transportation and Related Agencies—Appropriations, § 320, Pub. L. No. 106-346, 114 Stat. 1356, 1356A-28 (2000). Invoking this authority, Congress blocked every attempt by the Department of Transportation to change CAFE standards from 1995 to 2000, all by appropriations riders.³ For this reason, it would be implausible to suggest that severing the legislative veto provision will hamstring Congress’ ability to oversee the Secretary’s exercise of authority to set CAFE standards.⁴

Amendments to the EPCA in the thirty years since its enactment reinforce this understanding. As originally enacted, the EPCA was codified at 15 U.S.C. §§ 2001 *et seq.*, In 1994, Congress reorganized the U.S. Code and moved the provision at issue from Title 15 to Title 49. Prior to the recodification, the provision granting the Secretary the power to amend the standard also provided Congress a legislative veto to overturn the Secretary’s actions. *See* 15

³ *See* Pub. L. No. 106-346 (2000); Pub. L. No. 106-69 (1999); Pub. L. No. 105-277 (1999); Pub. L. No. 105-66 (1998); Pub. L. No. 104-205 (1997); Pub. L. No. 104-50 (1995).

⁴ Congress’ power to review agency rules was strengthened in 1996 with the enactment of the Congressional Review Act, which stays the effect of major rules (and all CAFE standards would qualify as major rules) for sixty days to give Congress the opportunity to disapprove or modify the rule. 5 U.S.C. §§ 801-808.

U.S.C. § 2002(a)(4) (1989). As part of the recodification of this provision, however, the two grants of authority were separated and placed in to different subsections, subsections (c)(1) and (c)(2), undoubtedly to underscore their distinctiveness. See Revision of Title 49, United States Code, "Transportation," Pub. L. No. 103-272, 108 Stat. 745, 1059 (1994).⁵ This change demonstrates that Congress understood that the legislative veto provision is separate from the remainder of the Act and is not tied directly to Congress' delegation of power to the Secretary.

Finally, it bears emphasis that courts have found other legislative veto provisions of EPCA severable. Section 32902 was based on more general legislation laying out the procedures Congress would follow in exercising its legislative vetoes. See 42 U.S.C. 6421 (laying out procedures for Congress to follow in reviewing certain energy-related actions taken by the Executive Branch). Section 6421 gave Congress the power to veto any "energy action" taken by the President or his subordinates. Shortly after the Supreme Court's decision in *Chadha*, the Temporary Emergency Court of Appeals found section 6421 and a related provision of EPCA severable from the rest of the statute. See *Gulf Oil Corp. v. Dyke*, 734 F.2d 797 (Temp. Emer. Ct. App.), cert. denied, 469 U.S. 1077 (1984). In so ruling, the court concluded that Congress would have enacted EPCA without a legislative veto because there was no evidence Congress would have preferred no statute at all to the one that remained after the excision of the veto. See *id.* at 804. The court also observed the "report and wait" provisions in the Act gave Congress considerable power to exercise oversight of the Secretary's actions. See *id.* at 805 n.10. This analysis would apply with equal force to section 32902.

For these reasons, I believe that it is likely that if the Secretary's action to modify CAFE standards were challenged on constitutional grounds, a reviewing court would find that the legislative veto provision in 49 U.S.C. § 32902(c)(2) is severable from the remainder of the statute. I should note as well that it does not appear that the Department of Transportation disagrees with this analysis. Insofar as I am aware, the Department has never claimed that the presence of a legislative veto provision in section 32902 precludes it from setting CAFE standards.

Please let me know if you have any questions.

Respectfully,

David C. Vladeck
Director, Institute for Public Representation
Associate Professor of Law
Justin A. Ford
Georgetown University Law Center
J.D. Candidate 2006

⁵ For a comparison of the pre- and post-1994 provisions, see Appendix.
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Appendix — Comparison of the pre- and post-1994 versions.Pre-1994 Version:

15 U.S.C. 2002(a)(4) (1989)

(4) The Secretary may, by rule, amend the average fuel economy standard specified in paragraph (1) for model year 1985, or for any subsequent model year, to a level which he determines is the maximum feasible average fuel economy level for such model year, except that any amendment which has the effect of increasing an average fuel economy standard to a level in excess of 27.5 miles per gallon, or of decreasing any such standard to a level below 26.0 miles per gallon, shall be submitted to the Congress in accordance with section 551 of the Energy Policy and Conservation Act [42 USCS § 6421], and shall not take effect if either House of the Congress disapproves such amendment in accordance with the procedures specified in such section.

Post-1994 Version

49 U.S.C. 32902(c) (2000)

(c) Amending passenger automobile standards.--(1) Subject to paragraph (2) of this subsection, the Secretary of Transportation may prescribe regulations amending the standard under subsection (b) of this section for a model year to a level that the Secretary decides is the maximum feasible average fuel economy level for that model year. Section 553 of title 5 applies to a proceeding to amend the standard. However, any interested person may make an oral presentation and a transcript shall be taken of that presentation.

(2) If an amendment increases the standard above 27.5 miles a gallon or decreases the standard below 26.0 miles a gallon, the Secretary of Transportation shall submit the amendment to Congress. The procedures of section 551 of the Energy Policy and Conservation Act (42 U.S.C. 6421) apply to an amendment, except that the 15 calendar days referred to in section 551(c) and (d) of the Act (42 U.S.C. 6421(c), (d)) are deemed to be 60 calendar days, and the 5 calendar days referred to in section 551(f)(4)(A) of the Act (42 U.S.C. 6421(f)(4)(A)) are deemed to be 20 calendar days. If either House of Congress disapproves the amendment under those procedures, the amendment does not take effect.

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MR. BILIRAKIS. Mr. Bass for an opening statement. Mr. Bass is passing. Ms. Myrick for an opening statement. And you're passing? Mrs. Wilson, opening statement.

MRS. WILSON. Thank you, Mr. Chairman, and thank you for holding this hearing today.

I think all of us believe that we need a balanced long-term energy policy to make America more energy independent, and I look forward to this hearing today. I have read some of the information from the

Department of Transportation, and the question seems to me here is, is there a smarter way to do the CAFE standards, so that we save fuel without compromising safety? And the Department of Transportation approach to how they changed the light truck standard using the footprint of the vehicle, which encourages people who make light trucks to try to put fuel efficient technologies on the whole line, and not just looking at the average in their fleet, seems to make a lot of sense to me.

The question is whether we could do the same thing for passenger cars and other kinds of vehicles, and gradually increase fuel economy for every kind of vehicle, as opposed to just having somebody make more small cars to compensate for the fact that they have big cars on the road. This kind of innovation and looking, thinking outside the box, and trying to do something differently to improve the fuel economy of the entire fleet of vehicles that is on our road in America seems to make a lot of common sense, and I look forward to hearing the testimony today, the different ideas, and listening to the Department of Transportation, and what you want to do, and how that will help us save fuel without compromising safety.

And I really appreciate this hearing and the background work that went into it. Thank you, Mr. Chairman.

MR. BILIRAKIS. The Chair thanks the gentlelady. Ms. Capps, for an opening statement?

MS. CAPPS. Thank you, Mr. Chairman, and welcome to Transportation Secretary and fellow Californian, Mr. Mineta, particularly to our esteemed colleague for his testimony, Mr. Boehlert from New Yorker, and former Member, Mr. Sharp, for being at this hearing today.

Nevertheless, I find this whole hearing rather strange, rather bizarre. First, as has been said, the Administration can already raise fuel efficiency standards. It doesn't need any change in the law, and it is surprising to me that the Administration cares about what we are going to be debating about anyway. We have all read about the President's signing statements that give his rather unique interpretation of the laws he has just signed. For example, the signing statement to the McCain anti-torture law, which allows him, actually, to ignore the law. Maybe it would be faster for the President to use a signing statement to the next bill that crosses his desk. It could say he understands that new law, whatever it happens to be, gives him the right to adjust CAFE standards. It would save us a lot of time and debate.

And the history been stated, but I want to repeat it. The Republican-led Congress banned CAFE increases during the latter half of the '90s through appropriation riders. Apparently, Representative DeLay and others believed the Clinton White House could and would raise CAFE standards. Miraculously, once President Bush came into town, the

concern vanished and the riders disappeared. And during the last 5 years, this Republican-led House has repeatedly voted down CAFE increases, and the Bush Administration has supported that decision.

But now, with record gas prices and their oil company supporters reporting record profits and executive payouts, the Republicans are scrambling. Last week, it was a \$100 rebate. Quickly ridiculed for shameless pandering, the Senate leaders have since reconsidered. And right about now the Republicans are putting on the floor, on the suspension calendar to keep debate limited, of course, useless price gouging and refineries legislation.

And here we have a hearing on a bill to let the Administration do something it can already do, but doesn't want to, and it is being pushed by people who oppose what the bill would let the Administration do anyway. In fact, the new House Majority Leader is quoted in today's Washington Post dismissing the Administration's newfound religion on CAFE, saying "the market can handle this much better than some kind of government regulation." At least the Majority Leader is being up front about his views. I think he is wrong, but at least he is being honest.

Mr. Chairman, over the last decade, Republican actions on energy have been without vision. They have continued to place faith in increasing supplies, while paying only fleeting attention to demand reduction. They have shoveled billions in taxpayer subsidies to industries awash in profits. Today, gas is at \$3 a gallon and rising. Today's hearing, like the ill-fated \$100 rebate, is about nothing more than panic. Republicans want to look like they are doing something, anything, to address a mess they have helped create. It would be funny if the results weren't so tragic.

Americans are hurting from high prices. The economy may well stumble over them, and all we get are gimmicks. The American people deserve better. I yield back.

MR. BILIRAKIS. The gentlelady's time has expired. Mr. Shimkus, for an opening statement?

MR. SHIMKUS. Thank you, Mr. Chairman. Thanks for having this hearing. I was over on the other side, talking to my friend, Mr. Markey, and that is why Washington is a great place to be, because what comes around goes around, and we have had this debate numerous times.

As maybe we are latecomers to the debate on CAFE, I would hope my colleagues and friends would start accepting some of the needs for new supply. And maybe, new supply, with more CAFE standards, would help address Economics 101, which is a supply and demand issue. That is why, on the Energy Committee, we continue to talk, and we are going to have it on the floor today, an issue on coal to liquids, and here is a great idea, and I hope my friends join me: taking coal--we are the

largest country to have large reserves of coal. We can take that coal, mined hopefully in southern Illinois, put a refinery on top of it, a coal-to-liquid refinery, to produce fuel that is cleaner than any fuel that we could refine today.

So I know they are welcoming us to this debate on CAFE standards. I know the Secretary of Transportation has already addressed this on the light trucks concern. The Administration has asked us to look at that, to give the Secretary of Transportation additional authority. I think we are ready to do that, Mr. Secretary, and we are really willing to address the demand side. I would hope my colleagues on the other side of the aisle would also help us address the real supply needs we have for this country.

And with that, Mr. Chairman, I yield back my time.

MR. BILIRAKIS. Mr. Allen.

MR. ALLEN. Thank you, Mr. Chairman, for holding this hearing, and thank you to my friends, Chairman Boehlert, Secretary Mineta, and to the distinguished panel for joining us today, including three people I consider friends, Mr. Webber, Mr. Sharp, and Mr. Reuther. If only the three of them could agree, we would be well on our way.

I am pleased that the Administration has come to the conclusion that we need to do something about fuel economy standards. Better late than never, I suppose. I am, however, surprised, Secretary Mineta, that you do not feel you have the legal authority to raise CAFE standards. During the Clinton Administration, the Majority inserted riders into transportation appropriations bills that prohibited your Department from raising CAFE standards, but under the Administration's interpretation, the Clinton Administration couldn't have raised CAFE standards even if it wanted to.

Mr. Secretary, I don't buy it. I am convinced that you could have raised CAFE standards at any time over the past 5 years. You just didn't want to do it. And if you had raised CAFE when you first came into office, we might today be seeing the benefits. Certainly, if the Majority had not tied the hands of the Clinton Administration, we would definitely have a more fuel-efficient vehicle fleet today.

I am not opposed to a reasonable revision of CAFE standards, but for years, the auto industry and the Bush Administration have preferred to do nothing than to make difficult decisions, to the great disadvantage of this country, and certainly, to the great disadvantage, ultimately, of the U.S. auto industry. I believe raising CAFE standards is sound long-term energy policy, and I am pleased the Majority is considering it, despite my concerns about some aspects of the draft bill.

But let us be frank. We have waited far too long to deal with this issue, but now, let us do something that will have a significant long-term

impact on public health and fleet fuel efficiency. Those are public values that require public policy decisions that cannot be left solely to individual consumer choices. We in Congress can no longer ignore our responsibility to deal in a serious way with our energy crisis, the cost of illness from auto pollution, and the threat to the planet from climate change.

And Mr. Chairman, I yield back.

MR. BILIRAKIS. The Chair thanks the gentleman. Mr. Rogers, opening statement?

MR. ROGERS. Thank you, Mr. Chairman.

Mr. Chairman, as you know, first of all, let me appreciate having this hearing, but as you and many of the members of the committee know, I have long had concerns with the CAFE system. It is old, it is arbitrary, and it has proven time and time again that you really can't make a fat person skinny by mandating smaller pants sizes.

If we could, it would be a great solution, and that is exactly what we are talking about doing with this arbitrary CAFE system. It was instituted in the 1970s. The system was supposed to dramatically improve fuel efficiency, and more importantly, wean America off foreign oil. Hasn't happened.

What CAFE has done is distort the marketplace, and provide some companies with an unfair advantage over others, thanks to arbitrary Federal guidelines. The people in Michigan know all too well about unfair advantages or disadvantages. Automakers, auto suppliers, and autoworkers in my district and across Michigan are suffering, and I am exceptionally concerned with the threat that any new, arbitrary CAFE standards may pose to the American auto industry.

You know, CAFE has done more than cost jobs, Mr. Chairman. It has also cost lives. As several witnesses state in their written testimony today, arbitrary CAFE standards have forced companies to down-weight cars, making them less safe. Thousands of Americans have died because politicians in Washington want to be the ones who pick what that CAFE standard ought to look like, and plug it into a very antiquated formula.

That said, in recent years, Congress has, in a bipartisan way, worked to improve and rationalize the CAFE program, while maintaining the original and valid purpose of CAFE, to lessen America's dependence on foreign oil. Credits for alternative fuel vehicles and fundamental reform of the light truck CAFE system are two excellent examples of progress that Congress has made. I hope we are able to use this debate surrounding this draft legislation to identify further improvements to the CAFE system.

I look forward to the hearing today. I look forward to hearing the witnesses, and how Congress can lessen our dependence, help in

lessening our dependence on foreign oil, and rein in high gas prices through the use of more fuel-efficient vehicles.

And with that, Mr. Chairman, I would yield back the remainder of my time.

CHAIRMAN BARTON. We thank the gentleman from Michigan. The Chair would like to inquire on the Minority side; apparently, there is a difference of opinion on the order of speaking.

I show Congresswoman DeGette, but my understanding is Congressman Green indicates that he was here.

MS. DEGETTE. Mr. Chairman.

CHAIRMAN BARTON. Have you all worked that out?

MS. DEGETTE. There is a problem with the whole list, but one thing I have learned in 10 years in Congress, always to defer to your elders. So I--

CHAIRMAN BARTON. What elders?

MR. GREEN. Mr. Chairman, you know, where we come from, we defer to our fair sex, which I know Diana would really--but I would be glad to defer. But let me explain something. I think there is a problem with how these lists are compiled, because this is not the first time, in the full committee or the subcommittee, and I know it is based on seniority sometimes. Sometimes, it is on who shows up, and so if our side is giving the wrong information, I need to know that, but if it has changed somehow, we need to know, because as you can see, members have a lot of schedules. Instead of sitting here for 40 minutes to do an opening statement, then going, doing your appointment, or whatever else. So--

CHAIRMAN BARTON. I understand. That is why I am asking. We do--

MR. GREEN. I am going to defer to Ms. DeGette, but I would hope that the leadership on both sides would make sure who signs up is there, who shows up, or whatever the rules are, we will comply with them.

CHAIRMAN BARTON. All right. Well--

MS. DEGETTE. All right.

CHAIRMAN BARTON. Mr. Engel, did you have something that you wanted to add? You were raising your hand, too.

MR. ENGEL. Mr. Chairman, just wanted to let you know that I wanted to make an opening statement as well.

CHAIRMAN BARTON. Oh, okay.

MR. ENGEL. Okay.

CHAIRMAN BARTON. Got you. We are going to go--

MS. DEGETTE. Mr. Chairman--

CHAIRMAN BARTON. --to Ms. DeGette.

MS. DEGETTE. I will just seize control here.

CHAIRMAN BARTON. You can always defer, and then we can get on to our witnesses, you know.

MS. DEGETTE. Thank you, Mr. Chairman. I just want to say that I appreciate having this hearing. I guess I appreciate some of my respected Republican colleagues seeming to have a change of mind, although, when I look at the bill that we are talking about today, it doesn't really seem to do much to actually increase CAFE standards.

I have been on this committee now for almost 10 years, and the energy bill every year, last year, no exception, has been the low point of my Congressional year, because it has been a backward-looking piece of legislation. There has been a group of us trying to increase CAFE standards every year, and every year, we are shot down, both in the committee, and on the floor.

Now, I found it interesting that my colleague from Illinois, Mr. Shimkus, was passionately arguing for a bill increasing supply, because I thought that is what we did, in not one but just two energy bills last year, in which again, this committee and the majority on the floor shot down increased CAFE standards. Increasing the fuel economy of our vehicles would be the quickest, cheapest, and most efficient way to reduce our dependence on fossil fuels.

Now, if you look at the committee print that we are discussing today, it doesn't do anything about gas prices. It doesn't do anything about the reliance on foreign oil, and ironically, it does nothing about fuel economy.

Congress has the authority to increase CAFE standards. A group of us, and as Mr. Markey points out, an increasing numbered group, has the authority to do this. The President, by all of the legal opinions we have today, has the authority to increase CAFE standards. So what is Congress doing? We are just dinking around debating whether or not we should give the Department of Transportation authority to look at this.

Even if we pass this legislation right away, which it doesn't look like we will, the Department of Transportation will spend more than a year developing a rule. The rule would likely mirror President Bush's recent light truck regulations, which overhauled the system, but only made marginal increases in fuel economy, and then the automakers would have a couple of years to comply, meaning that even tiny little increases in fuel economy would still be 4 or 5 years away.

This is just not good enough. I think that Congress should take the initiative hand in hand with the Administration, to increase CAFE standards, to really make this work, because several people on the other side were right. It will take a couple of years to make this really work. So let us start right now. If we are so interested in CAFE standards, let

us get it done. It doesn't take a legal mastermind to see the flaws in the draft legislation in front of us.

The bill just simply gives the Administration authority. It doesn't say what the standards would be. It doesn't even say if the standards would be higher or lower. So let us get together, let us do something meaningful, and let us start chipping away at this problem of high gas prices and reliance on foreign oil now.

Thank you, Mr. Chairman.

CHAIRMAN BARTON. Thank you, Ms. DeGette, and we go to Congresswoman Blackburn.

MRS. BLACKBURN. Thank you, Mr. Chairman, and thank you to our witnesses for being here. We appreciate your time, and we appreciate also, Mr. Chairman, that you would call the committee today.

Reauthorization of the way we develop our fuel economy standards is another important step for our country in reaching a point where we can one day celebrate an energy independence day, and as all of you can hear, this is going to be a feisty little debate, and the focus today is on fuel economy, but I think the real issue that we are here discussing is the high price of fuel. And while we address the legislation that is before us, I think it is critical that we not ignore the reasons for the fuel prices being as high as they are. Worldwide demand for oil has increased, hurricanes in the Gulf have knocked out some of our refining capacity. Thirty years of environmental extremism has brought domestic oil exploration to a virtual halt in its tracks.

If we want to see gas prices stabilized, then we need to build on our achievements that we have included in the Energy Policy Act, and open up areas like ANWR to oil exploration, and encourage refinery construction. We all know that there was a Presidential veto of drilling in ANWR in the mid-90s. I think today, many people would say that was an unfortunate occurrence. Prices wouldn't be so volatile had we been exploring for oil on American soil, and expanding our refining capacity as our population has grown, and as our needs have increased. And I know that there are those across the aisle who like to put the emphasis on environmental concerns. They blame us for putting the emphasis on American drivers and the American economy, and it sounds like we are going to hear more of that today.

While we are considering giving authority to the Department of Transportation to set CAFE standards, I think it is important to keep the big picture in mind. Mrs. Wilson and Mr. Shimkus both made reference to the light truck standards that have previously been used by the industry. It is a smart move, and with Nissan North America and Saturn headquartered in my district in Tennessee, I do understand how CAFE

standards can have an impact on the production line. I talk to those constituents of mine that run that production line.

I also understand the need for a conservationist approach to fuel economy, and the importance of lowering emissions. And further, I think it is crucial that we keep car passenger safety as a top priority. Mr. Chairman, as this issue is debated, I think it is imperative that we look at sound scientific data, and not political polls and rhetoric as we have in our discussion.

Thank you. I yield back.

CHAIRMAN BARTON. I thank the gentlelady. The gentleman from Texas, Mr. Green.

MR. GREEN. Thank you, Mr. Chairman, and I want to thank you and our ranking member for holding the hearing on the proposals to clarify NHTSAs authority to increase CAFE standards for passenger cars.

I understand the sense of urgency to act to address fuel prices after we have seen rapid increases, especially over the last month. But I am concerned about this proposal, may be shortsighted, that it would not decrease fuel consumption for 10 or more years. Now, I understand we need to do something about energy consumption, but there are two ways you can do it. You either increase production, or you reduce demand, and frankly, I don't know if we are doing either of them. The last energy bill that we had opened up very few things for more exploration. There were some things in there, but nothing for opening up newer areas, whether it be ANWR or even the Eastern Gulf of Mexico, which is mostly gas, I assume, but may find oil.

But we also didn't do much for saving gas. This plan could also American jobs and compromise automobile safety. The committee defeated an amendment last summer, when we marked up H.R. 6, that would have mandated higher CAFE standards for both passenger cars and light trucks, and we should not hastily give unlimited decision direction to the Administration on CAFE standards now, due to rising gas prices. We need a comprehensive approach, both increased production, refining capacity, but also a reduction in demand.

Today's gas prices are hard on consumers. Many of my constituents drive larger cars and trucks that consume more fuel, that they work hard to make their car payments and their fuel payments, but this proposal will not reduce their fuel costs, because it does nothing to effect current fuel consumption, and will not take effect on new cars until at least 36 months, until model year 2010.

One of the serious consequences of increased CAFE standards may be loss of American jobs at automakers like GM, Ford, and Chrysler, because their fleet is larger than competitors like Toyota, Honda, and others. In addition, heavier cars are safer cars, and requiring lighter,

more efficient fuel cars would lead to sacrificing passenger safety in an attempt to conserve fuel 10 years down the road.

Both the United Auto Workers and the National Academy of Sciences both stated before, when we addressed CAFE issues, that the more CAFE increases sacrifice safety, and that is not a sacrifice many people are willing to make. If they are, then there are already numerous smaller and lighter fuel-efficient cars to buy. If the Administration were serious about increasing CAFE standards, if they were concerned about the lack of authority by NHTSA to do so this could have been addressed 6 years ago. But funding for NHTSA has continually been cut by the Majority, first under President Clinton, so that CAFE standards could not be increased. Despite Secretary Mineta's request for the DOT authority in 2002, Congress has not taken this up.

Now that gas is \$3 a gallon, people are already buying more fuel-efficient cars, so we should not rush to pass a bill without considering its impact on American manufacturing and consumer safety. If we are going to use CAFE to address fuel economy, we must ensure it is not to the detriment of the manufacturing or the safety of Americans.

I yield back my time.

CHAIRMAN BARTON. The gentleman yields back. Mr. Stearns.

MR. STEARNS. There we go. Thank you, Mr. Chairman, and I appreciate this hearing.

You know, this whole business about CAFE standards is almost targeting the wrong issue here. It is not Secretary Mineta's fault for not increasing CAFE standards. It is not the fault of anybody. The consumer is king here. Today, in Florida, you can buy a Jetta TDI Diesel VW, and you can get almost 50 miles per gallon on the highway. Now, please, tell me why we need CAFE standards when you can get something going 50 miles a gallon.

The consumer is king here. The consumer decides whether to buy the most fuel-efficient hybrid car, which is ideal for stop and go driving, or a huge sport utility. Now, I have a supporter who spent 30 years building a business. He sold his business, he made a little money. He is going to buy a large car to make himself feel good, SUV, or it might be a Hummer. He is not going to get the VW Jetta TDI. It is a consumer decision, and perhaps he wants to tow his boat, or perhaps he wants to do something else with it.

So in the end, Mr. Chairman, consumers decide the vehicles they drive, the number of annual miles they drive with, and how they drive those vehicles, so you cannot go ahead and blame anybody for this. The consumer is deciding this.

CAFE is dependent upon what vehicles consumers buy in the market, and not upon what the manufacturer produces. We are in a

global economy. If it was very important to have a very high mileage car, like a Jetta TDI in a large vehicle, it would be done, but they can't do it. So the global economy is dictating how these people are going to make money at the same time they can bring in low gas mileage.

And the consumers can also make a decision to conserve, and frankly, Mr. Chairman, we could have a hearing just on the advanced technologies, like hybrid power trains, clean diesels, fuel cells, all require sort of an integrated approach to conservation that could easily be embraced by our consumers today. This integrated approach looks at how the existing transportation infrastructure can be made more efficient, as well.

For example, hybrids and car poolers on HOV lanes can help us conserve, but not if they are trapped in traffic jams. Information technologies like RFIDs, the radio frequency identification in products, the E-ZPass that sometimes you use to get through the tolls can improve the efficiency of the entire system by reducing congestion. The net effect is the same, and the real attraction here is that these technological advances that we put in the cars will help improve not only the gas mileage, but the quality of life.

In conclusion, Mr. Chairman, I applaud NHTSA for their reforms to the CAFE standards for light trucks, an approach that will improve flexibility and product planning and technology, and it gives greater credence to consumer choice in the market. The consumer is the king.

Thank you, Mr. Chairman.

CHAIRMAN BARTON. And I thank the gentleman. The gentleman from Washington, Mr. Inslee.

MR. INSLEE. Thank you.

This hearing does have a bit a Twilight Zone feeling about it. The President has fought us tooth and tongue on virtually every fuel efficiency thing we have had to do, tried to do for several years, but nonetheless, I think it is important to be magnanimous at this apparent epiphany, but it is also important to be realistic, and that we need more than a rhetorical flourish of a bill such as this, to give the President, which he already has, which is authority to do something here, but we also have to insist a number, and we are going to hear from Representative Boehlert, that he has a bill that will actually give us a number, and will give us something in America that will work, in H.R. 3762, a meaningful way to move ahead.

And I want to point out this is a replication of success America has already had. We had success doing this from the mid-'70s to the early '80s. I want to point out if we had simply continued the course we were on in the late '70s, we would be free of Middle Eastern oil today. If we simply had not fallen off the wagon of fuel efficiency, we would be free

of that today. We would not have \$3 a gallon gas today. I point this out, as we are really not inventing a new technology. We are simply going to use what our common sense that we were using before, and we know that it will.

Now, let me point out that this is not the only game in town on fuel efficiency. H.R. 2820, the New Apollo Energy Project, I have introduced with others, to say we ought to have a new, aggressive fuel efficiency. Mr. Kingston and Mr. Engel have H.R. 4409, which will simply call for flex fuel vehicles, which I hope this committee eventually will have a hearing on, because it is not just about squeezing out more mileage of gasoline. It is about creating what Brazil has done, which now has energy independence, with 40 percent of their transportation needs being met by biofuels, and I hope that we will have a hearing on our ability to guarantee that Americans have flex fuel vehicles. It is about time Americans have the freedom to choose what fuel they are going to use, and H.R. 4409 will do that. It is about H.R. 4370, a bill I have introduced with a companion bill by Senator Obama, which will help our auto industry with what they need with their legacy health care costs, in exchange for giving us more fuel-efficient vehicles.

We know we have got some auto industries with some real legacy health care problems. In a real life, realistic, common sense approach for this Congress, is to assure Americans have more fuel-efficient cars, and assure that we continue to have a vibrant auto industry. By helping them through these health care costs, we will have a healthier environment. We will have a healthier auto industry, and we will have some healthier public policy if we adopt these bills.

Thank you, Mr. Chairman.

CHAIRMAN BARTON. I thank the gentleman, and remind him we are going to have a vote this afternoon on a refinery bill that expedites permitting for refineries, including biorefineries, which the gentleman supports. And we encourage him to support that bill.

Mr. Burgess of Texas.

MR. BURGESS. Thank you, Mr. Chairman, and thank you for holding this hearing today. I am anxious to hear from the witnesses, so I will be very brief.

But I do think we need to address the supply side of this equation, and this morning, thankfully, we are also addressing the demand side. I am a big believer in the hybrid technology. I have owned a hybrid car for about 2 years. In my part of North Texas, I originally bought this vehicle because, or got in line to buy a vehicle, because of air quality concerns, and then with the miracle of redistricting, I was given a very long, narrow district. So I have got to log a lot of miles across North Texas, and now, I look positively brilliant for having a vehicle that gets

in excess of 50 miles a gallon. And of course, that vehicle came to us without any additional change in the CAFE standards, but we are here today to talk about the corporate average fuel economy standards, and it is appropriate to do so.

The committee has issued a discussion draft of legislation that would direct the National Highway Traffic Safety Administration to revise these standards for passenger cars, and I am looking forward to hearing the panel's recommendations on this draft.

I want to thank each of the witnesses before us today. Secretary Mineta, last term, I was on the Transportation Committee, and it was always good to work with you on that committee, and of course, Chairman Boehlert was my Chairman on the Science Committee during the 108th Congress, and certainly I'm interested in what you have to tell us this morning.

So with that, Mr. Chairman, I will yield back.

[The prepared statement of Hon. Michael Burgess follows:]

PREPARED STATEMENT OF THE HON. MICHAEL BURGESS, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF TEXAS

Thank you, Mr. Chairman for holding this important hearing.

I think by now my fellow committee members know that I believe our best bet to decrease consumption of gasoline, at least in the short run, would be to increase the number of hybrid cars on the road.

I've owned my Prius now for about 2 years. I've logged a lot of miles across North Texas during the course of that time and there's no telling how much money I've saved on gasoline.

But we're here today to talk about CAFE standards.

The Committee has issued a discussion draft of legislation that would direct the National Highway Traffic Safety Administration to revise the CAFE standard for passenger cars and I am looking forward to hearing the panel's comments on this draft.

I'd like to thank each of the witnesses that will be testifying before us today.

Secretary Mineta, it was always a pleasure to work with you while I served on the Transportation and Infrastructure Committee, so I am please to welcome you here in Energy & Commerce.

CHAIRMAN BARTON. I thank the gentleman, and we now go to the gentleman from New York, Mr. Engel.

MR. ENGEL. Well, thank you, Mr. Chairman.

We all remember how Nero fiddled while Rome burned. Today, the President and the Congress are fiddling while the American people are paying more than \$3 per gallon of gasoline. Big Oil is making record profits. ExxonMobil just gave its departing CEO a \$400 million golden parachute, and the American people are angry and frustrated, and so are we.

The President needs to call the oil executives into the White House and bang some heads together, and say gentlemen, this really has to stop.

Despite decades of advancements in vehicle technologies, and the efforts of many Members of Congress and concerned citizens, passenger cars have had the same fuel economy standard of 27.5 miles per gallon for over 20 years. It just doesn't make sense.

As an article in the Washington Post noted today, about the Administration and Congressional leadership, the response so far has been "profiles in panic," to quote them. A New York Times editorial today calls it "Foolishness on Fuel." It certainly would explain the \$100 gas rebate idea, which would barely touch a family's monthly gas bill.

If the President really believes NHTSA doesn't have the authority to increase passenger car CAFE standards, why did he wait 6 years into his Administration to get around to asking for that authority? At this point, the earliest that this new legislation could affect cars' fuel economy standards is model year 2010, which will be nearly 10 years after the President took office. Talk about a waste of time.

Most everyone in this room recalls that throughout the '90s, the Republican leadership annually attached riders to spending bills to prevent NHTSA from increasing fuel economy standards, and we certainly had opportunities to improve CAFE standards in the Energy Policy Act passed in August, but all attempts in this committee to change that were voted down.

Despite the claims of the Administration that it has already made significant changes to the light truck CAFE standards, the prevailing view is that these reforms are weak, at best, and likely dangerous. Yesterday, nine states, including my State of New York, and New York City, sued the Bush Administration on this rule, for promoting a system that "creates incentives to build larger, less fuel-efficient models, which will jeopardize air quality and the climate, and for failing to meet Federal laws requiring the government to determine the impact of the regulation on fuel conservation and the environment." New York was proud to adopt California's landmark law requiring reductions in vehicle emissions that contribute to global warming, but the Bush CAFE standard also seeks to undermine these laws, once again moving in the wrong direction.

American energy policies are at the crossroads, and our national security is being compromised daily by our dependence on foreign energy supplies. That is why Jack Kingston and I have introduced the bipartisan Fuel Choices for American Security Act, which enjoys wide bipartisan support in the Congress. We need to pass that. It encourages production and consumer purchase of oil-saving technologies and fuels nationwide, without adversely impacting air quality. The most effective means to achieve these goals is by providing incentives to encourage

manufacturers, distributors, and consumers to utilize domestic resources, to bring to the market a full range of 21st Century vehicles and fuels.

If the President is serious about this, Congress can reduce our addiction to oil through a comprehensive package of conservation policies, with a real improvement in CAFE, and the rapid development and deployment of alternative fuels. We have no more time to waste.

I look forward to hearing Secretary Mineta and Congressman Boehlert, and I want to just say about Congressman Boehlert, we are going to miss you greatly, Sherry, when you retire, and we appreciate the wonderful work you have done all these years.

Thank you. Thank you, Mr. Chairman.

CHAIRMAN BARTON. The gentleman from Nebraska, Mr. Terry. Mr. Terry waives. Let us see. Mr. Gillmor, do you wish to make an opening statement?

MR. GILLMOR. I waive, Mr. Chairman.

CHAIRMAN BARTON. All right. Does Ms. Myrick wish to make an opening statement? So you have already waived? Has Mr. Murphy been given a chance? Well, then we go to Ms. Schakowsky.

MS. SCHAKOWSKY. Thank you, Mr. Chairman, for holding today's hearing on CAFE standards, which I have consistently supported raising.

We should have taken action 6 years ago, when the President took office, or even before, when President Clinton proposed it, but instead, the Republican Congress has rubber-stamped the Bush Administration's energy policies, which has helped the oil and gas companies earn record profits, even as they raise gasoline prices to record levels.

I just came from Chicago, where my constituents are paying over \$3 a gallon for regular gasoline. It is no wonder that gasoline prices have gone up. This committee passed an energy bill that the Energy Information Administration predicted would raise the prices, and it did.

The Bush Administration has now launched a PR campaign to distance himself from the energy crisis it created. In his more of the same campaign, President Bush recently announced a series of energy policies that were already happening. Twice last year, Congress directed the FTC to investigate price gouging. This committee is expecting this report within the month. Ignoring that action, last week, President Bush directed his Administration to investigate for price gouging. However, after issuing this directive on Tuesday, three days later, the President said that his inclination and instincts assure him that there is no "rip-off taking place." Quick investigation.

Now, the Bush Administration is asking Congress to grant it authority it already has. If President Bush was willing, it could today raise fuel economy standards for passenger cars. We should be debating how quickly and to what level the Bush Administration should raise

CAFE standards for passenger cars. If the Administration raised CAFE standards to 33 miles per gallon, and helped auto manufacturers reach that goal, over 2.5 million barrels of oil would be saved each day, eliminating the need for all of the Persian Gulf oil right now. Today, we find that the Bush Administration did not believe it had the authority to raise CAFE standards for passenger cars, but it took 6 years to request the authority to act.

President Bush is dragging his feet. There are several ways to keep gas prices down in the short term: holding individual oil and gas companies that price gouge accountable, and ensuring that oil companies do not make windfall profits off the backs of consumers. The American people shouldn't pay \$400 million, \$3 per every American household, to fund the golden parachute of oil executives. These record gasoline prices go far beyond supply and demand.

Consumers are being exploited. After covering all their costs last year, oil companies took profits from consumers that amounted to nearly \$1,000 from every household in America. A comprehensive energy to reduce gasoline prices must include efficiency and conservation.

President Bush has cut funding for major efficiency programs in his fiscal year 2007 budget, including weatherization, Energy Star, and the Clean Cities program. The President's commitment to efficiency should be judged by his deeds, not by his words.

Thank you, Mr. Chairman.

CHAIRMAN BARTON. Thank you. Mr. Pallone of New Jersey.

MR. PALLONE. Thank you, Mr. Chairman.

The problem that I see is that the Bush Administration and the Republican Majority simply talk about fuel efficiency when there is a crisis in gas prices. That is the only time they bring it up, and then they are all talk and no action.

And I would ask initially, Mr. Chairman, why we need to pass this legislation at all, when there is little legal reason to believe that the Administration lacks the authority to raise passenger car standards. I also wonder why, as Secretary Mineta will testify, the Republican Majority rebuffed the Administration's 2002 request for this type of legislation. Again, the Republicans wait until gas prices have gone through the roof to even talk about the issue, and even then they don't do anything about it. And I would be remiss, I know my other Democratic colleagues have said it, but I will say it again, and point out that since the committee print requires rulemaking within 1 year to create standards 18 months prior to the beginning of each model year, it will simply punt CAFE increases for at least 4 years from now.

Mr. Chairman, I have to say I fail to understand why giving the President blanket authority to completely redo our CAFE system to

change standards several years from now is a more prudent option than simply urging the Administration to take prompt action, using their existing authority. That is what we should do.

The simple fact of the matter is that increasing fuel economy standards and reducing our oil consumption will go a long way towards addressing major problems that face our country: volatile gas prices, our dependence on oil imported from unfriendly countries, and the looming threat of global warming. And while increasing CAFE will not bring down gas prices right now, it will allow American families to buy the type of car they need, with fuel economy they can afford.

So let us just do it. We don't need this legislation. We simply need for President Bush to take action. I am pessimistic that he will, but I would certainly hope that we would all urge him to do so.

Thank you.

CHAIRMAN BARTON. We thank the gentleman from New Jersey. The floor is about to bring up two of our energy bills, the Wilson price gouging bill, or anti-price gouging bill, and the Barton-Bass refinery permitting process bill. I am going to go start that debate, and try to be back before our first panel of witnesses comes forward, so that we can do that as expeditiously as possible.

Our next opening statement should be from Mr. Brown, who is not here. Mr. Gonzalez?

MR. GONZALEZ. Waive opening.

CHAIRMAN BARTON. He waives. Mr. Strickland, who is not here. Ms. Baldwin.

MS. BALDWIN. Thank you, Mr. Chairman.

Last year, Congress passed an energy bill that supporters proclaimed was the most comprehensive energy legislation in the history of Congress. It would solve our most pressing energy needs, they said. Yet, a year later, our energy situation is even worse. It is reaching crisis levels, as proclaimed by Department of Energy Secretary Bodman, and we, again, are evaluating our energy policies.

Today, rising gas prices are affecting city budgets, small businesses, operating farms, and Wisconsin families. Average gas prices in my area have reached \$2.90, up almost \$0.70 per gallon from this time last year. Clearly, the energy bill did not go far enough to providing energy assistance for those other than the big oil companies recording record profits.

I remain skeptical that passing a bill giving the Administration the authority to change CAFE standards will bring real relief to family pocketbooks. First, as we have already heard this morning, arguments are made that the Administration already has this authority. Second, rules will not be available for at least a year, and even then the cars are at

least 18 months away from showrooms. And third, I remain concerned that the standards set by this Administration, without any input from Congress, will fall short on meeting our most pressing energy needs.

This was evidenced just recently, as the Administration moved forward with what I considered meek and minimal changes to CAFE standards for light trucks. They only increased fuel economy by 1.8 miles per gallon over a period of 4 years, and exempting pickup trucks. Technology exists to achieve a higher standard, and I know we can do better.

As I said, I am skeptical, and I hope that the panelists will address some of the concerns today. I look forward to your testimony, and yield back the remainder of my time, Mr. Chairman.

MR. ROGERS. [Presiding] Thank you. Mr. Pitts for an opening statement.

MR. PITTS. Waives.

MR. ROGERS. Mr. Stupak. Mr. Wynn for an opening statement. Waives. Ms. Solis, opening statement.

MS. SOLIS. Thank you, Mr. Chairman.

Mr. Chairman, thank you for holding this hearing today. It is a pleasure to have Secretary Mineta here with us, and other witnesses, to join us to discuss fuel economy standards for passenger cars. Today, we will hear about whether the Administration has or does not have the authority to raise fuel economy standards.

In this regard, I hope that the Secretary will clarify a number of issues for us today. First, if the Administration believes it does not have the authority to fuel economy standards for passenger vehicles, why has it not already asked for it? This body has passed a number of energy bills it could have been included in.

Second, if the Administration were to receive this authority, would it increase fuel economy standards immediately? And over the last several years, the Administration has consistently opposed increases in fuel economy standards and oil-saving plans.

In its statement of Administration policy on H.R. 6, the Bush Administration stated, and I quote, that it "strongly opposed a proposal to reduce U.S. demand for oil by one million barrels per day." This statement of Administration policy also stated it strongly opposed any amendment to legislate an increase in fuel economy standards. The Bush Administration and Republican leadership has continuously failed to adequately respond to the growing impact of gas prices on working families, and the energy security of our Nation.

The Administration's energy policy, 95 percent of which has been implemented, has done nothing to reduce the prices for gas. In fact, the Energy Information Administration predicted last year's energy bill

would actually increase the costs of gasoline to its consumers. In my district, as you know, gasoline prices have been well over \$3 for the past six months. Transportation costs have increased by more than \$1,400 per family, an increase of almost 75 percent since 2001.

This increase acts as a tax on our small businesses, which we know are critical to America's economy, and also are impacting our local school districts. The Los Angeles Unified School District, as a matter of fact, had to budget an additional \$2 million for its fuel budget for busing and after-school activities. School districts across the country are being forced to choose between fueling buses, funding construction, hiring new teachers, or taking children on field trips.

These problems have existed for a while, yet time after time, this body has rejected increases in fuel economy standards. I strongly support increased fuel economy standards, and believe that this tactic is yet another attempt by the Administration to defer attention from the lack of action on this important issue. It is past time now for this Administration and the Congress to take real steps to protect our consumers, our families, our school districts, and national security.

Secretary Mineta, I look forward to hearing from you, your responses to my inquiries, and yield back the balance of my time.

[Additional statements submitted for the record follows:]

PREPARED STATEMENT OF THE HON. SHERROD BROWN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OHIO

Thank you, Mr. Chairman.

I was glad to hear President Bush last week, talking about increasing automotive fuel efficiency standards.

It's long overdue.

The Bush Administration's been in power for nearly 5½ years. And the White House has just now realized that the gasoline price equation has a demand side, as well as a supply side.

This is not news to anyone but the White House and the Republican-led Congress.

I also welcome the President's newfound commitment to protect consumers from gasoline market manipulation. Democratic legislation that would give federal regulators broad new power to identify and eliminate market manipulation has languished in this House since November.

We could have had a cop on the beat by now, policing the gasoline market. But the White House is still trying to remember the phone number for 9-1-1.

And the President has finally realized that pumping oil into the ground during the summer driving season might drive up prices. Congresswoman Baldwin and I offered an amendment to reform the Strategic Petroleum Reserve's fill policy a year ago.

And Energy Secretary Sam Bodman testified over on the Senate side last November that the Bush Administration is considering gasoline reserves similar in concept to the SPR. That's a good idea too. And I've had a bill to do it for 3 years, now.

And the President and Republicans in Congress are falling all over themselves to call for repeal of the energy bill's billions of dollars in taxpayer subsidies for Big Oil. I

couldn't agree more. But wouldn't it have been better to have voted – as I did – against creating those subsidies in the first place?

The facts are clear and simple. American consumers are hurting at the pump today, because Republican leadership rejected common-sense reforms that could have protected consumers and strengthened our economy – in favor of an energy policy written by – and for the benefit of – Big Oil.

I am glad President Bush has at least begun to talk about reform. And I am glad we are here talking about it in Congress.

But talk is cheap, and gas is not. The American people need action.

PREPARED STATEMENT OF THE HON. MARY BONO, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF CALIFORNIA

Mr. Chairman, thank you for holding this hearing today.

I am pleased we are considering this legislation.

There is no single bill Congress can pass that will ease the pain at the pump. It needs to be a collective solution of encouraging more alternative fueled vehicles, increasing the use of diesel, further developing renewable sources of energy, building new refineries and expanding our domestic exploration, to name just a handful of actions we can take. Increasing CAFE standards needs to be in this mix and is integral in lowering our overall demand of gasoline.

We have made great strides in how gasoline burns – it is much cleaner than before. However, It is now time to challenge auto manufacturers to burn gasoline more efficiently.

Many will take shots at the recently passed Energy Policy Act. But this bill was meant to look forward and its benefits will take a long time to be completely realized. Even what we are discussing today, giving the President the authority to increase the CAFE standards on automobiles, will have a have an impact in the new few years. But, just like with the Energy bill, we need to look forward and take action now.

However, while government can play its role, consumers have choices to make as well. We can opt to use public transit more and purchase hybrid fueled vehicles. Eventually, it will be up to the American consumer to make that leap from gas to another source of energy. The government can certainly help, but the consumer has to be willing to go along.

Again Mr. Chairman, thank you for holding this hearing today. I look forward to hearing from our witnesses and to moving head with this piece of legislation.

PREPARED STATEMENT OF THE HON. BARBARA CUBIN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF WYOMING

Thank you, Mr. Chairman.

In today's climate of oil demand significantly exceeding our domestic supply, Congress needs to be aggressive in how we address our rising energy consumption. We need to provide incentives for new technology development and promote those innovations already off the starting blocks. We need to encourage the diversification of our nation's energy portfolio. We need to better conserve the energy we have.

In late March of this year, the National Highway Traffic Safety Administration (NHTSA) reformed the corporate average fuel economy (CAFE) for light trucks, which is forecast to save nearly 262 million barrels of oil over the lifetime of trucks sold between 2008-2011. These reforms were significant not only for the oil savings, however, but because of the structural changes the new rule made to the CAFE program, providing for a "continuous curve" standard based on a vehicle's size.

Congress set the current CAFE standard for passenger cars in 1990 and I do not believe that an arbitrary increase in CAFE standards for these vehicles is the right solution. Many of my constituents in Wyoming are often forced to drive over rugged terrain in harsh weather conditions. The risks to human safety that would go along with setting an arbitrary CAFE increase is simply not worth what we could save in consumption.

Further, it is unclear if raising the CAFE standards would be an effective way to reduce emissions of carbon dioxide, another argument often heard in support of raising CAFE. On one hand, improvements in fuel economy should enable the same vehicle to burn less fuel to travel a given distance. However, technologies to improve fuel economy will add cost to new vehicles, which may cause consumers to retain older, less efficient vehicles.

The legislative draft before us today takes a different approach by clarifying NHTSA's authority to promulgate new CAFE rules based on a number of key factors, including technological and economic feasibility, as well as consumer safety. I hope today's hearing will help us learn if this is the right approach and I look forward to hearing the valuable testimony of the witnesses before us today. Conservation is a goal we all share, but not at the cost of vehicle safety for American consumers.

I thank the Chairman for holding this important and timely hearing today and I yield back the balance of my time.

MR. ROGERS. Thank you very much.

We are going to go to our first panel, the Honorable Sherwood Boehlert, from New York's 24th District. Mr. Boehlert, welcome.

**STATEMENT OF HON SHERWOOD BOEHLERT, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF
NEW YORK**

MR. BOEHLERT. Thank you very much, Mr. Chairman. It has been instructive sitting through these opening statements, and I want to thank everyone for them.

I only rarely seek to testify before committees, but I wanted to appear today because I think that raising fuel economy standards is the single most important step the Congress can take to reduce what the President has correctly identified as the U.S. addiction to oil.

Reducing that addiction is a national security imperative. We have to look for our oil fix in some pretty dark and dangerous alleyways, and the people awaiting us there are not always our friends. Moreover, our dependence on oil, with its erratic but generally rising prices, puts our economy at risk, if not today, then over the long haul as international demand continues to rise. Our oil problems are only going to get worse. Our trade balance is only going to get worse. So we have to slow the growth of U.S. oil consumption, particularly imported oil consumption.

Over time, there is really only one way to do that, and that is to limit demand. Dealing with domestic supply can provide only very limited,

short-term relief, often at a very high environmental cost. Demand is the primary problem, and demand is where we must direct our solutions.

And if we are going to address demand, transportation is the place to look for savings. About 60 percent of the oil consumed daily by Americans is used for transportation, and about 45 percent is used for passenger cars and light trucks.

There is no way--no way--the U.S. can limit future demand unless we limit how much fuel we use for transportation.

So what can we do? Clearly, relying on the marketplace isn't working, and it won't be sufficient even at current prices. That is because while, as a society, we all want to limit fuel consumption significantly, as individual car buyers, we also want our vehicles to have other attributes. So if I want an SUV, and automakers choose not to put a fuel efficient one on the market, there is nothing I can do, as an individual consumer, to signal my disappointment. This is a classic market failure. The Government has to act.

And the Government has two tools, taxes and regulations. I don't sense a groundswell of people willing to raise gas taxes. That leaves fuel economy standards as the only effective tool we have as a Nation to make a dent in our dangerous and ever growing consumption of oil.

I have been pointing this out for years, and I am pleased to see that the message is finally getting through, now that gasoline prices are at near-record highs. Better late than never. I think it is real progress that the Administration is now seeking, and that this committee is now considering, legislation. We ought to remove any doubt about whether the Administration can increase CAFE standards for passenger cars.

But we ought to do far more than that. Congress should set new CAFE standards right now. We have already waited too long.

If we just give the Administration authority, we know what will happen. We will get a long rulemaking process that likely would produce tepid results. Our politically appealing call for strong and immediate action will be met with the faint echo of weak results over a protracted time period. That is what happened in the recent rulemaking for light trucks.

I would urge this committee to support our bipartisan bill, H.R. 3762, which is fully consistent with the recommendations of the National Academy of Sciences. It would raise fuel economy standards to 33 miles per gallon by 2015. It would get rid of the baseless distinction between passenger cars and light trucks. It would permit reform of the CAFE system by allowing size classifications and credit trading in a way that would prevent backsliding.

Such a bill is really the minimum step Congress should take right now, if we are serious about addressing fuel consumption. At current

prices, the Academy recommendations would actually suggest that we could press for even greater fuel economy.

It is equally important to point out what the bill would not do. It would not lead to a reduction of safety. The National Academy report makes it clear, as you will hear today, that written properly, fuel economy standards can be tightened, and I quote directly from the report, “without degradation of safety.” And our bill does not assume that we will make some grand technological breakthrough. The technologies needed to meet the standards our bill sets already exist. They are on the shelf gathering dust. Indeed, some of them have already been surpassed since the report from the Academy was issued in 2002.

So we in the Congress have a very clear choice. We can take largely symbolic action, and sit back and fiddle while Americans burn more gasoline, or we can pass concrete, effective legislation that will save consumers money while significantly reducing U.S. oil consumption. We have all the information, all the studies, all the technology we need to take that step. We just need the political will.

Simply giving authority to the Administration is the bare minimum we can do. Are we prepared to tell the American people that we are just doing the bare minimum with gasoline at \$3 a gallon?

Mr. Chairman, I look forward to working with you and the committee as you decide how to proceed, and I will continue to press the House to take real action to address our most serious national security threat, our oil addiction.

Finally, in closing, I have sat through all of the opening statements, and I have listened to the principal argument, that in order to get fuel efficiency, you have to sacrifice safety. Those arguments are clever. Those arguments are interesting. Those arguments sometimes have been amusing. But they are all wrong. We live in a town where everybody likes to say they are for science-based decision-making, until the overwhelming scientific consensus leads to a politically inconvenient conclusion. Then they want to go to Plan B. Stick with Plan A.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Sherwood Boehlert follows:]

PREPARED STATEMENT OF THE HON. SHERWOOD BOEHLERT, MEMBER, U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman, Ranking Member Dingell, and Members of the Committee,

I appreciate the opportunity to testify before you this morning. I only rarely seek to testify before Committees, but I wanted to appear today because I think that raising fuel economy standards is the single most important step the Congress can take to reduce what the President has correctly identified as the U.S. “addiction” to oil.

Reducing that “addiction” is a national security imperative. We have to look for our oil “fix” in some pretty dark and dangerous alleyways and the people awaiting us

there are not always our friends. Moreover, our dependence on oil, with its erratic but generally rising prices, puts our economy at risk, if not today, then over the long haul as international demand continues to rise. Our oil problems are only going to get worse. Our trade balance is only going to get worse. So we have to slow the growth of U.S. oil consumption, particularly imported oil consumption.

Over time, there's really only one way to do that, and that's to limit demand. Dealing with domestic supply can provide only very limited, short-term relief, often at a very high environmental cost. Demand is the primary problem and demand is where we must direct our solutions.

And if we're going to address demand, transportation is the place to look for savings. About 60 percent of the oil consumed daily by Americans is used for transportation, and about 45 percent is used for passenger cars and light trucks. There is no way – no way – the U.S. can limit future demand unless we limit how much fuel we use for transportation.

So what can we do? Clearly, relying on the marketplace isn't working, and it won't be sufficient even at current prices. That's because while, as a society, we all want to limit fuel consumption significantly, as individual car buyers, we also want our vehicles to have other attributes. So if I want an SUV – and I drive one – if I want an SUV and automakers choose not to put a fuel efficient one on the market, there's nothing I can do as an individual consumer to signal my disappointment. This is a classic market failure. The government has to act.

And the government has two tools – taxes and regulation. I don't see a groundswell of people willing to raise gas taxes right now. That leaves fuel economy standards as the only effective tool we have as a nation to make a dent in our dangerous and ever growing consumption of oil.

I have been pointing out all of this for years, and I'm pleased to see that that message is finally getting through now that gasoline prices are at new heights. Better late than never. I think it is real progress that the Administration is now seeking and that this Committee is now considering legislation. We ought to remove any doubt about whether an Administration can increase CAFE standards for passenger cars.

But we ought to do far more than that. Congress should set new CAFE standards right now. We have already waited too long.

If we just give the Administration authority, we know what will happen. We will get a long rulemaking process that produces tepid results. Our politically appealing call for strong and immediate action will be met with the faint echo of weak results over a protracted time period. That's what happened in the recent rulemaking for light trucks.

I would urge this Committee instead to support our bipartisan bill, H.R. 3762, which is fully consistent with the recommendations of the National Academy of Sciences. It would raise fuel economy standards to 33 miles per gallon by 2015. It would get rid of the baseless distinction between passenger cars and light trucks. It would permit reform of the CAFE system by allowing size classifications and credit trading in a way that would prevent backsliding.

Such a bill is really the minimum step Congress should take right now if we're serious about addressing fuel consumption. At current prices, the Academy recommendations would actually suggest that we could press for even greater fuel economy.

It's equally important to point out what our bill would not do. It would not lead to a reduction of safety. The National Academy report makes it clear, as you will hear today, that written properly, fuel economy standards can be tightened (and I quote) "without degradation of safety." And our bill does not assume that we will make some grand technological breakthrough. The technologies needed to meet the standards our bill sets already exist; indeed, some of them have already been surpassed since the report was issued in 2002.

So we in Congress have a very clear choice. We can take largely symbolic action and sit back and fiddle while Americans burn more gasoline. Or we can pass concrete, effective legislation that will save consumers money while significantly reducing U.S. oil consumption. We have all the information, all the studies, all the technology we need to take that step. We just need the political will.

Simply giving authority to the Administration is the bare minimum we can do. Are we prepared to tell the American people that we're just doing the bare minimum with gasoline at \$3 a gallon?

I look forward to working with this Committee as you decide how to proceed. And I will continue to press the House to take real action to address our most serious national security threat, our oil addiction. Thank you.

MR. ROGERS. Thank you, Mr. Boehlert. I understand you have a committee to get to, so we will--

MR. BOEHLERT. And I am over on the floor trying to help you get some legislation passed.

MR. ROGERS. All right. We will hurry up.

MR. BOEHLERT. Thank you.

MR. ROGERS. In that case, you could have left about 8 minutes ago. It would have been okay with me. But I--

MR. MARKEY. And in that case, Mr. Boehlert, I have about a hundred questions to ask you.

MR. ROGERS. Actually, we are not going to take questions for Mr. Boehlert. We are going to get right to the next panel. We do understand that you have another commitment, and--

MR. BOEHLERT. You are the Chairman.

MR. ROGERS. --in keeping with tradition, I think we are going to do that, and get with the Secretary.

MR. MARKEY. Can I just throw out--I just wanted to thank you, Sherry, for your leadership over the years, and I echo your hope that they allow the Boehlert-Markey amendment onto the House floor this year, so that a number can be established, that America can have a goal.

MR. BOEHLERT. Thank you very much. It was a great Golden Oldie by Ruby and the Romantics. Our day has come.

MR. ROGERS. That was--not only was it bad singing, it was off-key as well. Our next panel, the Honorable Norman Mineta. Mr. Secretary, thank you for your patience, and we will engage as soon as you are ready, sir.

**STATEMENT OF HON. NORMAN Y. MINETA, SECRETARY,
UNITED STATES DEPARTMENT OF TRANSPORTATION**

SECRETARY MINETA. Mr. Chairman and Congressman Dingell, and to the members of the committee, let me thank you all for inviting me to

discuss reforming the corporate average fuel economy standards for passenger automobiles.

Last week, at the President's request, I sent a letter to Congressional leaders asking for the authority to reform the structure of the current CAFE program for passenger cars, and Mr. Chairman, at this time, I would like to ask unanimous consent that the letter that I addressed to Speaker Hastert be made a part of the record.

MR. ROGERS. Without objection, so ordered.

[The information follows:]



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

April 27, 2006

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, DC 20515

~~Dear Mr. Speaker:~~
Denny

At the President's request, I hereby ask that the Congress take prompt action to authorize the U.S. Department of Transportation (DOT) to reform fuel economy standards for passenger automobiles for the first time. Along with other previously announced energy policies, the President believes these actions are critical to promoting our Nation's energy security and independence.

The Administration has already shown strong leadership on fuel economy. The DOT raised the light truck and sport utility vehicle standards twice in the last four years, including a recently announced rulemaking that will save nearly 11 billion gallons of gasoline, eliminate incentives to make lighter and therefore more dangerous vehicles, and encourage all manufacturers, not just a few, to deploy fuel saving technologies.

Our National Highway Traffic Safety Administration (NHTSA) has the technical expertise to regulate fuel economy in a manner that is cost effective, based on sound science and safeguards vehicle occupants. Substantial increases in CAFE standards under the current single standard approach would increase fatalities on America's highways, raise healthcare costs and reduce employment. As a result, the Administration would oppose any increase in passenger car CAFE standards without corresponding reform.

In addition, it is imperative that CAFE standards be set through an administrative process based on sound science and data. The administrative process provides safety and other public interest groups, the auto industry and the general public an opportunity to develop and provide NHTSA with policy suggestions and detailed technical, economic, and other relevant data necessary for reforming the passenger car CAFE system and setting new CAFE standards.

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The Honorable J. Dennis Hastert

I commend Congress for their strong interest in improving our country's energy independence, and I look forward to working with you to achieve this important objective.

An identical letter has been sent to the Minority Leader of the House of Representatives, the Majority Leader of the Senate, and the Minority Leader of the Senate.

Sincerely yours,



Norman Y. Mineta

SECRETARY MINETA. This is an important step toward reducing America's oil demand, since passenger cars account for some 23 percent of domestic oil consumption, and this Administration has a good record on improving CAFE. Members may recall that in the year 2001, at my request, Congress ended the 6 year freeze on CAFE rulemaking, and later that year, the National Academy of Sciences issued a Congressionally mandated study that was critical of the CAFE program. Among the report's criticism was that CAFE had probably cost between 1,300 and 2,600 lives in one year alone, namely 1993, because it encouraged automakers to build smaller vehicles.

Paul Portney, the chair of the committee which wrote this landmark study, said upon its release, and I quote: "No matter what Congress decides regarding specific fuel economy targets, our committee is adamant that changes should be made to shore up the deficiencies in the program."

To help correct these deficiencies, I sent a letter to Congress in February of 2002, urging passage of legislation to provide the Department of Transportation with the statutory authority to reform CAFE. However, absent Congressional action, I did direct NHTSA to begin reforming CAFE for light trucks.

On March 29 of this year, we completed a rulemaking that replaced the single fuel economy standard with an innovative size-based system, and allow me to explain why basing a fuel economy standard on a vehicle's size is important, and superior to the current one size fits all approach.

First, a size-based system preserves vehicle choice. Instead of forcing manufacturers to produce smaller vehicles to comply with regulations, this approach takes the automakers' own product mix projections, and applies separate fuel economy targets to each vehicle, based on its footprint. Under a size-based system, automakers will still be able to build cars that consumers want to buy, but those cars will have to be more fuel-efficient across the board.

Secondly, a size-based system eliminated the incentive for automakers to produce smaller, and consequently, less safe vehicles, by encouraging manufacturers to add fuel-saving technologies to boost fuel efficiency. And thirdly, a size-based system ensures all automakers are encouraged to use fuel-saving technologies, and not just the manufacturers of larger vehicles.

Now, our new light truck standards, under the reformed CAFE, will save a record 10.7 billion gallons of fuel. All told, the Administration has raised CAFE standards for light trucks for 7 consecutive years, from the year 2005 to 2011.

And today, because of our successful reform of the light truck CAFE program, we have the capacity to establish a far more precise, equitable, and safe CAFE program for passenger cars. However, we currently lack the legal authority to do so.

The original CAFE standard for passenger cars was set at 27.5 miles per gallon more than 30 years, back in 1975. Neither Congress nor the Department of Transportation has ever increased this standard beyond the level set in the original standard and statute as it relates to passenger vehicles. So it is important that if passenger car fuel economy standards are raised, that we make the necessary structural reforms to avoid compromising safety and causing job loss.

If given the authority to reform CAFE for passenger cars, we will replace the one size fits all system with a size-based system, as we did with light trucks. Based on the automakers' confidential product plans, our experts at NHTSA can objectively measure how much fuel-saving technology we can require because the cost outweighs the benefit. This method of formulating a fuel economy standard is science-based, subject to review, and is free from the deficiencies that were identified in the National Academy of Sciences study. It is also far more likely to produce an optimal result, than if Congress were to prescribe a standard in a statute, and for this reason, we will not accept an arbitrary statutory increase under the current passenger car system.

Mr. Chairman, the President does not ask for this authority lightly, and I am aware that certain automakers are having a rough time financially and that thousands of hardworking Americans have lost their jobs as a result, but this Administration has already made great strides in

improving fuel economy for light trucks without harming the economy or compromising safety. And so I respectfully ask for the authority to achieve similar gains to the passenger car fleet.

Thank you very much, Mr. Chairman, and I am now willing to go ahead and proceed with the Q&A period.

[The prepared statement of Hon. Norman Y. Mineta follows:]

PREPARED STATEMENT OF THE HON. NORMAN Y. MINETA, SECRETARY, U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman, thank you for inviting me to appear before this committee today to discuss reforming corporate average fuel economy (CAFE) standards for passenger cars.

Last week, the President asked Congress for the authority to reform the structure of the current CAFE program for passenger cars for the first time in the program's 30-year history. This is an important step to reduce America's dependence on foreign oil, and is consistent with President Bush's call to replace more than 5 million barrels per day of oil imports by the year 2025. Currently, passenger cars account for 23 percent of domestic oil consumption.

Mr. Chairman, this Administration has a good record on improving CAFE. Members may recall that in 2001, at my request, Congress ended the six-year freeze on CAFE rulemaking. Later that year, the National Academy of Sciences (NAS) completed a report, at Congress's request, that was highly critical of the current CAFE program. Among the criticisms contained in the NAS report was the contention that the CAFE program probably had cost between 1,300 and 2,600 lives in one calendar year alone (1993) because it encourages automakers to build smaller vehicles in order to "average out" fuel savings across their fleets. The chair of the committee wrote, "...no matter what Congress decides regarding specific fuel economy targets, our committee is adamant that changes should be made to shore up deficiencies in the program." To correct these longstanding safety and other deficiencies in the CAFE program, I sent a letter to Congress in February 2002 urging passage of legislation to provide the U.S. Department of Transportation (DOT) with the statutory authority to reform the CAFE program.

On March 29, DOT completed its second light truck CAFE rulemaking in the past four years by replacing the one-size-fits-all system with an innovative size-based system. Allow me to explain why this reformed system that bases fuel economy standards on a vehicle's size is superior to the current "one-size-fits-all" approach.

- First, a size-based system preserves vehicle choice: Instead of forcing manufacturers to produce smaller vehicles for purposes of regulatory compliance, this approach takes the manufacturers' own product mix projections and then applies separate fuel economy targets to each vehicle based on its dimensions. Under a size-based system, automakers will still be able to build the cars consumers want, but those cars will have to be more fuel efficient across the board.
- Second, a size-based system eliminates the perverse incentives for manufacturers to produce smaller and more dangerous vehicles instead of introducing fuel-saving technologies.
- Third, a size-based system ensures that all manufacturers are introducing fuel-saving technologies, not only the manufacturers of larger vehicles.

These new light truck standards will lead to a safer, more efficient CAFE program and will save a record 10.7 billion gallons of fuel. This rule also included large sport utility vehicles (SUVs), such as the Hummer H2, under CAFE for the first time. All told, this

Administration will have raised CAFE standards for light trucks for seven consecutive years, from 2005 to 2011.

Today, following our successful overhaul of the light truck CAFE program and consistent with the recommendations of the NAS, we have the capacity to establish a far more precise, efficient, and safe CAFE program for passenger cars, but we do not have the legal authority to do it.

The passenger car fuel economy standard was set in law at 27.5 miles per gallon in the original 1975 CAFE statute. Some of the more senior Members may recall that the 27.5 miles per gallon standard was arrived at by simply doubling what the average fuel economy was in 1975. The passenger car standard was not then, and certainly is not now, based on sound science or economics.

The original statute did not authorize DOT to change the way the standard applied to different size cars. Neither Congress nor DOT has ever increased the passenger car standard beyond the level set in the original statute. So it is important that if we embark on this course, we do it right to avoid compromising safety and to avoid causing economic damage and job loss.

If we are given the authority to reform the CAFE system for passenger cars, we can improve fuel efficiency by requiring manufacturers to apply fuel saving technologies rather than giving them an incentive to build smaller cars. Based on the automakers' confidential product plans, our experts at the National Highway Traffic Safety Administration (NHTSA) can objectively measure how much fuel saving technology we can require before the costs outweigh the benefits. This method of formulating a fuel economy standard is objective and subject to review during the rulemaking process. It is also far more likely to produce an optimal result than if Congress were to prescribe a standard in a statute.

The President and I are committed to improving fuel economy across the board through an open regulatory process built upon sound science and economics, but we will not accept an arbitrary statutory increase under the current passenger car system.

Mr. Chairman, I know that whenever CAFE is debated, it can turn divisive. When the original CAFE statute was debated, I was a freshman Member of Congress. I recall well the debates of the 1970s on how best to conserve fuel and what the impacts would be on the economy. I remind Members that CAFE reform will not be without cost. And I am aware that certain automakers are having a rough time financially, and that thousands of hard-working Americans have lost their jobs through no fault of their own because of these financial difficulties.

Mr. Chairman, the President did not ask lightly for this authority. But this Administration has already made great strides in improving fuel economy for light trucks. We have the expertise and experience to boost fuel economy responsibly without needlessly sacrificing safety or American jobs. I now respectfully ask for the authority to achieve similar gains for the passenger car fleet.

MR. ROGERS. Thank you, Mr. Secretary. I am going to yield to the Chairman of the Energy and Commerce Committee, Mr. Barton.

CHAIRMAN BARTON. Thank you, Mr. Chairman. It is good to have you in the chair. Thank you, Mr. Secretary, for being here. We need to set the clock on 5 minutes so that I don't expand my time. Hit the repeat and then the start button. There you go. You've got Chairman potential right there. It is working, though? It worked.

My first question, Mr. Secretary, I want to put to bed this issue that you already have the authority to set the standard, and so why haven't

you done it. There was a court case on the situation of the one-House veto that says it is debatable now. Is that not true?

SECRETARY MINETA. Well, Mr. Chairman, there is little question that we have the authority to set the stringency of the CAFE standard, in other words, the miles per gallon. But our fear is that by setting that in terms of without a reform in the structure of the program, that we will then go to a statutory, or go to a miles per gallon target. And the way to then get to that would be to lighten the vehicle, and generally, when you lighten the vehicle, then fatalities and serious injuries go up.

So what we are saying is we believe we have the authority to set the stringency of the miles per gallon, but that is not the complete picture. What we need with it is the statutory ability to reform the structure of the program. And we did that with the light truck program, but we don't have that same capability on the passenger car side, since Congress has reserved that for its own.

CHAIRMAN BARTON. You are certainly, and the President is very supportive of this, the draft bill, that clarifies that you have the authority in the totality.

SECRETARY MINETA. That is correct, sir.

CHAIRMAN BARTON. Very supportive of that?

SECRETARY MINETA. That is correct.

CHAIRMAN BARTON. Now, it is my understanding that the President and yourself and others in the Administration are contemplating putting forward a major CAFE reform legislative proposal. Is that true?

SECRETARY MINETA. That is correct.

CHAIRMAN BARTON. Do you have any timetable when it might be presented to the committee?

SECRETARY MINETA. Well, there are statutory timetables, in terms of, for instance, in order for us to give lead time to the manufacturers; we have to give them 18 months. So that means that by April of a given year, we have to come out with the rule that would impact them in October, 18 months later. And so we can't just say do it now, because the manufacturers have to have that time period. So we are basically facing an 18-month period.

Now, in order for us, by April, let us say, of '07, to come up with the rule, we have to get from the manufacturers their projected product production run, we have to have a great deal of data that goes into this, and so whether or not, let us say, on the third of May, 2006, we can get a rule out by the first of April, 2007, frankly, would be very problematical. And in fact, let me introduce our General Counsel at the Department of Transportation, Mr. Jeff Rosen, and Jackie Glassman, our Deputy Administration of NHTSA. Possibly Jackie or Jeff would be in a better position to lay out that time.

But I do know that we have the 18 month statutory period for the model year impact, and then we have to have the time period to study this issue. Now, whether we can do it from May 5 and have a final rule in place by 1 April 2007--

CHAIRMAN BARTON. Now, when do you think, Mr. Secretary, you will have your legislative proposal to the Congress?

SECRETARY MINETA. We are doing that right now. We are in the process of having the Department put together our legislative package.

Mr. Rosen, maybe you could give me a better timetable as to when that would be ready.

CHAIRMAN BARTON. Within a week?

MR. ROSEN. In very short order, yes, sir.

CHAIRMAN BARTON. Okay.

SECRETARY MINETA. And then we would have to submit it to OMB, of course, and then they go through their interagency--

CHAIRMAN BARTON. I am going to see the President this afternoon at 1:30, and I may encourage him to encourage the OMB to expedite the review.

SECRETARY MINETA. And I will be at that meeting with you, sir, and--

CHAIRMAN BARTON. The sooner we get your proposal, the sooner we can dissect it, and in all probability, perfect it, so that we can have it--

SECRETARY MINETA. We are open to all suggestions.

CHAIRMAN BARTON. --we can have it on the floor.

My time has expired. I just want to comment on one thing you said. You talked about the need to give the industry time to react, and to change their engineering and their modeling, and I don't want us to lose sight of that, because I have a GM assembly plant in Arlington, Texas, with 2,000 direct employees. The majority of those are UAW union workers. The last thing we want to do is take another hit on a U.S. manufacturing capability.

Now, we want to increase CAFE, if at all possible, and if we can do it in a way that saves gasoline, I am all for that, but in doing that, we don't want to drive the U.S. manufacturing for automobile industry out of business, and that is one of the components in the current CAFE standard that you have to look at that. Is that not correct?

SECRETARY MINETA. It is correct. There are four factors that we look at, and maximum feasibility of the fuel efficiency standard, the technical feasibility, safety, economic practicability, and--

CHAIRMAN BARTON. I think that is it. Very good. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for coming before this committee.

SECRETARY MINETA. Thank you very much.

CHAIRMAN BARTON. It is good to have the Secretary of Transportation back before the Energy and Commerce Committee, and we will see if we can't get some jurisdiction back to get you back more frequently.

SECRETARY MINETA. Thank you, Mr. Chairman.

CHAIRMAN BARTON. Thank you.

MR. ROGERS. Thank you, Mr. Chairman, Mr. Secretary. Mr. Dingell, the distinguished Member from the great State of Michigan.

MR. DINGELL. Thank you, Mr. Chairman. Mr. Secretary, welcome. It is a privilege to have you before the committee. You are an old friend, and have served here with distinction, and also, in two administrations. We are proud to have you here.

Mr. Secretary, I note your testimony focuses on reforming CAFE, and not your authority to increase passenger car standards. It is my recollection, and I think that the law says, that you have authority to increase passenger car standards above 27.5 miles a gallon.

Do you agree with that statement?

SECRETARY MINETA. Mr. Dingell, let me have our General Counsel--

MR. DINGELL. Okay.

SECRETARY MINETA. --Mr. Rosen, address that, please.

MR. DINGELL. If you would, sir, please, briefly. Yes or no?

MR. ROSEN. Yes. Yes, Congressman. The statute had provided that--

MR. DINGELL. Turn the microphone on, so we can hear you.

MR. ROSEN. Sorry. Is that on now? The statute had provided that the Department could do that, subject to a legislative veto, and the Supreme Court--

MR. DINGELL. Of course, that legislative veto was thrown out, but the authority--

MR. ROSEN. That is right.

MR. DINGELL. --to do this was not thrown out.

MR. ROSEN. And that is why we think it would be desirable, though, to clarify in the statute that Congress is explicitly saying--

MR. DINGELL. Right.

MR. ROSEN. --it is not subject to any limitation--

MR. DINGELL. Well--

MR. ROSEN. --that the authority would exist.

MR. DINGELL. I think there are two questions here, Mr. Secretary. Increasing CAFE will not reduce gas prices. Do you agree or disagree with that statement?

SECRETARY MINETA. This will not have a direct impact on it.

MR. DINGELL. Right. And indeed, until the time it goes into effect, it will not significantly change oil or petroleum or gasoline use inside the United States. Is that correct?

SECRETARY MINETA. That is correct, and when we look--

MR. DINGELL. All right.

SECRETARY MINETA. And when we look at the President's program, it is really a four-part program, with short-term, mid-term, and long-term implications, and this CAFE issue is not a short-term solution to the price of gas at the pump.

MR. DINGELL. Thank you. Now, Mr. Secretary, you appear to be having some early success with your new structure for light trucks. It may not, however, be as simple as transferring the structure of that rule onto passenger cars. Has NHTSA studied how a similar system might be applied to cars?

SECRETARY MINETA. No, we haven't gotten that far, in terms of saying that the bin or, let us say, continuous sort of system--

MR. DINGELL. So this leaves us, then Mr. Secretary, in the awkward position of not knowing exactly how you would do it, or the impact of that. Now, has NHTSA--

SECRETARY MINETA. It would still be subject to review.

MR. DINGELL. --examined how a new structure would work with existing requirements that manufacturers satisfy car CAFE for both foreign and domestic fleets?

SECRETARY MINETA. The two-fleet rule would still be in place, in terms of domestic and the import cars. Maybe I will have Ms. Glassman expand on that, but we would not change that at all.

MR. DINGELL. It would be your intention to not change it, but can we be sure that it will not be affected by the change?

SECRETARY MINETA. Without really--and that is why we are asking for this authority, so that we would be able to study all of the effects, but I don't believe--

MR. DINGELL. Mr. Secretary, I have no objection to a study, but I want to be sure that what you do isn't going to have an adverse impact upon the industry or production or jobs in this country. Now--

SECRETARY MINETA. We were very sensitive on that, as it related to the light truck rule, and in terms of the impact on job loss and safety, and the other considerations under the law.

MR. DINGELL. Now, Mr. Secretary, have you considered how this rulemaking might preserve domestic production of small automobiles? Has that been the subject of any discussion or inquiry inside the Department?

SECRETARY MINETA. Let me turn to Ms. Glassman on that. We have had some discussion, but I can't be really definitive on what those conclusions might be.

MR. DINGELL. Would you please submit that then for the record, if you please?

SECRETARY MINETA. We will submit--

MR. DINGELL. Now, Congress should proceed cautiously and deliberately with legislation to reform CAFE. You have testified, Mr. Secretary, that increasing fuel economy standards is best suited to the regulatory process. There is, however, an important role for the Congress to play, to define parameters within which the numbers are established, is there not?

SECRETARY MINETA. There is--

MR. DINGELL. Now, Mr. Secretary--

SECRETARY MINETA. --suggests, subject to review.

MR. DINGELL. Now, Mr. Secretary, I am going to submit to you a letter, because we are running out of time here, asking how the Department will do this, and try to get some appreciation of what it is you have in your mind, with regard to how this new system of reformed CAFE will be accomplished, and I ask unanimous consent, Mr. Chairman, that that letter be, and the response, to the Secretary be placed in the record.

MR. ROGERS. Without objection.

MR. DINGELL. Now, Mr. Secretary, I would note that at least one witness will testify that the draft given out on Friday will leave us with the CAFE standards--or without a CAFE standard on cars for a period of several years.

Is that true, and if it is true, is that the intention of the Department, or is this just a typographical error, or what is the problem here?

SECRETARY MINETA. No. There would still be the regulation that is in place from the, I believe 1990, 1990 regulation would still be in place, and that would still preserve that at 27.5 miles per gallon.

MR. DINGELL. Thank you, Mr. Secretary.

MR. ROGERS. Thank you.

MR. DINGELL. Mr. Chairman, thank you.

MR. ROGERS. Thank you, Mr. Dingell. Mr. Bilirakis, from Florida.

MR. BILIRAKIS. Thank you, Mr. Chairman. Mr. Secretary, I, too, welcome you. It is always nice to see you. You were a very efficient and popular and fine Member of Congress.

Mr. Secretary, if we were to pass this bill today, does the technology exist to increase the fuel economy to a level greater than it is now? That technology does exist, do we know that it exists?

SECRETARY MINETA. Well, the statutory amount is 27.5 miles per gallon.

MR. BILIRAKIS. Yeah. Okay.

SECRETARY MINETA. What exists right now in the industry is 30 miles per gallon, so already, where the industry is already ahead of where the statutory provision sets the mile per gallon--

MR. BILIRAKIS. But they haven't used that being ahead.

SECRETARY MINETA. And I think there are other technologies that can still be utilized, in order to increase the miles per gallon, but again, that is something that we have got to study, and be able to take a look at. That is the last--

MR. BILIRAKIS. Okay. But the only thing that we know about, though, is the increase to the 30 miles per gallon.

SECRETARY MINETA. That is correct.

MR. BILIRAKIS. Okay, now, you indicated, at least I understood you to say, that basically this can be done without necessarily reducing the size of the passenger cars to possibly an unsafe standard. Is that right?

SECRETARY MINETA. That is correct.

MR. BILIRAKIS. Okay. And so it is the use of this technology that you need the statutory authority for.

SECRETARY MINETA. That is right. We would be going to a size-based, rather than a weight-based system, based on the footprint, and experiment with that, to see whether or not that would give us the ability to improve the miles per gallon without impacting on safety, loss of jobs, other factors, that we are required to look at.

MR. BILIRAKIS. All right. Yeah. But this has not taken place up to now. I mean, you haven't been able to sit around the table with the automobile industry, and the manufacturers, and to discuss--

SECRETARY MINETA. Not as it relates to private passenger cars.

MR. BILIRAKIS. All right. You didn't have the authority to do it, but were you prevented from doing it, would you say?

SECRETARY MINETA. That had always been reserved for private passenger cars, had been reserved by Congress as their bailiwick, and so we didn't touch it at all.

MR. BILIRAKIS. Well, I realize that you would have had the rulemaking authority and the opportunities for the industry, for their inputs during that period of time, et cetera, et cetera, but even before you get to that point, would you, if you were given the authority, which apparently, you must need, be able to sit down with these people, and to discuss with them that you are concerned, of course, with the economy, with potential job losses, and further financial stress, and all that?

SECRETARY MINETA. Absolutely.

MR. BILIRAKIS. But at the same time, the need to do something regarding CAFE.

SECRETARY MINETA. That is correct.

MR. BILIRAKIS. You would do that. And you can't do that until we pass this legislation.

SECRETARY MINETA. Well, it is that we wouldn't be able to go into any kind of a regulatory process.

MR. BILIRAKIS. No, I appreciate that. That is your feeling, but you could still lead up to it.

SECRETARY MINETA. Yes, sir.

MR. BILIRAKIS. Whatever you come up with, you would contemplate that would be based on, it would be a size-based system, using basically, going back to your testimony, so the auto manufacturer would be required to apply a certain standard that would tie into a certain model size.

SECRETARY MINETA. It would be based on what we consider the footprint, as the size of--

MR. BILIRAKIS. So they wouldn't be one size fits all, I guess, is what I am saying, right?

SECRETARY MINETA. It would not be a one size fits all.

MR. BILIRAKIS. It would not be a one size fits all.

SECRETARY MINETA. That is correct.

MR. BILIRAKIS. Well, Mr. Secretary, you have been up here for many, many years, and I mean, you realize, of course, the pressure that we are under, and unfortunately, these pressures, when there are gas shortages or oil shortages and whatnot, or problems are there in the world that result in all that, that is when we sort of want to put out the fire. I guess my time is up, but you would consider that this be necessary at this point time, even if we didn't have the \$3 per gallon problems that we have today, but that we would still have the dependence upon this foreign oil?

SECRETARY MINETA. Yes, sir. We would still be seeking this statutory authority, because this is really not a short-term solution to the immediacy of the problem facing consumers, because of the gasoline prices at the pump.

MR. BILIRAKIS. Thank you very much, Mr. Secretary. Thank you, Mr. Chairman.

MR. ROGERS. Thank you, Mr. Bilirakis. Mr. Markey from Massachusetts.

MR. MARKEY. Thank you. Mr. Secretary, welcome back.

SECRETARY MINETA. Thank you.

MR. MARKEY. You and Phil Sharp in one day.

Mr. Secretary, in your opening statement, you noted that on February 1, 2002, you asked Congress for legislation to reform the CAFE program. When did the Administration submit its bill to make the changes you called for in 2002?

SECRETARY MINETA. What I asked for at that point was a legislative response by the Congress to provide the statutory--

MR. MARKEY. But when did the Administration send the language up for Congress to act on? When did you send your bill up to Congress?

SECRETARY MINETA. Well, I am not sure that we had--I don't think we did it by legislation.

MR. MARKEY. No, the Administration never sent a bill to Congress--

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SECRETARY MINETA. No, I didn't.

MR. MARKEY. --to deal with the issue.

SECRETARY MINETA. But I did send a letter to the Congress--

MR. MARKEY. No, what I am saying is the Congress never received a bill from the Bush Administration to deal with these issue.

SECRETARY MINETA. No, we never sent a bill. I just requested that Congress pass the legislation--

MR. MARKEY. But my point is that it was a low priority for the Bush Administration, if they never sent a bill to Congress on these issues. So--

SECRETARY MINETA. Well, many times, when we do make a request, that is the initiation of the give and take in coming up with legislation.

MR. MARKEY. My point is that it was never a high priority for President Bush to obtain this authority, even though his Secretary of Energy today is calling it, this whole energy situation, a crisis, the President never sent up legislation that deals with the fact that 70 percent of all oil goes into gasoline tanks, which is the transportation sector.

So if you had the authority, Mr. Secretary, what specific CAFE standard would be the goal for the Bush Administration?

SECRETARY MINETA. Well, I wouldn't be able to pick--if you are looking for a number, I wouldn't be able to pick that out of the air, in terms of what that--

MR. MARKEY. Was it wrong for the Congress in 1975 to pick 27.5 miles as the goal for a 10-year period? Was it wrong for Congress to do that?

SECRETARY MINETA. Well, I was here at the time, and as I recall--

MR. MARKEY. Was that a mistake?

SECRETARY MINETA. Pardon?

MR. MARKEY. Was that a mistake on Congress' part?

SECRETARY MINETA. No, but I--

MR. MARKEY. On President Ford's part?

SECRETARY MINETA. Again, that was a product of this committee, and I assume that this committee gave it the careful consideration, to come to that 27.5 mile per gallon statutory requirement.

MR. MARKEY. Okay. Now, the Cheney Energy Task Force told you back in May of 2001 to base a new CAFE standard on the National Academy recommendations, which said 33 miles per gallon was feasible for the combined fleet of cars and SUVs, based on existing technologies, and without reducing vehicle safety.

Can you recommend 33 miles per gallon as a baseline standard? That was what the Cheney Energy Task Force told you to look at in 2001.

SECRETARY MINETA. Well, first of all, I am not sure that the NAS study makes the contention that 33 miles per gallon is the--

MR. MARKEY. Yes, it does. That is what the 2001 National Academy of Sciences study says, that using 2001 technologies, that the fuel economy average can be increased to 33 miles per gallon without compromising safety. That was the specific conclusion.

SECRETARY MINETA. Well, then I would have to have you submit to me, then the 2001 study, because--

MR. MARKEY. So what is the number that you would use--

SECRETARY MINETA. Mr. Markey, the one that we would base our work on is "The Effectiveness and Impact of Corporate Average Economy Standards," and I believe that is a 2002 study, not 2001, and so we are basing our work on the NAS study of--

MR. MARKEY. That is the same study we are using, and it says 33 miles per gallon, using existing technology, without compromising safety.

SECRETARY MINETA. Well, then I would like to have you or your staff cite to me where it says 33 miles per gallon economy.

MR. MARKEY. What is the number that you would use, Mr. Secretary?

SECRETARY MINETA. I don't know what the number would be.

MR. MARKEY. It is 6 years after that report came out in 2001, and the Bush Administration has yet to decide what the number should be, using that NAS report--

SECRETARY MINETA. That is correct.

MR. MARKEY. --from 2001.

SECRETARY MINETA. There is a study in here that shows the distribution of automobiles on page 45, by weight class, and it shows average fuel economy miles per gallon for path one, path two, path three, or subcompact, compact, midsized, large, small SUV, mid SUV, large SUV, minivan, pickup, small, pickup, large. This table outlines all of the miles per gallon for the various classifications of cars. There is nothing

in this study that says 33 miles per gallon ought to be the attainable goal of the automobile manufacturers.

MR. MARKEY. Let me rephrase the question, then. Mr. Boehlert and I have an amendment in a bill that we intend on having a vote on the House floor, if the leadership allows it to happen, which would give you all the flexibility you want, and selects 33 miles per gallon, which is the equivalent of all of the oil that we import from the Persian Gulf, over a 10-year period. That is what 33 miles per gallon does; it backs out all the Persian Gulf oil.

Would you, Mr. Secretary, recommend to the President that he pick a goal, as the Congress and Gerald Ford in 1975, that the public can understand, that the oil futures marketplace speculators can understand, so that it will depress the speculation on the barrel of oil, so that it will all of this hype out of the marketplace, so the price of oil can go down, because OPEC and the oil industry will know that President Bush is serious about picking a target and having America meet it? Will you recommend that the President announce the number he will meet, and the timeframe to back out all of the Persian Gulf oil?

SECRETARY MINETA. It seems to me that that approach is a ready, fire, aim.

MR. MARKEY. No, the goal is Persian Gulf oil. The National Academy of Sciences says you can meet the goal. What is lacking is President Bush's leadership on the issue.

SECRETARY MINETA. No, but if you say we are going to give you all the flexibility and authority, but we also want you to use 33 miles per gallon. To me, that has already established something that we are seeking right now, and that is, the broad authority to reform CAFE for passenger cars.

MR. MARKEY. It is almost unbelievable to believe that no study in 6 years--

MR. ROGERS. Your time is up, sir.

MR. MARKEY. I am done.

MR. ROGERS. I appreciate your questioning. Thank you, Mr. Secretary. Mrs. Cubin.

MRS. CUBIN. Thank you, Mr. Chairman. Welcome, Secretary Mineta. It is good to see you again.

If Congress does, indeed, give the authority to your Department to promulgate new CAFE standards for passenger cars, what assurances do we have in Congress that adequate attention will be given to the safety of our constituents, and what I am speaking about, in particular, is that you stated in your testimony that "experts at the National Highway Traffic Safety Administration can objectively measure how much fuel-saving technology we can require before the costs outweigh the benefits," and

then that is a quote. And what I am specifically interested in is what weight regional safety concerns, like the rugged terrain that we have in Wyoming, and the inclement weather that we have, you know, bad storms, which require heavier vehicles for safety for the constituents in my state.

So how much will that be taken into account?

SECRETARY MINETA. Well, that would be taken into account, in terms of our establishing the corporate average fuel economy. Again, you know, maximum feasible average fuel economy, the technical capabilities, feasibility, economic practicability, safety. All of these are taken into account, and so safety, whether it be in terms of the size of the vehicle, the technology that is in the vehicle, under what driving conditions these are subjected to, that is all taken into consideration, as we do the underpinning for determining what the CAFE standard ought to be.

MRS. CUBIN. Good. And then what about the use of the vehicle, for example? You know, some pickup trucks are like the small pickup trucks, and then some pickup trucks, that we use in ranching, for example, really do have heavy duty work, and a lot of--not just ranching, but construction and mining and all those things that we have in Wyoming that require more sturdy vehicles, will the use be taken into consideration as well? Because these are passenger vehicles, as well as work vehicles.

SECRETARY MINETA. Well, if they go over 10,000 pounds, then we would not be considering those vehicles for the application of the CAFE standard. So to the extent that they are over 10,000 pounds, and they are used on the ranch, they are used for construction, used for mining, whatever it might be, we would not be including those size vehicles as part of the determination--

MRS. CUBIN. Right.

SECRETARY MINETA. --for CAFE standards.

MRS. CUBIN. I don't have any idea what size, or how much, like a Suburban would weigh, or a pickup truck with six wheels with a dualie, the two wheels in the back. Do you have any idea what those weigh, if those would be included?

SECRETARY MINETA. Those, I think, are in the 8,500 to 10,000 pounds.

MRS. CUBIN. Okay, so those are the ones that I am specifically concerned about.

SECRETARY MINETA. Let me have Ms. Glassman, our Deputy Administrator and NHTSA, address that issue.

MS. GLASSMAN. Yes, thank you, Congresswoman.

In our last light truck rule, which we issued in late March, we included within the CAFE regulation certain vehicles within the 8,500 to 10,000 weight class, but certain other ones, we did not. The vehicles that were included are passenger SUVs, the larger SUVs that are used to carry people around. We did not include those vehicles that are used principally for agricultural or commercial use. Those vehicles are not subject to CAFE, because they are, in fact, needed for utilitarian purposes.

MRS. CUBIN. Well, I am someone who is concerned about the weight of vehicles, should there be an accident. You know, with the slick roads we have, and the vast distances that we have, and the truck traffic that delivers the goods across the country, we have interstates that folks here would be absolutely amazed if they were to drive across I-80, and see the number of trucks, and so I just want to know that if there is a slide if you are going to be in an accident, and you are sliding on the ice, that you have the best chance possible to survive that accident, and I really don't want any standards to compromise the safety of the people that are in the vehicles.

Thank you, Mr. Secretary.

MR. ROGERS. Thank you. Ms. Eshoo, from California.

MS. ESHOO. Thank you, Mr. Chairman. It is always good to see you, Mr. Secretary. I attempted to say Norm, but we are--

SECRETARY MINETA. Of course.

MS. ESHOO. --in the very formal setting, so it is Mr. Secretary, and to those of you that are here from the Department, thank you for your testimony.

We have always been very up front with one another, and I am going to be really forthright today. I think the Department and the Administration are on the wrong side of history here. Today's hearing is about what we can do long term. I think that was raised earlier. Maybe Mr. Dingell asked that, or made that point.

I think that Mr. Boehlert's statement to the committee was an eloquent one. We are not going to be able to drill our way to independence of Middle East oil. We know that. We know that we have to do something about the demand. That is not punishing Americans. That is being very smart, in terms of policy.

I think that what is being presented today is summarized pretty well in today's New York Times editorial, "Foolishness on Fuel." It really takes the Administration's "policy," and takes it apart. I think, Mr. Secretary, with all due respect, when we get into these quibbles about what is going to be saved, in terms of fuel and CAFE standards, relative to a study, and what you are putting forth on a size-based approach versus of a fleet average, I think on the one hand, what you are

approaching can--because it is so complex it can be manipulated--and I think a fleet-wide approach is a much better way to go. Obviously, the Administration doesn't think so.

But you know, we need to take this debate into context. Look where we are in this country. Look where we are. I paid \$3.65 for regular in Menlo Park on Sunday, so if this doesn't spell urgency, while you are all saying study, I don't think that is the right side of history. Now, you wouldn't go on record as saying the 33 miles, in terms of the CAFE standard. What I would like to know is in terms of your proposal, when are you actually going to produce? What will this policy initiative of the Administration produce? How much oil will it save, and over what period of time? Because on your SUVs, that the Administration just put into place, the mileage rules covering SUVs, minivans, and pickup trucks, I think you heard my opening statement, I mean it is really miniscule. It is miniscule. It is almost laughable, were it not so serious, in terms of where this country is.

This great country, our great economy, everything that we are, is really at a tipping point now. So the old debate about study and whatever, so tell us what the size-based approach that you described today, and what the Administration would like to put in place, what are the fuel savings there, and over what period of time? I think that that is an important way to measure it.

I also want to bring to your attention that Ford has produced a hybrid SUV that gets about 40 miles per gallon. Now, is this vehicle not safe? Oh, you are doing weight. You have to tell me, when we encourage people to buy these--what are they called? They look like Army--the Humvees.

SECRETARY MINETA. Hummer.

MS. ESHOO. When I see a Humvee at a gas station, when I am filling up my small car, and they are filling that up, and I see the pain on their face, I think what the heck are we doing in terms of policy to encourage that? In fact, in the tax code, we reward business to buy them. I mean, our policies are standing on their heads. My grandmother used to say always remember, when you are sticking your head in the ground, what is left sticking up in the air.

We are not paying attention. Our policies are not what they should be today for America's future. In fact, we have squandered.

MR. ROGERS. That would be--for the record.

MS. ESHOO. Tell me what the fuel savings will be for the policy that you are proposing, and over what period of time?

SECRETARY MINETA. Well, again, it seems to me that that is, again, what I would say is the ready, fire, aim. I don't know--

MS. ESHOO. Norm, what does that mean? We better be ready to fire and aim.

SECRETARY MINETA. I don't know how--

MS. ESHOO. Because this--

SECRETARY MINETA. --you can--

MS. ESHOO. --country is held hostage today.

SECRETARY MINETA. No, but how do you--

MS. ESHOO. Everywhere in the country--

MR. ROGERS. The gentlelady is over her time, and I would let the Secretary answer the question.

MS. ESHOO. No, I want to hear the answer, but--

MR. ROGERS. Well, I would like you to let him--

MS. ESHOO. --a bit infuriating, to say ready, fire, aim.

SECRETARY MINETA. How--

MS. ESHOO. We should be ready to fire and aim.

SECRETARY MINETA. But how do I know--

MS. ESHOO. It is your policy.

MR. ROGERS. Ma'am, if you would let him answer the question. We have run over your time.

SECRETARY MINETA. We can't establish the rule of fuel standards, because you don't know what the product plan of the manufacturers are. You don't know what the mix of their vehicles that they will be building in model year, let us say, '08, and that is the basis for determining the CAFE standards.

MS. ESHOO. So we just don't know.

SECRETARY MINETA. I cannot give you a definitive answer, as to whether it is going to be 38 miles to the gallon, 33 miles to the gallon, or whether it is going to be 10 billion gallons saved, or 40 billion gallons saved. That is not something that at this point, we can give you.

MS. ESHOO. And when will you know that?

MR. ROGERS. The gentlelady's time has expired.

MS. ESHOO. Mr. Chairman, others have gone over at least a minute. Can we just know this? If we are going to shape a policy--

MR. ROGERS. I understand.

MS. ESHOO. --for something that is as serious as what America is facing today, how long will it be until we know what the Administration's--what the outcomes are going to be to the policy that is being proposed? I think it is a legitimate question.

MR. ROGERS. Last question. You can answer the question, and then we will move on from there.

SECRETARY MINETA. First of all, again, in terms of how long it will take, we are saddled with 18 months to begin with, just in terms of what model year it affects, and it requires 18 months notification, and we are

always doing that in April of a given calendar year for the model year 18 months later.

MS. ESHOO. Well.

SECRETARY MINETA. By statute, it is already in statute. October of the model year is, for the notification period, but that has to start 18 months before that, so that would be the April before. So we are saddled with 18 months to begin with. And then to make this study, I think to even do it in one year, I think, is a very, very tight schedule. You tell us to do it in that one-year period, you know, we are going to be responding, but it will be a very difficult time.

As I said earlier to Mr. Dingell's question, our response on the CAFE standard is not a short-term response, in terms of what is happening with fuel prices. What we deal with in CAFE is always, whether it was in 1975 or in 2006, always has been--

MS. ESHOO. It is long term. I understand.

SECRETARY MINETA. --a long-term response.

MS. ESHOO. So it is a long-term--

MR. ROGERS. Thank you, Mr. Secretary. The gentlelady's time has expired. Thank you.

MS. ESHOO. Thank you.

MR. ROGERS. Mr. Secretary, since the debate today is a little bit interesting for me, you know, the wrong side of history, did they send a bill, did they send a letter. You know, going for a fleet approach. When CAFE was introduced, cars still had carburetors. General Motors controlled 50 percent of the domestic market. I mean, it was a different time. And now, there is much more competition in America from all over the world with automakers. The automobile industry in America is actually doing well. The Big Three are struggling to find their right place, and their niche in the market.

A fleet approach would actually mean, in some cases, given the calculation, that some car companies would have to stop production of a certain vehicle. And we went through this before. That is really a lousy way to make policy, other than us saying well, we are going to mandate that everybody drive a Mini Cooper. I think your approach here is novel, and I have been very vocal in the past about why CAFE is broken: it is old. It is antiquated. It doesn't work. It is a formula. Just because you say 33 miles a gallon doesn't mean everybody just gets up to 33 miles a gallon with no penalty. People, real people, working and struggling to take care of their families may, in fact, lose their jobs.

So there is a balance here, and you going from a weight and size issue to a footprint is pretty innovative, and it takes time to apply that science. I am really curious. You talked about fuel-saving technology, and how you apply that to the vehicle. If we are going to get down from

foreign dependence on oil, you may only go up a half a mile per gallon, but you may reduce the percentage of oil used in that vehicle. Wouldn't that be a great outcome for America?

SECRETARY MINETA. Absolutely, and they are just--it is not only in terms of how to establish the corporate average fuel economy, but it is also a reflection of what is the state of the economy. As you said, at this point, we had carburetors. Today, we have fuel injection. We use, as an example, the engine, to power steering. If we went to a battery-powered steering, we would be saving on the fuel economy, because we would take away from the use of the engine to power the steering, and there are a number of these things. The continuous variable transmission. But there are a number of things that the automobile industry would be able to do, and it would also vary on the size of the car and the price of the car. Because if you had, I don't know, a 2,800 pound car, but it is going to cost \$40,000, I am not sure there would be much of a market for that car, but on the other hand, if you have a \$35,000 car, you can put technology that might cost \$1,800, \$2,000 per car, to improve the fuel efficiency of that heavier car.

MR. ROGERS. You know, there were some mandates in California about the zero emission cars. General Motors invested billions in something called the EV1, of which nobody in California wanted to buy. I mean, government mandates are not a good idea when it comes to that solution. I think you agree.

And that is why I think it is so important that you do have the ability to look at a savings-based, take the CAFE formula, rip it up, start over, and say we are going to do it on an individual car basis, and apply the technology that we have. There is technology to buy the E-85 vehicles, is there not, on the market today? I think the Big Three are probably somewhere around a million vehicles, E-85 capable. Will that not, in fact, help our dependence on foreign oil? Simple answer.

SECRETARY MINETA. Right.

MR. ROGERS. Yes, it will. Displacement, cylinder displacement, all done by the automobile industry, trying to reduce fuel usage at certain times, the demand on the engine. Will that, in fact, provide some fuel savings, and reduce our dependence on foreign oil? It will?

SECRETARY MINETA. It will.

MR. ROGERS. Hybrid vehicles? We have SUVs, I know the gentleman from the 24th District in New York said I can't go out and buy an SUV that is fuel efficient, but are there, in fact, not SUVs on the market that have hybrid technology in them today, that you can buy? I know there are. You know, they don't happen to be from the car companies that I represent, but there are some folks other than Ford, Ford has got a great Ford Escape SUV. So that technology is there, is it not?

SECRETARY MINETA. Right.

MR. ROGERS. So doesn't this allow you to take all the research and development that has been done, and they spend billions of dollars doing this, and come up with a system that works for our independence, keeps cars safe, is sensitive to the fact that there is a UAW family right now hoping that we do this thing right? I mean, if we give you this flexibility, isn't that what that means, really, for America, versus the wrong side of history, or how you submitted your bill?

SECRETARY MINETA. Yes, that is correct. And what we are looking for in this authority that we would hope we would get at the Department of Transportation is that it would be a standards approach, rather than a specifications approach, because when you end up with specifications, you usually end up with a much more costly response mechanism, and so again, in this instance, I think we are looking, really, more at that broad authority to be able to reform CAFE, and be able to do this kind of what is the best technology that is available, to be able to produce these increased CAFE requirements.

MR. ROGERS. If we tell them to do it in a short period of time, Mr. Secretary, they are just going to try to take weight out of the vehicle. Isn't that the engineering standard? I mean, we have just got to remove weight from a vehicle.

SECRETARY MINETA. That is correct.

MR. ROGERS. That is the quickest way.

SECRETARY MINETA. That would be the quickest and the cheapest way to do it.

MR. ROGERS. But not necessarily the safest way to do it.

SECRETARY MINETA. And it would not be the safest.

MR. ROGERS. And so your approach also protects safety, as it applies this new technology to future vehicles.

SECRETARY MINETA. That is correct.

MR. ROGERS. I am excited about where you are going with that. Mr. Wynn.

MR. WYNN. Thank you, Mr. Chairman. Mr. Secretary, always good to you. Thank you for coming.

A couple of just quick questions that I would like to ask. Just on the subject of weight, you don't have any authority to regulate vehicle weight, do you?

SECRETARY MINETA. I am sorry, to regulate--

MR. WYNN. Vehicle weight. To mandate specific weights. So if the market were to move toward lighter vehicle cars, I mean lighter weight cars, as an effort to be more competitive, there really wouldn't be anything you could do. Is that correct?

SECRETARY MINETA. Let me have Ms. Glassman respond on that.

MS. GLASSMAN. Now, we don't have the authority to mandate that vehicles are of a particular weight. What we do have authority to do is to set a fuel economy standard.

MR. WYNN. Right. Okay.

MS. GLASSMAN. And weight is one aspect of achieving that.

MR. WYNN. Okay. Just quickly. So if the market goes toward lighter cars, there is really nothing you can do about it, right?

MS. GLASSMAN. If there is a trend in the market towards lighter cars--

MR. WYNN. There is nothing you can do about it.

MS. GLASSMAN. --the market will drive that.

MR. WYNN. Okay. Thank you. With regard to the conservation, the savings, that would be accrued through this CAFE standard, that--does--how does the world market affect that, the world oil market? Because if we use less, but the Chinese use more, is that going to bring down price?

SECRETARY MINETA. Well, it wouldn't--no, what happens on the world market would not impact on what we are doing on the CAFE standards.

MR. WYNN. Well, ultimately, we are here talking about gas prices. If the world market is what is really controlling gas prices, isn't it somewhat illusory to think that CAFE standards are going to reduce gas prices at the pump?

SECRETARY MINETA. Well, no, I don't think we are making that as a contention at all.

MR. WYNN. Okay, so I just want to be clear. So this isn't about, in any form or fashion, reducing the \$3.65 that somebody is paying, or \$3.25 that I paid this morning. Okay. All right.

Having said that, if it is not going to reduce the price at the pump, you also, I believe, said that the 27 miles per gallon is behind the 30 that the industry is accomplishing right now.

SECRETARY MINETA. That is correct.

MR. WYNN. Why can't the industry just do this? I mean, last night, I saw a commercial for a Toyota car that is going to be 40 miles a gallon. It seems to me we don't need Federal regulations to do this. The market is going to do it. Either the market is going to do it, or we are not going to have an automotive industry.

Why are we doing this?

SECRETARY MINETA. Part of it, I believe, is to have a floor, so that you don't have a regression below which the standard or threshold is being set.

MR. WYNN. If I could just jump in, isn't that somewhat contradictory from the standpoint, anybody who is going backwards and increasing or decreasing their fuel economy would seem to be working

their way out of business. All the people were concerned about the employees. So there really isn't any market force that would take us backward. All the market forces seem to be taking us forward. Isn't that true?

SECRETARY MINETA. Yeah. I believe that is the case. Jackie?

MS. GLASSMAN. Yes. Market forces currently are working in that direction, and the price that people are paying at the pump often drives their decisions on whether to buy more or less fuel-efficient vehicles. But certainly, the market today is being driven towards more fuel-efficient vehicles, and not less fuel-efficient vehicles.

MR. WYNN. Right. That being the case, and the fact that you said what we are doing with CAFE is not going to affect the price at the pump, isn't it likely that the market is the appropriate force to resolve this issue, rather than engaging in government regulations, and the expense associated with it, to do something 18 months behind the cycle anyway?

MS. GLASSMAN. The market is an important piece of this, and in defining the regulations, we are careful not to disrupt market forces, so that consumer choice can continue to play a significant role.

What we are looking for is the authority to have a program that can get the most fuel savings possible, without affecting safety, without losing jobs--

MR. WYNN. But the market could probably get more.

MS. GLASSMAN. --and in allowing people to continue to have consumer choice.

MR. WYNN. Okay, but the market could probably get more.

MS. GLASSMAN. The market will continue to move the direction.

MR. WYNN. Okay. If the market moves toward lighter cars, in a drastic attempt to offset the high price of gas, and compete with foreign cars, would you anticipate any type of attempt to impose safety regulations relating to weight?

SECRETARY MINETA. Well, I think we always look at safety of the vehicle regardless of weight, so that if it is a very heavy car, vehicle, let us say it has a roll tendency, we would look at that as a safety issue, even if it--

MR. WYNN. But not weight per se.

SECRETARY MINETA. And we would be looking at a lightweight car, if it is disproportionately causing a large number of deaths, and--

MR. WYNN. Okay. My last question. The European countries all have much lighter, much smaller cars. Has there been any analysis of their accident, death rates, in relation to what we are experiencing over here?

SECRETARY MINETA. Let me have Ms. Glassman--

MS. GLASSMAN. We have different fatality rates. We have very different driving conditions in the U.S. and in Europe. Many of the small mini-cars in Europe would not meet the full plethora of our safety standards. So every vehicle sold in the United States would have to, whether it is a small or a larger vehicle, would have to meet every one of our safety standards.

MR. WYNN. Okay. All right. Thank you.

MR. ROGERS. Thank you. Mr. Gonzalez.

MR. GONZALEZ. Thank you very much, Mr. Chairman. Welcome, Secretary Mineta, our Democrat in the White House. That is not exactly what we had in mind in November of 2004, but we will settle at this point. But thank you so much.

I didn't want to lose something that Representative Boehlert had pointed out in your discussion, in the question and answer with my good friend Congressman Wynn. We really aren't talking about the price at the pump presently, but we definitely are looking prospectively. We can't do anything about supply, to be real honest with you. We can drill all over the United States, ANWR, East Coast, Florida, West Coast, and we are not going to have enough oil. Can't do anything about India. Can't do anything about China, right? And we can't do anything about the oil speculators, or at least we are not going to do anything regarding that particular market, as far as regulation.

What Congressman Boehlert is talking about is we can do something about demand. And so that in the years to come, if you think \$3 or \$3.40 is a lot, you haven't seen anything yet. So my first question will go to what you are already doing, and then we will get into what you are seeking in the way of reforming the law, and I am going to refer to a March 30 Washington Post article, because it was of some concern that what you are doing with the non-passenger side, which you have the authority to do, and I commend you, I do commend you, but this is what it basically said. "Mineta's announcement comes as gasoline prices are nearing their six month high, with a gallon of regular averaging \$2.50 per gallon." This was on March 30. Little did I know those were the good old days. "Or \$0.35 more than it cost a year ago, according to the U.S. Department of Energy. At the same time, General Motors is staking its turnaround in profits this year on a new batch of large SUVs. Mineta said the new rule is being phased in over the next 5 years to lessen the impact on the fragile U.S. auto industry, hit by declining market share and huge financial losses." And just since that time, we know, cutting back 60,000 jobs at GM and Ford, reorganizing, restructuring, getting rid of certain parts of their enterprise, and you are saying that what you are doing regarding the non-passenger, the trucks and such side of the equation, over 5 years, will not adversely impact what is going on with

the domestic automakers to the extent that could, it really could hurry or even cause their demise.

Is that what you are saying, the 5 year plan?

SECRETARY MINETA. Well, what we are trying to do is to minimize what the impact of our regulations would be on job loss, and so to that extent, as we are doing our rulemaking, we do look at the various factors under the law that prescribe how we come to the CAFE standard. And again, impact on manufacturers is a factor.

MR. GONZALEZ. Which is going to lead me to what you seek in the way of reform, but if what you are doing on that side of the equation, non-passenger vehicles, in setting the miles per gallon that you just went through in this past month, is any indication of what you might do if given the authority to move forward on passenger, then that is what my question is really about. And it is not an easy one, and I understand the position that you are in, that you have to take into account economic feasibility of our domestic automakers, because we all have a stake in their wellbeing. There is no doubt about that.

But to what extent do you defer to their future plans? Because you were just saying well, we are doing that with the trucks, what we just did, we are going to phase things in over 5 years to accommodate them. Now, if you give us the authority to move forward on the passenger side, we are going to take their long-term plan, confidential and all that as it may be, they share it with us, how far do you defer to those plans? Because if I am the manufacturer, and I am having a really hard time making these changes, and I am surviving, I may not be as accommodating as you wish me to be, so where does that balance come in? I am just curious.

SECRETARY MINETA. Well, let me have, again, Jackie get into the-- on how that is done within our bureaucracy.

MS. GLASSMAN. The manufacturers' confidential plans are our baseline. They are the starting point. We receive these plans from each manufacturer. We look at them. We look at the technology they are using. We look at the technology they are using within the company, and see if there are other places that technology that is being used in one model might be able to be used in another model.

We also look at what other companies are using, and we see if that technology can be applied in places where it is not currently being applied. And when we put out a rulemaking, we lay this all out. We don't lay out the confidential parts in public documents, but we do lay out how we go through the analysis, and what technologies we are using to apply. So we start with our product plans, we look at the baseline. Then we see how much more technology we can add, and this is not something they have to do, but it is our assessment of what they can do.

And then we arrive at a corporate average fuel economy standard that pushes that technology application as far as it can go, to get as much fuel savings as possible, subject to not either causing safety problems, or job losses, and substantial economic hardship.

MR. GONZALEZ. Okay. Thank you. And Mr. Chairman, if you will indulge me one second. I just have one last question, because this has been a burning question.

How do you really arrive at whether these vehicles are accomplishing and attaining these standards? My understanding, I have heard this, I don't know if it is true, that the way the test is conducted, for instance, miles per gallon, highway miles, you get a vehicle, you run it at 48 miles an hour for I don't know how many miles, and that is it. Now, that is totally unrealistic. I don't know how you arrive at the in city miles, but can you shed some light on how that actually is conducted?

MS. GLASSMAN. That is actually done by EPA, and it is done pursuant to a test procedure that is in the statute, and they conduct the test, they give the results to NHTSA, and we calculate the company's corporate average fuel economy, compare it to the standard, and see if they are above it or below it, and if they are below it, we impose a fine.

MR. GONZALEZ. So if we have a flawed method of ascertaining what--it wouldn't matter what we set it at, 33, 27, it doesn't matter, because they are probably not getting that anyway. Have you all ever looked at the EPA's method of--and I don't know if they have changed it, but that is what I was told some time ago. But I know that the test is conducted, it is totally unrelated to the real world driving conditions, and maybe all of you would maybe get back to me, and see if, in fact, your understanding is the same as I just outlined.

And thanks again, and it is good seeing you, Mr. Secretary.

SECRETARY MINETA. Well, EPA has a different standard, and they are going through, I believe, a reevaluation of their own test mechanism, and we did have a discussion about that recently. Maybe, Jackie, you could--

MS. GLASSMAN. There are two different tests. There is a test for compliance with CAFE standards, and then EPA takes that test, applies adjustment factors to arrive at the numbers that should be on each vehicle's label. That is on the Monroney label when the vehicle is first sold. EPA is currently in rulemaking to reconsider the adjustment factors that go on the label, so that when people go to buy a car, they will know exactly how much fuel economy that car can attain.

MR. GONZALEZ. Thank you very much. Thank you, Mr. Chairman.

MR. ROGERS. Thank you, Mr. Gonzalez. Mr. Burgess, the doctor from Texas.

MR. BURGESS. Thank you, Mr. Chairman. Mr. Secretary, I wonder if Hell has frozen over. We have the gentleman from Michigan presiding over a hearing on CAFE standards. It seems so bizarre to me, but--

MR. ROGERS. It is just the way we like it, by the way.

MR. BURGESS. Well, the light truck rulemaking that will result in fuel savings of 11 billion gallons over the life of those vehicles manufactured between '08 and '11, what kind of fuel savings do you think would result from an increase in passenger car fuel economy standards?

SECRETARY MINETA. Again, that would be very hard for me to estimate right now, in terms of the number of gallons that would be saved over the life of the vehicles that would be impacted by the, let us say, in model year '08--or are we talking about '09--'08. And it goes back to the question that Congresswoman Eshoo was asking me, and I would not be able to estimate how much the savings would be right now, or even to try the other goal of say establishing, I don't know, let us say 25 million gallons of gas saved during the life of these vehicle, from model year '08 through--let us see if we go--'08, that would be 2012, and those 5 year periods. It would be very difficult, at least for me right now, to be able to predict what the gallons saved would be.

MR. BURGESS. How significant is working on the demand side of the equation? How does it affect, or what is your opinion about how it affects price, if consumers are to reduce their consumption of refined gasoline product? Would that make a difference in bringing the price down?

SECRETARY MINETA. Yeah, I am not enough of an expert on the energy field to be able to say how much is really attributable to the demand side, and how much to the supply side. But it seems to me, just from just off the top of the head reaction, I would think the bigger impact on the price would be from the supply side, rather than what we could do to be leveraging on the demand side.

MR. BURGESS. Well, that is totally, just not even a SWAG for me, this is just a WAG. And I would agree with you. I would concentrate on the supply side as well. Of course, being from Texas, that is easy to be on the supply side. There was an article in one of my local papers just this past week, where a professor, an economist at Southern Methodist University, said that if consumers would save as little as one gallon a week, there could be a \$0.50 or \$0.60 savings, or gasoline price reduction. That seemed like an enormous amount of price drop for a little bit of savings, and I just wondered if anyone has any data on that, that would support that hypothesis?

SECRETARY MINETA. I am not familiar with that study or--I don't know if Jackie or Jeff, anyone else?

MR. BURGESS. Well, certainly, there are some that believe that setting a specific mile per gallon number in statute is the best way to force fuel economy upwards. Is it your opinion that that is a wise course?

SECRETARY MINETA. Absolutely, because again, this is the kind of a puzzle where every little bit is going to be contributing to the overall picture of savings of fuel. Pardon? I am sorry. Oh, I am sorry. No, no. I am sorry. No, I would have to go back to my original point, that I would not be able to pick a figure. Either again, whether it is mpg or total fuel saved.

MR. BURGESS. And would that also be gallon of fossil, or would that include fuel that has been extended, say, with ethanol, the E-85 fuels, when you talk about those fuel standards. It seems to me, if you can get a hybrid car with a bigger battery, and flex fuel option, out of one gallon of fossil fuels, you could drive that little car maybe 100 miles with an improved, and with supplementing with ethanol. So is that fuel economy going to be based on that one gallon of fossil fuel, or the number of gallons of E-85 that are burned, the battery life? I mean, how else are you going to be able to figure that?

SECRETARY MINETA. I am going to have to turn to Jackie on that one.

MS. GLASSMAN. That is not based on the kind of fuel that is put into the vehicle. It is based on how the vehicle can go on a gallon of fuel. There are incentives within the statute to encourage the development of alternative fuels, such as E-85, and as E-85 use increases, we should see fuel economy as a whole increase as well.

MR. BURGESS. But from a corporation standpoint, that is producing a fleet of cars, if you have got one hybrid with a big, big battery, and burning E-85, that one gallon of fossil fuel, I mean, if you could apply that to your average fleet fuel burning, it might negate the whole premise, because you would get such a savings out of that one vehicle that the larger vehicles and the larger engines would then be able to still be sold, because that is my understanding of CAFE standards, it is applied across the entire fleet. Is that correct?

MS. GLASSMAN. That is right, and our new program, however, for the light trucks, will take more fuel-saving technologies into account, so that what we do we look at the fuel savings for a particular size of vehicles, and then put the product mixes into that, so it reduces the effect of the average, so that we can encourage more technology.

CHAIRMAN BARTON. The gentleman's time has expired.

MR. BURGESS. Thank you, Mr. Chairman.

CHAIRMAN BARTON. Our last questioner for the Secretary is Congresswoman Schakowsky of Chicago.

MS. SCHAKOWSKY. Thank you, Mr. Chairman. I know that you were a good friend of my predecessor, Sidney Yates, and I am glad to see you here today.

I just have a few comments, really. I want to, first of all, fully associate myself with the comments of Ms. Eshoo from California. And when she used the phrase being on the wrong side of history, it sounds kind of like maybe a hyperbole of sorts, but I have to think that for so many reasons, that when my grandchildren, the oldest of which is now 8 years old, looks back, perhaps, on this debate today, and her contemporaries as an adult, her contemporaries, I think, will be stunned by a lack of urgency about dealing with this issue. And I think that, for so many reasons, that we have to get so much more serious about addressing the problem, and perhaps, in some ways, the least of these is what Secretary Bodman called the crisis, referring to the cost of energy. And hopefully, in the long term, we are dealing with that issue, as we reduce our consumption.

But if we just take the issue of national security, and consider that if we were under Representative Boehlert's bill, their calculation is that raising the fleet-wide average to 33 miles per gallon would reduce our consumption by 2.6 million barrels of oil a day by 2025, which would eliminate the need, at least the current need, for Persian Gulf oil. So there are energy security issues.

But most of all, we are dealing with an issue of the future of human life and other life, polar bears, et cetera, but human life on this planet right now. And how anyone at this date could be dithering over small numbers of, to reduce our consumption of fossil fuels, which of course, we are also running out of, and we have got to deal with that, but the global warming, I think everyone now, including the Administration, has acknowledged it as a fact, and time is really running out on that front.

And so I am alarmed somewhat that we are so casually, perhaps intellectually, in talking about all these numbers, discussing yet again this issue of fuel efficiency, of reducing the amount of gas that each one of our cars uses. And the notion was posited that well, consumers are buying them, and yes, while some may be buying Humvees, I would say that most consumers are looking for an opportunity to buy, at their neighborhood dealer, a car that is more fuel efficient. And I am not an expert on the auto industry, and I know we will have some on the next panel, but I can't imagine that we have done the auto industry itself and the United States any favors by not encouraging that cars be made more fuel efficient. That would increase their competitiveness.

So what it says in today's "Foolishness on Fuel," the New York Times editorial, it talks about the Boehlert bill, and then it says: "If that sounds radically ambitious, consider this bit of history. In 1990, two

Senators--Slade Gorton, a conservative Republican, and Richard Bryan, a liberal Democrat--proposed raising fuel economy standards to 40 miles a gallon over 10 years." Of course, we would have long passed those 10 years. "They actually got 57 votes for their proposal, which lost to a filibuster. Had it passed, we would probably be consuming half the gasoline we now use, and be in better shape to deal with today's price squeeze." And today's environmental concerns, too, I might add. "There is still time to prepare for the next one," this editorial says.

So all I would say is that let us get real. Let us get serious. Let us have a sense of urgency about dealing with this. Yes, car auto safety is important, but everything pales in terms of are human beings going to be able to survive on this planet? And I thank you for listening to me, and being so patient all morning. And in dealing with it.

SECRETARY MINETA. Chairman, if I might.

It is not that we are lacking in urgency. We are urgently asking for Congress for this authority to proceed, so that we can restructure the program, and yet, in restructuring the program, it will take time.

It would be like President Kennedy's call, as Mr. Markey indicated, for us to get to the Moon. The urgency was to start today, but it still took 10 years to get to the Moon. Well, we are in the same position. It is still going to take us 18 months, minimum, plus a year, to reform CAFE. So the urgency is for us to be given the authority to start, even though it will take time to get there. And at the same time, the urgency is on doing the right thing, whether it be on safety, or whether it be on the impact on the industry itself, and the impact on the environment.

So all of these things, we take into consideration, and it is not that we are shying away from urgency. Urgency still is a very big part of what we want you to grant to us, in terms of this authority, so that we can get started on this as soon as possible.

Thank you very much, Mr. Chairman.

MR. BILIRAKIS. Just one question.

CHAIRMAN BARTON. Thank you, Mr. Secretary. That is all the members who have got questions for you.

MR. BILIRAKIS. Mr. Chairman, I wondered, could I ask one question?

CHAIRMAN BARTON. All right.

MR. BILIRAKIS. Very quickly, a quick question, quick answer?

CHAIRMAN BARTON. Mr. Bilirakis is recognized for one question.

MR. BILIRAKIS. I am stuck to take over the Chair when you leave, so I have the prerogative.

The 18 months that you refer to, plus one year, et cetera, and we are all concerned, Mr. Secretary, that haste not make waste, and we are, you know, we always worry about unintended consequences of our acts, and

things of that nature, but is that 18 months then 1 year necessary? I mean, is there any way to speed up this process, even if it might take legislation on our part? We realize that we are talking about years, now, before--this certainly is not a quick fix. But it is a fix that you have already indicated, and we have said for many years needs to be made. I mean, we can't continue to be dependent on this foreign oil the way that we are, and the only time we address it, obviously, when we have an emergency like this.

But what do you have to say about that, very quickly?

SECRETARY MINETA. In terms of shortening that time period, I would assume that it would require statutory change on that 18-month piece of it. There is no statutory provision on how long it takes us to study it. That is just a question of how many people do we have, the time it takes to get the information, and--

MR. BILIRAKIS. You have still got to give Detroit time to do the engineering.

SECRETARY MINETA. But that is the part of it that is statutory.

MR. BILIRAKIS. Yeah.

CHAIRMAN BARTON. What we could do is just have a ban on any car that gets less than 40 miles to the gallon being sold. Now, let us just have a show of hands right now, of the people that are in this room, how many of you drive something that gets more than 40 miles to the gallon? Raise your hand. The Chair counts four people out of approximately 100.

All right. Let us see a show of hands of how many people would like a ban on any vehicle that gets less than 40 miles to the gallon, including work vehicles, being sold to the American public beginning next week? How many are for that? Raise your hand. An absolute ban. Let the record show nobody raised their hand. Nobody raised their hand.

Thank you, Mr. Secretary. I will see you at the White House in about 35 minutes.

We would like to call our next panel. We would like to welcome our second, our third panel actually. We have Mr. Fred Webber, who is the President of the Alliance of Automobile Manufacturers. We have the Honorable Phil Sharp, who is President of Resources for the Future, and a past member of this committee, and a past Chairman of the Subcommittee on Energy and Power, which I served under him when he was in the Congress. We have Dr. William Pizer. Is it Pizer?

DR. PIZER. Pizer.

CHAIRMAN BARTON. Pizer. Senior Fellow for Resources for the Future, and Mr. Alan Reuther, who is the Legislative Director for the International Union, United Automobile, Aerospace, and Agricultural

Implement Workers of America. Mr. Reuther, are you kin to Walter Reuther?

MR. REUTHER. He was my uncle.

CHAIRMAN BARTON. Your uncle?

MR. REUTHER. Yes.

CHAIRMAN BARTON. Famous, very famous man in American history. So we are glad to have all four of you gentlemen. We are going to start with you, Mr. Webber. We will give you 5 minutes to summarize your testimony, and then we will have some questions.

Welcome to the committee.

STATEMENTS OF FREDERICK L. WEBBER, PRESIDENT, ALLIANCE OF AUTOMOBILE MANUFACTURERS; HON. PHILIP R. SHARP, PRESIDENT, RESOURCES FOR THE FUTURE; WILLIAM A. PIZER, SENIOR FELLOW, RESOURCES FOR THE FUTURE; AND ALAN REUTHER, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

MR. WEBBER. Thank you, Mr. Chairman, and thank you for this invitation. The Alliance represents nine automakers, including BMW, Daimler-Chrysler, Ford, GM, Mazda, Mitsubishi, Porsche, Toyota, and Volkswagen.

The Alliance members share the concerns of our customers and of this committee about gasoline prices, energy security, and the steps we need to take together to ensure diverse fuel supplies for the advanced technology vehicles on sale today. There is a lot going on in the automobile industry. Automobile makers are selling more than one hundred models that achieve more than 30 miles per gallon on the highway.

Every model is available with some fuel-efficient technology, like cylinder deactivation, where you can have the fuel economy you want on the highway, and still have the power you need when merging on a busy road. In every State, automakers are selling advanced technology vehicles like hybrids, clean diesel, and ethanol-capable autos. In just 5 years, we have made a lot of progress. There are now more than 40 models of advanced technology vehicles on sale in dealer showrooms, and there are another 35 models in development.

These advanced technology vehicles can help America achieve greater energy security. Flexible fuel vehicles can run on up to 85 percent ethanol. There are now six million flex fuel vehicles on our roads, and if they all used E-85 fuel, the U.S. would reduce gas

consumption by nearly three billion gallons a year. Hybrid electric vehicles can improve fuel economy by up to 50 percent, while also reducing emissions. By 2010, we expect more than 50 hybrid models to be on sale in North America, with sales approaching one million hybrids a year.

Clean diesel autos provide fuel economy gains of up to 30 percent, which is why Europe is supporting environmental standards and economic incentives to enhance diesel sales. Many diesels are also capable of running on biodiesel blends. Hydrogen-powered autos offer great promise. Hydrogen can power internal combustion engines or fuel cells, producing zero or near zero emissions and greater fuel economy.

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 alone, automakers are working to sell one million of these vehicles, and we support incentives that can help put more of these highly fuel-efficient autos on the road.

The 2005 energy bill helped by providing consumer tax incentives for advanced technology vehicles. The energy bill also helped by raising the requirements for use of ethanol and other renewable fuels to 7.5 billion gallons a year by 2012, and by providing tax incentives that help make more pumps available to the driving public. Today, the focus is on proposed legislation that clarifies NHTSA has authority to set new passenger car standards, and calls upon NHTSA to begin a rulemaking within the year.

The Alliance believes that NHTSA should weigh very carefully the timing of any increase in passenger car standards for the following reasons. First, the passenger car fleet average today already exceeds the current 27.5 miles per gallon standards, thanks to consumer purchasing the many fuel-efficient cars on sale today.

Second, automakers are already adjusting to challenges. Automakers are in the second year of 7 years of increasingly stringent light truck standards. Meeting these high standards is even more challenging, given the current economic state of the industry.

Finally, we believe the most effective approach to reducing U.S. gasoline consumption is to expand the availability of alternative fuels, such as ethanol, and to help promote the sale of advanced technology vehicles that are now gaining traction in the market.

However, if NHTSA does initiate a passenger car rulemaking, the Alliance will work closely with the agency in its consideration and promulgation of a final rule.

Also under consideration is new authority to permit reform of a car CAFE program similar to the light truck reform finalized in March. We

recommend that Congress and NHTSA carefully consider any CAFE passenger car reform. A lot of ideas have been discussed here today, and they are continuing to be discussed. It is a complex issue.

With the ink barely dry on the light truck reform rule, no one has actual experience with a new system yet. It may indeed be premature to lock in this new system for passenger cars at this time.

In conclusion, Alliance members are working to sell one million advanced technology alternative fuel autos this year, 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 American-based renewable fuels and biofuels to consumers will displace much more gasoline than a new passenger car CAFE requirement.

Thank you, Mr. Chairman.

[The prepared statement of Frederick L. Webber follows:]

PREPARED STATEMENT OF FREDERICK L. WEBBER, PRESIDENT, ALLIANCE OF AUTOMOBILE
MANUFACTURERS

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 and more. 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 research and development investments. 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, including hybrids, clean diesels and alternative fuel vehicles. 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 new energy law 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. 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.

The recently passed energy bill 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 saving fuel today and will increase substantially in number over the next several years. They offer significant improvements in fuel economy - up to 50 percent and reduced emissions. These products use electric motors to propel the vehicle or reduce some of the burdens on the traditional internal combustion engine and they 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); 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. It also creates a great opportunity for eliminating dependency on petroleum. However, widespread commercialization of this technology is farther into the future.

Hydrogen Internal Combustion Engines

Another promising and enabling technology is hydrogen-powered ICEs. The concept of using hydrogen in internal combustion engines 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 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 the 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 the Energy Policy Act of 2005 have helped to spur the purchase of these highly fuel-efficient vehicles.

Today, automakers are offering broader vehicle offerings to provide 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 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 MY 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 Legislation

The proposed legislation would clarify that NHTSA has the authority to set new passenger car standards and calls upon NHTSA to begin a rulemaking for passenger cars within a year. Also under consideration is new authority to permit reform of the 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, can be considered, may be of some value to the agency when it does consider increasing 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.

The proposed legislation raises several issues concerning the authority NHTSA will have to establish new passenger automobile standards. For instance, the bill repeals the current 27.5 maximum standard immediately, requiring NHTSA to commence rulemaking to set new standards within a year of enactment. This would create a gap of at least several years in which there would be no standard for passenger automobiles. We would recommend that the legislation maintain the current 27.5 mpg standard (subject to NHTSA's current authority to amend the standard in certain circumstances) for any time up until a new standard is set and for any period in which there is no standard in place.

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 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 provision, 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 requirement 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.

CHAIRMAN BARTON. Thank you, Mr. Webber. We now want to recognize the former Chairman of the Energy and Power Subcommittee, the Honorable Phil Sharp. It is good to have you with us.

MR. SHARP. Thank you very much, Mr. Chairman, and thank you so much for inviting me to testify, I think. These hearings require great patience on your part, I understand, and you do it with considerable skill.

But let me quickly, I have to indicate for the record that I am President of Resources for the Future, a nonpartisan think tank which does not take positions on public policy, so the remarks here are those of my own.

But obviously, I speak from some experience, having been involved in CAFE since its creation in 1975, when I was a member of the committee here, and from recently being a part of the National Academy of Sciences study that has been referred to multiple times this year, that reported in 2002 that we ought to reform CAFE, and we ought to increase the standards.

Additionally, I have been a part of the National Commission on Energy Policy, a bipartisan, private effort, funded by the Hewlett Foundation, that likewise recommended increasing significantly CAFE, and also, reforming the system. In the case of both the Academy study and the Commission, the fundamental reasons given for urging these kinds of policies, is to try to help the country deal over the long term with oil security issues, and also deal with the troubling issue of carbon dioxide emissions, which are on the rise, from the auto sector, as well as throughout our economy, and this obviously affects climate change.

But also, the concern has been as to why not leave it to the marketplace, that we have 30 years of experience with the oil market, and the prices simply, as one would expect, rise and they fall, and

indeed, we are at a painful moment when they have risen in this country, with intense interest on alternative fuels, as we heard this morning, an intense interest on fuel economy. Not mentioned, but great concern ought to be on public transit as well, and other kinds of issues.

And yet, what we have is a long history of experience with this on again, off again interest, as these prices rise and fall. The consumer has on again, off again interest in whether to buy a fuel-efficient car, investors whether to invest in alternative fuels, and the Government whether to pursue policies that help encourage these kinds of developments.

So this history of price uncertainty is one of the reasons for trying to have a more consistent government policy. Let me quickly turn to some of the key findings from the National Academy's report, which answers some of the questions that were raised, including yours, Mr. Bilirakis, and my long-term friend and colleague, through many fights and wonderful collaborations in this committee. First and foremost, the committee identified, it had, you will be glad to know, many nonpolitical people on it that were engineers, and it identified technologies that are available in the marketplace, many of them in some vehicle or other at this point, which are eligible and could be, if they are used more broadly within the fleet, lead to fuel economy improvements.

That was the fundamental thrust, that technologies clearly are available. Some additional ones are on the drawing board, and are close. Therefore, there is clear prospect of being able to do a number of things technologically to upgrade the fleet over a time period of something like 10 to 15 years.

Secondly, in trying to assess the costs, and this is a very difficult thing to do, on which there are many differences of opinion about the costs of how you put these pieces of technology together, the committee outlined ways in which they thought the consumer could come out at least even, that is, there was an additional cost to the vehicle that the consumer could save over the life of the vehicle, in terms of the gasoline savings, and so they identified a range of how far you might be able to go.

Third, and I think very important to remember, is that in order to avoid the harmful effects that some members of the committee raised, in terms of the waste of capital, the unemployment in the industry, the dislocation of the American domestic auto manufacturers in particular, it was recommended that you allow sufficient lead times for technology, and not try to cram the system, because frankly, you will get very little improvement anyway, social benefit, and you get it at an unnecessarily high cost. That is not to say that one should not move forward, it is simply to say pace it.

And finally, it should be recognized the committee strongly endorsed a strong Federal research and development program, in conjunction with the industry as we have had under the past several Administrations, to try to look toward long-term technologies.

Let me turn very quickly to a couple of the issues that are before you. One is whether or not the Congress ought to set the numbers, and the other is what kind of delegation of authority. I am not going to comment much on these, except to say that in the case of the National Academy and of the commission, in neither case were the collective groups able to come to an agreement on what the numbers actually ought to be, because they all agree this is a complex decision, and it is a political tradeoff on a variety of social concerns, whether it is safety, employment, and particularly, fuel economy.

Secondly, the commission itself did actually say delegate this to NHTSA, and urged the Congress to do so. My own view, from 20 years of experience here is that the Congress should give legislative guidance to the agency. That can include deadlines, and the Congress can give throughout that process very strong Congressional oversight. It seems to me that may be a wise way to go. Others may have other opinions.

Let me just conclude by saying that I think both these, the committee and the commission, and many other people have looked at this, and believe that CAFE is a very imperfect policy, has a number of flaws to it, but it has had a major impact on the marketplace, and the Academy of Sciences has said that we would probably be using about 2.8 million barrels of oil a day more today had we not had this policy in place. Others may dispute those figures, but at least, I think it is fair to say it has clearly had an impact.

But I do think it is important for us to recognize as Americans, as some of the members of the committee pointed out, that the task before us is huge, and that the fact is that many experts believe that the most effective approach to reducing fuel consumption, if that is what our goal is, and it seems to me it ought to be one of our goals, would be a stronger gasoline tax, or a broad-based oil tax. I realize the popularity of this, because this would not only encourage how we would purchase vehicles, which is a major decision that impacts through fuel economy, but how and whether we drive, and whether we use alternative means of transportation.

CAFE has no positive impact on how much driving occurs in this country. Indeed, it can be argued that by reducing the cost of driving, assuming there is a high cost of gasoline, it probably encourages some additional driving, and this is one of our problems, how to get control over the continual growth of vehicle miles traveled in this country, which

is a major driver to how much gasoline we consume, and how much carbon emissions we put into the air.

I realize that many of these experts, of course, are not subject to popular election.

[The prepared statement of Hon. Philip R. Sharp follows:]

PREPARED STATEMENT OF THE HON. PHILIP R. SHARP, PRESIDENT, RESOURCES FOR THE FUTURE

Mr. Chairman, thank you for inviting me to testify. My name is Philip Sharp and I am president of Resources for the Future (RFF), a nonpartisan, social science think tank, which has dealt with energy and resource issues for more than 50 years. As an institution, however, RFF does not take positions nor engage in advocacy, so the opinions expressed here are my own.

For the record, I have been involved with fuel economy issues in several ways.

During my service in Congress and on this committee (1975-1995), I participated in the creation of the Corporate Average Fuel Economy (CAFE) policy and in the few legislative changes made since then.

In 1975, the full House was presented with a choice between two dramatically different alternatives for dealing with fuel economy: CAFE from the Commerce Committee and a gas-guzzler tax from the Ways and Means Committee. As Chairman of the Energy and Power Subcommittee at that time, Mr. Dingell was a major force in the outcome.

More recently, I was a member of the CAFE review panel sponsored by the National Research Council, an arm of the National Academy of Sciences. Its 2002 report recommended that the government take further action to improve passenger vehicle fuel economy and suggested possible reforms in the CAFE policy. (See: [Effectiveness and Impact of Corporate Average Fuel Economy \(CAFE\) Standards](http://www.nap.edu) at www.nap.edu)

Currently, I am also a member of the National Commission on Energy Policy, a private bipartisan panel funded by the Hewlett Foundation, which in 2004 recommended a significant increase in CAFE standards along with reforms to the current policy. (See: [Ending the Energy Stalemate: A Bipartisan Strategy to Meet America's Energy Challenges](http://www.energycommission.org) at www.energycommission.org.)

Both the Academy committee and the Commission recommended federal action to improve fuel economy for the purpose of mitigating two major concerns: oil security and growing carbon dioxide (CO₂) emissions.

Our growing consumption of oil, concentrated in the transportation sector, entails major risks associated with our dependence on the global oil market. And this consumption is a major contributor of CO₂ to the atmosphere and hence to global climate change.

Among oil-market concerns is the possibility of a serious supply disruption caused by political turmoil or terrorism with severe economic consequences; the pressure to compromise important U.S. foreign policy goals for the sake of oil supply; the possibility that oil production will peak and dramatically intensify global competition for supplies; and others.

Among the uncertainties we face is where oil prices will go in the years ahead. Just as the dramatic rise in oil and natural gas prices over the last two years was not predicted, it is now unclear whether oil prices will rise further, or drop back in the \$40-per-barrel range as some have predicted, or take a real nose dive as they did in 1986 and 1999.

The history of price uncertainty has meant a history of on-again, off-again interest by consumers, investors, and government in fuel efficiency and in alternative fuels.

In the face of such uncertainty, many have concluded, including the Bipartisan Commission, that it is prudent for the United States to maintain policies that push markets to improve fuel efficiency, to advance alternative fuels, and to expand public transit options, in order to mitigate against global market risks and to reduce CO₂ emissions growth.

Action now by Congress on fuel economy standards obviously will have no immediate impact on gasoline prices. Indeed, it will take some years for changes in the policy to have an impact at all.

But action now on fuel economy standards can help the United States address important concerns over the longer term.

I trust we all recognize that there is no fast or cheap way to escape the risks of oil dependence. Undoubtedly, one of the expedient ways to reduce dependence would be to welcome higher oil and gasoline prices rather than decry them—an unlikely prospect for today’s consumers or leaders.

The Academy Report

Let me call your attention to a few of the findings and recommendations of the Academy committee, which may be useful in your consideration today. Attached, as Appendix A, is a portion of that report.

The study notes, in Finding 5, “technologies exist that if applied to passenger cars and light duty trucks, would significantly reduce fuel consumption within 15 years.”

It notes in Finding 6 that much of this could be accomplished with the consumer breaking even – meaning that the savings in gasoline costs would offset the added cost to a new vehicle. And that calculation was made assuming gasoline only costs \$1.50 per gallon. Furthermore, the hybrid car possibility has greatly advanced since the report; given its costs in 2001, the committee did not consider it a realistic near-term option.

The committee recommended several possible reforms (Recommendation 2) such as trading fuel economy credits, which has also been a recommendation of RFF researchers (see Fischer, Carolyn and Paul R. Portney, 2004, “Rewarding Automakers for Fuel Economy Improvements,” chapter 6 in *New Approaches on Energy and the Environment: Policy Advice for the President*, RFF Press).

The committee cautioned that a major redesign (Recommendation 3) required more study than the committee had been able to devote to it.

To avoid harmful effects on companies, on employment, and on consumers, the committee suggested allowing plenty of time for industry to meet stiffer requirements.

And finally, the government should continue to fund research on breakthrough technologies.

Delegation to NHTSA

Neither the National Academy committee nor the Commission was willing or able to agree on recommended numerical CAFE targets – in part, because the task is a complex one and, in part, because the targets represent tradeoffs among various societal values and therefore is a political decision, as the Academy committee report states.

The Commission, in fact, recommended delegation of that responsibility: “Congress should instruct NHTSA to significantly strengthen federal fuel economy standards...to take full advantage of the efficiency opportunities provided by currently available technologies and emerging hybrid and advanced diesel technologies.” (Appendix B is attached)

Given the considerable burden of legislating in this area, it seems appropriate that setting the targets and redesigning the policy could be delegated to the National Highway

Safety Transportation Authority with legislative guidance and strong congressional oversight.

Conclusion

CAFE has been a very imperfect, but important, policy in dealing with fuel consumption. The Academy concluded, in 2002, that our oil imports would have been 2.8 million barrels a day higher had the policy not existed. (See Finding I in Appendix A).

Many experts believe that a more effective approach to reducing fuel consumption – and a more cost-effective approach for the U.S. economy – would be stronger gasoline tax or oil tax that would not only encourage consumers to purchase more efficient vehicles but also encourage them to be more economical in their driving, a critical component that CAFE does nothing to address. Indeed, such a tax would have a more rapid impact on consumption than is possible through CAFE. These experts, of course, are not subject to popular election.

APPENDIX A

Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards

Committee on the Effectiveness and Impact of Corporate
Average Fuel Economy Standards (CAFE)

Board on Energy and Environmental Systems
Division on Engineering and Physical Sciences

Transportation Research Board

National Research Council

2002

National Academy Press
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Box 285
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Excerpted from the

EXECUTIVE SUMMARY

FINDINGS

Finding 1. The CAFE program has clearly contributed to increased fuel economy of the nation's light-duty vehicle fleet during the past 22 years. During the 1970s, high fuel prices and a desire on the part of automakers to reduce costs by reducing the weight of vehicles contributed to improved fuel economy. CAFE standards reinforced that effect. Moreover, the CAFE program has been particularly effective in keeping fuel economy above the levels to which it might have fallen when real gasoline prices began their long

decline in the early 1980s. Improved fuel economy has reduced dependence on imported oil, improved the nation's terms of trade, and reduced emissions of carbon dioxide, a principal greenhouse gas, relative to what they otherwise would have been. If fuel economy had not improved, gasoline consumption (and crude oil imports) would be about 2.8 million barrels per day greater than it is, or about 14 percent of today's consumption.

Finding 2. Past improvements in the overall fuel economy of the nation's light-duty vehicle fleet have entailed very real, albeit indirect, costs. In particular, all but two members of the committee concluded that the downweighting and downsizing that occurred in the late 1970s and early 1980s, some of which was due to CAFE standards, probably resulted in an additional 1,300 to 2,600 traffic fatalities in 1993.² In addition, the diversion of carmakers' efforts to improve fuel economy deprived new-car buyers of some amenities they clearly value, such as faster acceleration, greater carrying or towing capacity, and reliability.

Finding 3. Certain aspects of the CAFE program have not functioned as intended:

- The distinction between a car for personal use and a truck for work use/cargo transport has broken down, initially with minivans and more recently with sport utility vehicles (SUVs) and cross-over vehicles. The car/truck distinction has been stretched well beyond the original purpose.
- The committee could find no evidence that the two-fleet rule distinguishing between domestic and foreign content has had any perceptible effect on total employment in the U.S. automotive industry.
- The provision creating extra credits for multifuel vehicles has had, if any, a negative effect on fuel economy, petroleum consumption, greenhouse gas emissions, and cost. These vehicles seldom use any fuel other than gasoline yet enable automakers to increase their production of less fuel efficient vehicles.

Finding 4. In the period since 1975, manufacturers have made considerable improvements in the basic efficiency of engines, drive trains, and vehicle aerodynamics. These improvements could have been used to improve fuel economy and/or performance. Looking at the entire light-duty fleet, both cars and trucks, between 1975 and 1984, the technology improvements were concentrated on fuel economy: It improved by 62 percent without any loss of performance as measured by 0–60 mph acceleration times. By 1985, light-duty vehicles had improved enough to meet CAFE standards. Thereafter, technology improvements were concentrated principally on performance and other vehicle attributes (including improved occupant protection). Fuel economy remained essentially unchanged while vehicles became 20 percent heavier and 0–60 mph acceleration times became, on average, 25 percent faster.

Finding 5. Technologies exist that, if applied to passenger cars and light-duty trucks, would significantly reduce fuel consumption within 15 years. Auto manufacturers are already offering or introducing many of these technologies in other markets (Europe and Japan, for example), where much higher fuel prices (\$4 to \$5/gal) have justified their development. However, economic, regulatory, safety, and consumer-preference-related issues will influence the extent to which these technologies are applied in the United States.

Several new technologies such as advanced lean exhaust gas aftertreatment systems for high-speed diesels and direct-injection gasoline engines, which are currently under development, are expected to offer even greater potential for reductions in fuel consumption. However, their development cycles as well as future regulatory

requirements will influence if and when these technologies penetrate deeply into the U.S. market.

The committee conducted a detailed assessment of the technological potential for improving the fuel efficiency of 10 different classes of vehicles, ranging from subcompact and compact cars to SUVs, pickups, and minivans. In addition, it estimated the range in incremental costs to the consumer that would be attributable to the application of these engine, transmission, and vehicle-related technologies.

Chapter 3 presents the results of these analyses as curves that represent the incremental benefit in fuel consumption versus the incremental cost increase over a defined baseline vehicle technology. Projections of both incremental costs and fuel consumption benefits are very uncertain, and the actual results obtained in practice may be significantly higher or lower than shown here. Three potential development paths are chosen as examples of possible product improvement approaches, which illustrate the trade-offs auto manufacturers may consider in future efforts to improve fuel efficiency. Assessment of currently offered product technologies suggests that light-duty trucks, including SUVs, pickups, and minivans, offer the greatest potential to reduce fuel consumption on a total-gallons-saved basis.

Finding 6. In an attempt to evaluate the economic trade-offs associated with the introduction of existing and emerging technologies to improve fuel economy, the committee conducted what it called cost-efficient analysis. That is, the committee identified packages of existing and emerging technologies that could be introduced over the next 10 to 15 years that would improve fuel economy up to the point where further increases in fuel economy would not be reimbursed by fuel savings. The size, weight, and performance characteristics of the vehicles were held constant. The technologies, fuel consumption estimates, and cost projections described in Chapter 3 were used as inputs to this cost-efficient analysis.

These cost-efficient calculations depend critically on the assumptions one makes about a variety of parameters. For the purpose of calculation, the committee assumed as follows: (1) gasoline is priced at \$1.50/gal, (2) a car is driven 15,600 miles in its first year, after which miles driven declines at 4.5 percent annually, (3) on-the-road fuel economy is 15 percent less than the Environmental Protection Agency's test rating, and (4) the added weight of equipment required for future safety and emission regulations will exact a 3.5 percent fuel economy penalty.

One other assumption is required to ascertain cost-efficient technology packages—the horizon over which fuel economy gains ought to be counted. Under one view, car purchasers consider fuel economy over the entire life of a new vehicle; even if they intend to sell it after 5 years, say, they care about fuel economy because it will affect the price they will receive for their used car. Alternatively, consumers may take a shorter-term perspective, not looking beyond, say, 3 years. This latter view, of course, will affect the identification of cost-efficient packages because there will be many fewer years of fuel economy savings to offset the initial purchase price.

The full results of this analysis are presented in Chapter 4. To provide one illustration, however, consider a midsize SUV. The current sales-weighted fleet fuel economy average for this class of vehicle is 21 mpg. If consumers consider only a 3-year payback period, fuel economy of 22.7 mpg would represent the cost-efficient level. If, on the other hand, consumers take the full 14-year average life of a vehicle as their horizon, the cost-efficient level increases to 28 mpg (with fuel savings discounted at 12 percent). The longer the consumer's planning horizon, in other words, the greater are the fuel economy savings against which to balance the higher initial costs of fuel-saving technologies.

The committee cannot emphasize strongly enough that the cost-efficient fuel economy levels identified in Tables 4-2 and 4-3 in Chapter 4 are *not* recommended fuel

economy goals. Rather, they are reflections of technological possibilities, economic realities, and assumptions about parameter values and consumer behavior. Given the choice, consumers might well spend their money on other vehicle amenities, such as greater acceleration or towing capacity, rather than on the fuel economy cost-efficient technology packages.

Finding 7. There is a marked inconsistency between pressing automotive manufacturers for improved fuel economy from new vehicles on the one hand and insisting on low real gasoline prices on the other. Higher real prices for gasoline—for instance, through increased gasoline taxes—would create both a demand for fuel-efficient new vehicles and an incentive for owners of existing vehicles to drive them less.

Finding 8. The committee identified externalities of about \$0.30/gal of gasoline associated with the combined impacts of fuel consumption on greenhouse gas emissions and on world oil market conditions. These externalities are not necessarily taken into account when consumers purchase new vehicles. Other analysts might produce lower or higher estimates of externalities.

Finding 9. There are significant uncertainties surrounding the societal costs and benefits of raising fuel economy standards for the light-duty fleet. These uncertainties include the cost of implementing existing technologies or developing new ones; the future price of gasoline; the nature of consumer preferences for vehicle type, performance, and other features; and the potential safety consequences of altered standards. The higher the target for average fuel economy, the greater the uncertainty about the cost of reaching that target.

Finding 10. Raising CAFE standards would reduce future fuel consumption below what it otherwise would be; however, other policies could accomplish the same end at lower cost, provide more flexibility to manufacturers, or address inequities arising from the present system. Possible alternatives that appear to the committee to be superior to the current CAFE structure include tradable credits for fuel economy improvements, feebates,³ higher fuel taxes, standards based on vehicle attributes (for example, vehicle weight, size, or payload), or some combination of these.

Finding 11. Changing the current CAFE system to one featuring tradable fuel economy credits and a cap on the price of these credits appears to be particularly attractive. It would provide incentives for all manufacturers, including those that exceed the fuel economy targets, to continually increase fuel economy, while allowing manufacturers flexibility to meet consumer preferences. Such a system would also limit costs imposed on manufacturers and consumers if standards turn out to be more difficult to meet than expected. It would also reveal information about the costs of fuel economy improvements and thus promote better-informed policy decisions.

Finding 12. The CAFE program might be improved significantly by converting it to a system in which fuel economy targets depend on vehicle attributes. One such system would make the fuel economy target dependent on vehicle weight, with lower fuel consumption targets set for lighter vehicles and higher targets for heavier vehicles, up to some maximum weight, above which the target would be weight-independent. Such a system would create incentives to reduce the variance in vehicle weights between large and small vehicles, thus providing for overall vehicle safety. It has the potential to increase fuel economy with fewer negative effects on both safety and consumer choice. Above the maximum weight, vehicles would need additional advanced fuel economy

technology to meet the targets. The committee believes that although such a change is promising, it requires more investigation than was possible in this study.

Finding 13. If an increase in fuel economy is effected by a system that encourages either downweighting or the production and sale of more small cars, some additional traffic fatalities would be expected. However, the actual effects would be uncertain, and any adverse safety impact could be minimized, or even reversed, if weight and size reductions were limited to heavier vehicles (particularly those over 4,000 lb). Larger vehicles would then be less damaging (aggressive) in crashes with all other vehicles and thus pose less risk to other drivers on the road.

Finding 14. Advanced technologies—including direct-injection, lean-burn gasoline engines; direct-injection compression-ignition (diesel) engines; and hybrid electric vehicles—have the potential to improve vehicle fuel economy by 20 to 40 percent or more, although at a significantly higher cost. However, lean-burn gasoline engines and diesel engines, the latter of which are already producing large fuel economy gains in Europe, face significant technical challenges to meet the Tier 2 emission standards established by the Environmental Protection Agency under the 1990 amendments to the Clean Air Act and California's low-emission-vehicle (LEV II) standards. The major problems are the Tier 2 emissions standards for nitrogen oxides and particulates and the requirement that emission control systems be certified for a 120,000-mile lifetime. If direct-injection gasoline and diesel engines are to be used extensively to improve light-duty vehicle fuel economy, significant technical developments concerning emissions control will have to occur or some adjustments to the Tier 2 emissions standards will have to be made. Hybrid electric vehicles face significant cost hurdles, and fuel-cell vehicles face significant technological, economic, and fueling infrastructure barriers.

Finding 15. Technology changes require very long lead times to be introduced into the manufacturers' product lines. Any policy that is implemented too aggressively (that is, in too short a period of time) has the potential to adversely affect manufacturers, their suppliers, their employees, and consumers. Little can be done to improve the fuel economy of the new vehicle fleet for several years because production plans already are in place. The widespread penetration of even existing technologies will probably require 4 to 8 years. For emerging technologies that require additional research and development, this time lag can be considerably longer. In addition, considerably more time is required to replace the existing vehicle fleet (on the order of 200 million vehicles) with new, more efficient vehicles. Thus, while there would be incremental gains each year as improved vehicles enter the fleet, major changes in the transportation sector's fuel consumption will require decades.

RECOMMENDATIONS

Recommendation 1. Because of concerns about greenhouse gas emissions and the level of oil imports, it is appropriate for the federal government to ensure fuel economy levels beyond those expected to result from market forces alone. Selection of fuel economy targets will require uncertain and difficult trade-offs among environmental benefits, vehicle safety, cost, oil import dependence, and consumer preferences. The committee believes that these trade-offs rightfully reside with elected officials.

Recommendation 2. The CAFE system, or any alternative regulatory system, should include broad trading of fuel economy credits. The committee believes a trading system would be less costly than the current CAFE system; provide more flexibility and options to the automotive companies; give better information on the cost of fuel economy changes to the private sector, public interest groups, and regulators; and provide

incentives to all manufacturers to improve fuel economy. Importantly, trading of fuel economy credits would allow for more ambitious fuel economy goals than exist under the current CAFE system, while simultaneously reducing the economic cost of the program.

Recommendation 3. Consideration should be given to designing and evaluating an approach with fuel economy targets that are dependent on vehicle attributes, such as vehicle weight, that inherently influence fuel use. Any such system should be designed to have minimal adverse safety consequences.

Recommendation 4. Under any system of fuel economy targets, the two-fleet rule for domestic and foreign content should be eliminated.

Recommendation 5. CAFE credits for dual-fuel vehicles should be eliminated, with a long enough lead time to limit adverse financial impacts on the automotive industry.

Recommendation 6. To promote the development of longer-range, breakthrough technologies, the government should continue to fund, in cooperation with the automotive industry, precompetitive research aimed at technologies to improve vehicle fuel economy, safety, and emissions. It is only through such breakthrough technologies that dramatic increases in fuel economy will become possible.

Recommendation 7. Because of its importance to the fuel economy debate, the relationship between fuel economy and safety should be clarified. The committee urges the National Highway Traffic Safety Administration to undertake additional research on this subject, including (but not limited to) a replication, using current field data, of its 1997 analysis of the relationship between vehicle size and fatality risk.

NOTES

- ¹ Conference Report on H.R. 4475, Department of Transportation and Related Agencies Appropriations Act, 2001. Report 106-940, as published in the *Congressional Record*, October 5, 2000, pp. H8892-H9004.
- ² A dissent by committee members David Greene and Maryann Keller on the impact of downweighting and downsizing is contained in Appendix A. They believe that the level of uncertainty is much higher than stated and that the change in the fatality rate due to efforts to improve fuel economy may have been zero. Their dissent is limited to the safety issue alone.
- ³ Feebates are taxes on vehicles achieving less than the average fuel economy coupled with rebates to vehicles achieving better than average fuel economy.

APPENDIX B

Ending the Energy Stalemate
A Bipartisan Strategy to meet America's Energy Challenges

The National Commission on Energy Policy

2004

National Commission on Energy Policy
1616 H Street, NW
Sixth floor

POLICY RECOMMENDATIONS

2. Reduce U.S. Oil Consumption through Increased Vehicle Efficiency and Production of Alternative Fuels

Reducing U.S. oil consumption is a critical complement to the measures described in previous sections for expanding and diversifying global supplies of oil. A key to slowing continued growth in U.S. oil consumption — which is otherwise projected to increase by more than 40 percent over the next two decades — is breaking the current political stalemate on changing Corporate Average Fuel Economy (CAFE) standards for new motor vehicles. Although recommendations in later chapters of this report — notably those aimed at promoting the development of alternative transportation fuels — will also help to reduce oil demand, improving passenger vehicle fuel economy is by far the most significant oil demand reduction measure proposed by the Commission.

The Commission's approach to vehicle efficiency builds on three decades of experience with fuel economy regulation and a record of impressive technological advances by the automobile manufacturing industry. As a result of CAFE standards introduced in the 1970s and high gasoline prices in the late 1970s and early 1980s, the average fuel economy of new light-duty vehicles improved from 15 miles per gallon (mpg) in 1975 to a peak of 26 mpg in 1987, a 73 percent increase over a time period that also saw substantial progress in improved vehicle performance and safety. The trend toward greater fuel economy, however, did not continue. Passenger car CAFE standards peaked in 1985 at 27.5 mpg and have not changed since. Light-duty truck standards were recently raised by 1.5 mpg to a new standard of 22.2 mpg which will go into effect in 2005 — prior to this increase they had remained essentially unchanged since 1987. Thus, for most of the last two decades overall fleet fuel economy has stagnated and continued technology gains — such as port fuel injection, front-wheel drive, valve technology, and transmission improvements — have been applied to increase vehicle size and power, rather than fuel economy. In fact, at 24 mpg on average, new vehicle fuel economy is now no higher than it was in 1981, but vehicle weight has increased by 24 percent and horsepower has increased by 93 percent.

The Commission believes that three factors are largely responsible for the current CAFE stalemate: (1) uncertainty over the future costs of fuel-saving technologies; (2) fear that more stringent standards will lead to smaller, lighter vehicles and increased traffic fatalities; and (3) concerns that higher fuel-economy standards will put the U.S. auto industry and auto workers at a competitive disadvantage.

With respect to the first of these factors — cost and technology potential — numerous recent analyses by the National Academy of Sciences and others have concluded that significant improvements in the fuel economy of conventional gasoline vehicles are achievable and cost-effective, in the sense that fuel savings over the life of the vehicle would more than offset incremental technology costs. Estimates of cost-effectiveness do not, however, account for — and thus cannot by themselves resolve — potential trade-offs in terms of vehicle performance, safety, and impacts on jobs and competitiveness.

Given these complexities, the Commission was unable to agree on a numerical fuel-economy standard.

The recommendations that follow nevertheless reflect the Commission's conclusion that a combination of improved conventional gasoline technologies and advanced hybrid-electric and diesel technologies presents an opportunity to significantly increase fuel

economy without sacrificing size, power, safety, and other attributes that consumers value. Note that the Commission defines “advanced diesel” in this context as a diesel passenger vehicle that meets stringent new federal air pollution control requirements — or so-called “Tier 2” standards — that are being phased in from 2004 to 2008 (no currently available passenger diesel vehicles meet these standards). Ultimately, the Commission believes that a combination of higher standards, CAFE reforms, and complementary incentive programs will allow the nation to capitalize on potentially “gamechanging” technologies such as hybrids and advanced diesels in a manner that greatly enhances its ability to achieve oil security and environmental goals, as well as its ability to sustain the future competitiveness of the U.S. automobile industry.

Specifically, the Commission recommends:

- ***Raising Passenger Vehicle Fuel Economy Standards***²⁶— Congress should instruct the National Highway Traffic Safety Administration (NHTSA) to significantly strengthen federal fuel economy standards for passenger vehicles to take full advantage of the efficiency opportunities provided by currently available technologies and emerging hybrid and advanced diesel technologies. Consistent with existing statutory requirements, NHTSA should — in developing new standards — give due consideration to vehicle performance, safety, job impacts, and competitiveness concerns. To allow manufacturers sufficient time to adjust, new standards should be phased-in over a five-year period beginning no later than 2010.

- ***Reforming CAFE*** — To facilitate compliance with higher standards, Congress should modify CAFE to increase program flexibility by allowing manufacturers to trade fuel economy credits with each other and across the light truck and passenger vehicle fleets. In addition, Congress should authorize NHTSA to consider additional mechanisms that could further simplify the program, increase flexibility, and reduce compliance costs. One such mechanism is a compliance “safety valve” that would permit manufacturers to purchase CAFE credits from the government at a pre-determined price. Such a mechanism would effectively cap costs to consumers and manufacturers should fuel-saving technologies not mature as expected or prove more expensive than anticipated.

- ***Providing Economic Incentives for Hybrids and Advanced Diesels*** — Congress should establish a five- to ten-year, \$3 billion tax incentive program for manufacturers and consumers to encourage the domestic production and purchase of hybrid-electric and advanced diesel vehicles that achieve superior fuel economy.

CHAIRMAN BARTON. Dr. Pizer is the Senior Fellow for Resources for the Future. You are recognized for 5 minutes, sir.

DR. PIZER. Thank you very much, Mr. Chairman, for the opportunity to talk to the committee about the possibility of reforming CAFE.

As you said, I am the Senior Fellow of Resources for the Future, which is where Phil Sharp is now, our esteemed President. We are happy to have him there, but as he mentioned, the organization does not take positions on matters of public policy. So again, my comments are really just my own opinions.

Five weeks ago, as many people have noted, NHTSA released a final rule for light trucks, and that rule met with a lot of criticism and concern, mainly over the level of the standards. People felt like it wasn’t enough, given our concern over prices and over oil security. I am not really going to talk about that.

What I really want to focus on is the structural changes that were in that reform package that Secretary Mineta talked a little bit about, and I also want to talk about some reforms that were not in the package that this committee could consider, or at least giving the authority to NHTSA to consider.

First of all, in the package, a very important change is that manufacturers would now face differentiated standards, based on the size of the vehicles they produce. So historically, if you were GM or if you were Suzuki, you faced exactly the same standard. Now, if you think about that for a second, it doesn't make a lot of sense, given Suzuki produces much smaller trucks that are naturally more fuel-efficient. So historically, Suzuki didn't have to do anything, and GM had to do a lot.

So right off the bat, by reforming CAFE, so that Suzuki would have a higher standard, based on the size of its trucks than GM, you solve some of the inequalities that exist in the old program. For example, in 2011, according to the NHTSA forecast, GM would face a standard of around 23.2 mpg, and Suzuki would face a 27 mpg standard. So you have already improved on the old program, by creating a slightly more equitable program.

A second thing that happens when you differentiate the standards is you actually get reductions in oil usage at lower costs. Why is that? Well, by not requiring Suzuki to do anything, you weren't taking advantage of some low cost opportunities that existed at that manufacturer. So not only do you spread the distribution of the costs out, you achieve lower costs in terms of achieving greater fuel economy.

The third thing that happens when you differentiate the standards across manufacturers based on size is you reduce the incentives to downsize, and a lot of people have already talked this morning about how downsizing creates safety concerns, so in the old version, if you wanted to comply with CAFE, you could either install technologies or make smaller cars. Now, if you make smaller cars, you face a tighter standard, and that doesn't really help you as much.

The second thing that was in the reform package, that Secretary Mineta didn't focus on quite as much, is the fact that now, the standard is going to be set based on an explicit balancing of costs and benefits. Historically, had the concerns laid out that it had to weigh when it set the standard, but it wasn't very explicit about how it was going to weigh those. Now, basically what they have to do is they set out the costs, they set out the benefits. They include all kinds of benefits, from environment and externalities in oil markets, and things like that. They add them up, and they set the standard to maximize the benefits to society. And to me, that is what we ought to be trying to do, and I think that is a vast improvement in the way the agency sets the standard.

So those were in the reform package. What else can we think about doing? Several things have already been alluded to, and I think ought to be part of the debate on reforming CAFE. Four things. First of all, averaging across fleets. Right now, there are separate standards that have to be met based on domestic and imported vehicles, as well as light trucks and cars. Presumably, there may be cheaper opportunities in some of these fleets than others, and we ought to investigate how much the savings would be if we allowed trading. So I am not saying automatically allow trading, but at least, we ought to know how much we are paying for having those fleets separately set, the standards separately set.

The second thing is we could allow trading across firms. Right now, each manufacturer has to meet the standards separately, even though some manufacturers may be able to meet it more cheaply than others. We have already seen highly successful trading programs in the lead phase down program for gasoline, as well as the acid rain program, that regulates electric utilities. We should investigate how much gain could be had from allowing trading among manufacturers.

Third, we could allow unrestricted banking of credits. Basically, what banking says is if I over-comply this year, I can save the credits for over-complying, and use them in some future year, when I under-comply. The advantage of this is that it doesn't change the total amount of oil savings, but it brings it forward in time. Now, I think all of us would like to see whatever oil savings we can achieve earlier, rather than later.

The last possible change is a little more controversial, and that would be allowing manufacturers to pay a fee if they want to exceed the standard. If they find it too expensive to meet the standard as it is set. I would just note that all of the problems we have had in setting a standard with CAFE have been disagreements over the costs and the impacts. Manufacturers say it is going to be very expensive. Advocates say it is going to be very cheap. Well, we could get around a lot of that debate if we just said okay, we are going to set a strong standard, but if it turns out to be really expensive, allow manufacturers to pay a fee. Currently, there is such a fee, and Europeans use it all the time, but it has certain criminal, not criminal, but penalty aspects associated with it, that if it were decriminalized, would be appealing to other manufacturers.

So just to summarize very quickly, six possible things that could be considered in reforming CAFE. Differentiating standards across manufacturers, based on the size of the vehicles they produce, explicitly and carefully using cost-benefit analysis to set the standard; allowing averaging across fleets; allowing trading among manufacturers; allowing unrestricted banking of credits that manufacturers earn; and finally,

considering a way the standard could be set, but if it turned out to be too expensive, allow firms to pay a price, instead of having to meet an arbitrarily expensive standard.

Thank you, and I am looking forward to questions.

[The prepared statement of William A. Pizer follows:]

PREPARED STATEMENT OF WILLIAM A PIZER, SENIOR FELLOW, RESOURCES FOR THE
FUTURE

Thank you, Mr. Chairman, for the opportunity to offer testimony before the committee about the possibility of reforming the Corporate Average Fuel Economy (CAFE) program, with particular reference to the recently introduced reforms for light trucks. Over the past decade, I have had the privilege of working on energy and environment issues for organizations as diverse as the President's Council of Economic Advisers and the National Commission on Energy Policy. Currently, I am a senior fellow at Resources for the Future (RFF), a 54-year-old research institution, headquartered here in Washington, DC, which focuses on energy, environmental, and natural resource issues.

RFF is both independent and nonpartisan, and shares the results of its economic and policy analyses with members of both parties, environmental and business advocates, academics, members of the press, and interested citizens. RFF neither lobbies nor takes positions on specific legislative or regulatory proposals, although individual researchers are encouraged to express their individual opinions, which may differ from those of other RFF scholars, officers, and directors. I emphasize that the views I present today are mine alone.

Just a few weeks ago, the National Highway Traffic and Safety Administration (NHTSA) released a final CAFE rule for the years 2008–2011 that raises the standard from its 2007 level of 22.2 miles per gallon (mpg), to 22.5 mpg in 2008, 23.1 mpg in 2009, and 23.5 mpg in 2010. But what should be of more interest to this committee are two major changes to the structure of the program included in the final rule. First, the rule differentiated standards across manufacturers based on the size of the vehicles they produce, and second, starting in 2011, the rule set these standards based on an explicit cost-benefit analysis. Previously, there was a single standard for all light-truck manufacturers and that standard was set, based on the ability of the least capable manufacturer. In addition to these major structural changes, the rule will also for the first time include medium-duty passenger vehicles in the CAFE program starting in 2011. With the inclusion of these heavier and naturally less fuel-efficient vehicles, the estimated average fuel economy will be 24.0 mpg in 2011.

At the time the light-truck rule was proposed last fall, I offered my opinion – which I have appended to this statement – that the reforms were a clear move toward a more efficient system, and perhaps even an optimal one, given statutory constraints. I also indicated that, based on an analysis of the underlying data from the recent National Research Council (NRC) study, the 2011 fuel economy standard should be increased based on the recent, dramatic increase in forecasted oil price and, in turn, the dramatic increase in benefits from improved fuel economy. What I would like to do today is first review my previous comments on the design of the rule for light trucks and explain why they are equally relevant for cars. I will then discuss additional reforms possible in statute – the ability to trade CAFE credits across fleets, firms, and time, as well as a cost-limiting safety valve that was not possible in the light-truck rulemaking. I will briefly remark on the fact that dramatically higher oil prices did *not* lead to an noticeable increase in the 2011 fuel economy standard and finally offer a few reflections on the overall desirability of CAFE from an economist's perspective.

Light-truck CAFE before the recent reforms

To understand the recent reforms to the light-truck CAFE program, as well as the potential for further statutory reforms, it is useful to consider how “un-reformed” or traditional CAFE works. There is a single, one-size-fits-all fuel economy standard for light trucks that must be met, on average, by each manufacturer. That is, each manufacturer takes the fuel economy of each light-truck model they produce, and then averages those numbers weighted by production volume. That number must be at or above the mandated standard. If the manufacturer beats the standard, the manufacturer collects CAFE credits that can be used to make up any shortfall in the next three years. If the manufacturer misses the standard and does not have any credits, there is a penalty equal to \$5.50 per 0.1 mpg per vehicle. The penalty is routinely paid by European manufacturers, but has never been adopted by domestic or Asian manufacturers, who have voiced concern about the penalization notion surrounding the fee.

For light trucks, the level of the traditional standard is set with an eye toward achieving the maximum possible fuel economy, but with considerable deference given to the ability of each manufacturer to meet that standard. The National Highway Traffic Safety Administration (NHTSA) has typically tailored the standard to be economically practicable for the least-capable vehicle manufacturer while also considering the nation’s need to conserve energy, technological feasibility, and the impact of other motor vehicle standards on fuel economy. The actual analysis is based on confidential manufacturer product plans, data, and modeling.

One consequence of the traditional approach is that the single standard for light trucks is tougher—that is, more expensive—for manufacturers with a full line that includes large trucks with lower fuel economy, and easier for manufacturers focused on small trucks with higher fuel economy. For example, Honda has consistently beaten the existing light-truck CAFE standard by 4–5 mpg, suggesting that it has had no effect on their production decisions, while the major domestic manufacturers that produce a broader range of trucks have hovered right at the standard, suggesting a real impact.

The reformed CAFE rule

The recently finalized rule for light trucks makes two major changes to the traditional approach. The first is a shift from a single light-truck standard for all manufacturers to differentiated standards for each manufacturer based on the size of the vehicles they produce. The second is a shift to setting the standard based on an explicit and careful cost-benefit analysis, involving the costs to manufacturers, the value of fuel savings, and other consequences of gasoline and vehicle usage.

Unlike the traditional CAFE rule for light trucks, the recently finalized rule differentiates standards for each manufacturer based on a continuous schedule of targets for different-sized vehicles. The size of the vehicle, or footprint, is defined by multiplying the track width (the distance between tires on the same axle) by the wheelbase (the distance between centerlines on each axle). In 2011, the fuel economy schedule ranges from 30.42 mpg for the smallest vehicle to 21.79 mpg for the largest vehicle (Table 4 in the Final Rule). Among manufacturers, this is forecast to result in a fleet standard ranging from 23.2 mpg for General Motors (GM) to 27.1 mpg for Suzuki (Table 13).

Differentiating manufacturers’ standards based on the mix of large and small light trucks that they produce – so that Suzuki faces a higher standard than GM – has important distributional consequences. Unlike the traditional light-truck CAFE rule, in which the single standard was much harder for GM and other manufacturers of large trucks to meet, the reformed rule allocates the overall burden more evenly by shifting some of it away from manufacturers of large trucks and toward manufacturers of small trucks.

This distributional change will also lower the cost of a given improvement in fuel economy across all fleets (or increase the overall improvement in fuel economy for a

given total cost). By seeking larger fuel savings from small truck manufacturers, who previously faced little or no CAFE incentive to improve fuel economy, opportunities exist to improve fuel economy that previously were not being captured. Some of these efficiency improvements are cheaper than the ones previously achieved through almost exclusive reliance on improvements among manufacturers of large trucks. That is, the program achieves lower cost and/or more fuel savings (estimated at 15–20% in the Regulatory Impact Analysis, Table VII-1).

There is a third, important effect associated with differentiating standards based on the size of vehicles: It substantially alters the incentives to downsize. Downsizing is one way a manufacturer could comply with the traditional light-truck CAFE rule. As noted, smaller trucks naturally have higher fuel economy. Instead of using technology to improve fuel economy, manufacturers could simply choose to make smaller trucks. While some might applaud a shift to smaller vehicles, this frequently raises concerns about safety.

By making the standard higher for smaller trucks, the incentive to downsize to comply with the reformed CAFE rule is reduced if not eliminated, thereby addressing these concerns about safety. Making smaller trucks does not help a manufacturer meet their standard – the natural improvement in fuel economy associated with the smaller vehicle is offset by the reformed CAFE’s requirement that smaller vehicles achieve higher fuel economy.

The second major change in the reformed CAFE rule comes in 2011, when fuel economy will be set, based on maximizing net benefits from reduced petroleum consumption, including the reduced consequences of oil-supply disruptions, the reduced market power of oil-exporting countries, and environmental concerns, as well as effects of fuel economy on congestion, accidents, and greater vehicle range. These benefits are weighed against the costs of installing new technologies to improve fuel economy. This is sharply contrasts the previous approach, which focused on the ability of the least-capable manufacturer – that is, the one making the largest trucks. In fact, with the shift to differentiated standards, the notion of a least-capable manufacturer disappears; instead, each company faces a standard that is tailored to be as difficult as any other. This latter change represents an unambiguous move toward greater efficiency in the light-truck CAFE program. While the traditional approach highlighted factors that should be considered when setting the standard, it did not suggest how they ought to be balanced, somewhat ironically using cost-benefit analysis as part of the regulatory impact analysis *after* the standard was set. The proposed reforms put the cost-benefit analysis front and center, stipulating that those factors should be balanced based on the best available valuations. By definition, such an approach is the most efficient possible approach to setting CAFE standards once the structure of the program is determined.

Applying the light-truck reforms to passenger cars

Both of the reforms adopted in the recent light-truck rule – differentiating manufacturer’s standards based on their mix of large and small vehicles, as well as setting the standards based on careful cost-benefit analysis – provide similar opportunities to improve the passenger car CAFE program. Unlike the light-truck program, however, these changes must be made in statute. While NHTSA had the authority to differentiate manufacturer’s standards and to shift to a cost-benefit approach for light trucks, the existing statute is much more specific for passenger cars.

As was the case for light trucks, differentiating the passenger car standard among manufacturers based on their mix of large and small cars provides three advantages. First, it creates a more equitable burden. Because large cars naturally have lower fuel economy than smaller cars, a single standard for all manufacturers would put a disproportionate burden on those who produce larger cars. In contrast, a differentiated standard would shift that burden toward small car manufacturers. Second, this shift in burden will also

mean a shift from higher-cost improvements in large cars to lower-cost improvements in small cars. This will lower the cost of achieving a given overall level of fuel economy, or allow a greater improvement in overall fuel economy at a given total cost. Finally, by making the standard progressively higher for smaller cars, the incentive to downsize passenger cars is reduced if not eliminated. The natural fuel economy improvement associated with downsizing is now penalized by a higher standard. This addresses past concerns that CAFE produces smaller, less safe vehicles.

The use of a cost-benefit approach to set the passenger car standard would, by definition, create a program that maximized efficiency – that is, the net benefits to society – of the program, given the design (for example, differentiated standards and fleet averaging).

Going beyond the light-truck reforms

There are at least four areas where light-truck reform was limited by statute but where greater efficiency could be realized by changing the structure of the program. Three relate to simply giving manufacturers more flexibility to meet a given standard without affecting the outcome in terms of overall oil savings. The fourth addresses uncertainty about compliance costs, reducing the risk of high costs at the expense of possibly achieving lower oil savings.

The first of these further reforms would allow manufacturers to average fuel economy jointly over both cars and light-truck fleets. Currently, manufacturers must meet each standard separately, even though cheaper opportunities may exist in one fleet versus the other. From a national perspective, Congress should not care whether fuel savings are achieved in one fleet or the other. Allowing manufacturers to trade off cheaper improvements in one fleet against more expensive improvements in the other would lower overall costs without affecting oil savings.

Second, Congress could also allow credit trading among manufacturers. That is, when one manufacturer exceeds their standard, they earn credits that could then be sold to other manufacturers struggling to meet theirs. This reform reduces costs by shifting improvements to manufacturers with lower costs and away from manufacturers with higher costs. And like the first reform, this action has no effect on overall oil savings.

It is useful to note that historically there has been opposition to trading because it likely further exacerbates the disparity between manufacturers of large and small vehicles. That is, even though trading would generally benefit both buyers and sellers of CAFE credits, under traditional CAFE, it would tend to provide larger benefits to sellers – manufacturers of small cars who can easily if not effortlessly exceed the standard. However, with size-based CAFE, the initial compliance burden is more evenly distributed among manufacturers of both large and small vehicles, erasing the likely larger benefit to manufacturers of small vehicles.

Third, Congress could allow companies who exceed the standard in one year to bank credits for the indefinite future. Banking not only leaves the total volume of reduced oil consumption unchanged, it moves the savings *forward* in time – that is, we see the effects of energy conservation sooner. Banking has easily been the most successful element of the acid rain trading program used by electric utilities to reduce sulfur dioxide emissions. In that case, firms reduced emissions by twice as much as the law required to create flexibility for future compliance. Currently, banking is allowed in the CAFE program – but for only up to three years, after which time the banked credits expire, thereby reducing the incentive to over-comply and to reduce oil consumption earlier. New legislation could remove this restriction.

Finally, Congress could create a safety valve, whereby manufacturers could opt to pay a specified fee if compliance costs end up being unexpectedly high. This would allow manufacturers to avoid the risk of high costs in exchange for the possibility that fuel economy – and oil savings – might be lower if that turns out to be the case. As noted

earlier, the current program already has such a fee, defined as a penalty, which is often used by European manufacturers but has been avoided by domestic and Asian manufacturers. By “decriminalizing” the fee, Congress could help allay manufacturer concerns and reduce the central debate about how much technology really costs – perhaps allowing higher standards to be introduced more quickly.

Transparency about costs

The recent light-truck rule highlighted the fact that the cost estimates used to set fuel economy standards remain something of a mystery. Despite the fact that the benefits of improving fuel economy increased by 50 percent between when the proposed and final rules were published, due to dramatic increases in forecast oil prices, the estimated aggregate fuel economy standard for 2011 increased by only 0.2 mpg, from 23.9 to 24.1 mpg (excluding medium-duty vehicles, which were not included in the proposed rule). Yet, the standard is supposed to represent a balancing of costs and benefits.

The final rule indicates that there were countervailing changes in estimated costs – related to the costs of technologies and especially the time required to phase in those technologies – but those changes are difficult to judge because the underlying details of the cost model are not spelled out clearly. Without any countervailing effects, my comments last fall suggested that a 50-percent increase in benefits might lead to a 4–5 mpg increase in the standard. Having reviewed other cost analyses, I might adjust that downward, closer to 2 mpg. In any case, a 0.2-mpg increase is surprisingly small despite the indicated countervailing modeling changes.

It might be desirable, therefore, for the Department of Transportation to be required to make public the cost modeling used in any rulemaking to set fuel economy standards. In the past, such disclosure would have been nearly impossible, as it entirely centered on the capabilities of one manufacturer. Now, there is presumably safety in numbers: Cost modeling for particular vehicle sizes can be disclosed, on average, without necessarily revealing proprietary information. Such a requirement would facilitate a more informed debate in the rulemaking process.

Do fuel economy standards make sense?

So far the discussion has centered on how to improve CAFE through statutory reform – that is, how to get more fuel savings at lower cost, while addressing concerns about equity and safety. This is an extremely important question, given the likelihood that the CAFE program will not go away and will remain the main policy tool for addressing concerns about petroleum use in the transportation sector. Nonetheless, it is useful to ask whether CAFE makes sense compared to other choices, or whether Congress should instead focus on an entirely different policy.

The underlying motivation for CAFE is the desire to reduce oil demand because of concerns about costs, security, and the environment. Given this underlying motivation, many people, especially economists, often criticize CAFE policy for two related reasons: First, it does not encourage consumers, once they buy a vehicle, to drive less; and second, it implies that the government can do a better job of weighing the costs and benefits of fuel-saving vehicle technologies than the auto manufacturers and auto consumers who make and use those vehicles. These critics typically conclude that the better policy is to tax gasoline, where the tax rate reflects some or all of the additional cost to society associated with oil use – for example, the negative influence of oil supply disruptions on the economy, domestic and international environmental impacts, and highway congestion.

One response is to agree with the CAFE critics on principle, but note that political opposition to gasoline tax increases make them impractical. However, we can also take issue with the second criticism and argue that auto manufacturers and consumers are *not* really making good decisions about fuel economy. Several explanations for this failure

stand out. The first is that consumers may not know, understand, or believe differences exist in fuel economy among vehicles. The recent controversy over the inaccuracy of EPA fuel economy ratings on information labels underscores this point.

Second, even understanding that those differences exist and are real, consumers may not rank fuel economy high enough to worry about when shopping for a car. Cargo capacity, power, and styling may be more important to consumers. Finally, even if consumers consider fuel economy, they may find it does not make a big enough difference to sway their choice of vehicle. Typical fuel economy decisions might represent an annual net gain per vehicle of about \$50–500, depending on the payback period a consumer requires. On a \$20,000 new car, this is analogous to an option for a fancy radio or improved styling.

Finally, consumers may not properly account for the full value of future fuel savings from a more fuel-efficient car, considering, for example, only the first few years of savings rather than the entire vehicle lifetime.

If consumers are systematically undervaluing fuel economy, it makes sense that vehicle manufacturers are not going to build more fuel-efficient cars. Based on that observation – an observation with which I tend to agree – fuel economy standards *are* a sensible policy and Congress should focus on reforming CAFE to make it more efficient.

It is worth noting that one argument that *cannot* be used to support CAFE is that stricter fuel economy standards will substantially lower gasoline prices. Recent estimates by the Energy Information Administration, for example, suggest that a 36-percent improvement in CAFE (6–7 mpg) would lower gasoline prices by at most \$0.08 by 2025. More modest CAFE improvements, such as the recent 1.8-mpg increase in light-truck standards, would lower gasoline prices even less (although the impact is larger with reforms than without). However, CAFE will lower *expenditures* on gasoline, as the quantity consumed will decline even if the price remains relatively insensitive. More importantly, it will reduce the *vulnerability* of the economy to future oil price shocks by reducing the share of gasoline expenditures in overall economic activity.

Overall conclusions

Following on the heels of recent regulatory reforms to the light-truck CAFE program, Congressional action to similarly reform the CAFE program for passenger cars – as well as to enact further reforms that were not possible in the light-truck rulemaking – has a large potential to improve program efficiency, to make the program more equitable, and to do all of this without sacrificing safety. The light-truck rule provides a model for two improvements: differentiating manufacturers' standards based on their mix of large and small vehicles, and setting the overall level of the standards based on an explicit and careful cost-benefit analysis. Further reforms include trading between the passenger car and light-truck fleets, trading among manufacturers, unrestricted banking of CAFE credits earned by exceeding the standard, and a cost-limiting safety valve.

It is surprising that the recent final rule for light-truck fuel economy in 2011, based on balancing costs and benefits, demonstrated remarkably little sensitivity to a 50-percent increase in the value of fuel saving benefits. This surprise, along with other concerns about how NHTSA would set the standards, has led to calls for Congress to directly set the standard in statute. Nonetheless, I find the complexity of the standard-setting process, as well as the need to regularly revisit the level of the standard, to be more suitable for agency rulemaking than Congressional action. Congress can instead reform the structure of CAFE to increase efficiency, continue to give NHTSA clear guidance on the key costs and benefits it should consider, and perhaps require greater transparency with regard to the cost modeling.

Lastly, critics often argue that CAFE is not the right policy to address petroleum use in the transportation sector, because it improperly focuses on creating more fuel-efficient vehicles rather than alternatively or additionally encouraging consumers to drive those

vehicles less. Such a criticism is based on an assumption that consumers and manufacturers will make good decisions about fuel economy based on technology and fuel costs. Yet, there are a variety of reasons why this assumption might be false; based on my belief that these reasons have credibility, a CAFE program continues to make sense.

In summary, Congress has a great opportunity to improve the efficiency of an extremely significant program to reduce oil consumption in the United States, namely by reforming the fuel economy program for cars and light trucks. Such reforms will reduce the costs of achieving a given standard and allow us to pursue greater fuel economy without sacrificing safety. In contrast to other policies being promoted to address concerns about higher fuel prices and oil dependency, such improvements attack the problem directly by reducing both our expenditures on oil and our vulnerability to future price increases.

I thank you again for the opportunity to appear before this committee, and I would be pleased to answer any questions.

Appendix I. Understanding Proposed CAFE Reforms for Light Trucks
FR Doc. 05-17005

By William A. Pizer and Madeleine Baker,* Resources for the Future

Summary

On August 23, 2005, the National Highway Traffic Safety Administration (NHTSA) released a Notice of Proposed Rulemaking (NPR) on corporate average fuel economy (CAFE) standards for light trucks along with a Preliminary Regulatory Impact Analysis (PRIA) (NPRM: *Federal Register* 05-17005, vol. 70, no. 167, August 30). Relative to the existing 2007 standard of 22.2 miles per gallon (mpg), the proposed changes include fuel economy standards of 22.5-23.5 mpg over 2008-2010 using the current program design.

More notable, however, are proposed changes to this design. Under the proposed changes, each manufacturer would still need to meet a single overall standard for their light truck fleet, but that standard would differ across manufacturers based on their production of different sized vehicles. Vehicles with different footprints (wheelbase times track width) would have different fuel economy targets and a manufacturer's overall standard would be based on these size-differentiated targets averaged over their specific fleet. During 2008-2010, manufacturers would have a choice of complying with either the old (unreformed) or new (reformed) CAFE standards.

Importantly, the fuel economy standards starting in 2011 would be set explicitly to maximize net benefits to society—including fuel savings, safety, security, and environmental concerns. Among other things, this shift implies that those standards will rise along with the price of oil. While the proposed 2011 targets assume \$25-30 per barrel crude oil prices (based on available government forecasts) and are estimated to achieve a 24-mpg fuel economy, we estimate that an additional \$20 per barrel (in line with recent long run private-sector forecasts) would raise the proposed targets by perhaps 4-5 mpg.

The proposed reforms also erase the current disparity between passenger automobile and light truck standards, as the smallest light truck category would have a target

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exceeding the current 27.5 mpg for passenger automobiles. This would remove the incentive for automakers to effectively design passenger cars that can be categorized as a light truck (by raising the height, making the seats removable, etc.) in order to face an easier fuel economy standard.

From an economic perspective, these reforms represent a remarkable shift toward a more efficient regulatory system. Still, potentially valuable, further improvements remain—trading of CAFE credits across manufacturers and between passenger cars and light trucks, for example. The proposed reforms also fail to address the larger economic questions of whether taxes or tradable permits (for gasoline usage) would be a better policy than a CAFE performance standard, and whether consumers and manufacturers are really making bad fuel economy decisions absent government intervention. The latter question could also have significant implications for whether technology costs and fuel economy benefits are correctly valued in the CAFE analysis.

The remainder of this memorandum walks through essential elements of the reform package, provides a quick economic analysis, and summarizes the economist's perspective.

Unreformed CAFE

Existing CAFE regulations establish a single mileage standard that must be met, on average, for every manufacturer's light truck fleet. That is, each manufacturer takes the fuel economy of each light truck model they produce, and then averages those numbers weighted by production volume. That number must be at or above the mandated standard. If the manufacturer beats the standard, the manufacturer collects CAFE credits that can be used to make up any shortfall in the next three years. If the manufacturer misses the standard and does not have any credits, there is a penalty equal to \$5.50 per 0.1 mpg per vehicle. The penalty is routinely paid by European manufacturers but has never been utilized by domestic or Asian manufacturers.

The level of the standard is set with an eye toward achieving the maximum possible fuel economy, but with considerable deference given to the ability of each manufacturer to meet that standard. In particular, NHTSA has traditionally focused on the least capable vehicle manufacturer and tailored the standard to be "economically practicable" for that firm. The actual analysis is based on confidential manufacturer data and modeling. This approach was used in 2003 to set the 2005-2007 standards. Prior to that, Congressional riders prevented any changes to the CAFE levels for light trucks since 1996. The standard for passenger cars has remained unchanged since 1990.

One consequence of this approach is that the single standard for light trucks is tougher—more expensive—for manufacturers with a full line, including large trucks that have lower fuel economy, and easier for manufacturers focused on small trucks that typically have higher fuel economy. For example, Honda has consistently beaten the existing light-truck CAFE standard by 4-5 mpg, suggesting it has had no effect on their production decisions, while the major domestic manufacturers that produce a broader range of trucks have hovered right at the standard, suggesting a real impact.

The current NPR uses this approach to determine unreformed 22.5-23.5 mpg standards for 2008-2010.

Reformed CAFE

The proposed CAFE reforms involve two major changes. The first is a shift from a single standard for all manufacturers to differentiated standards for each manufacturer based on the composition of their fleet. This shift arguably eliminates the notion of a least capable manufacturer because standards are tailored to each manufacturer's vehicle mix. The second is a shift to an explicit cost-benefit analysis based on fuel savings and other consequences of gasoline and vehicle usage. While previous standards have

utilized cost-benefit analysis as part of the regulatory impact analysis *after* the standard was set, the proposed reforms put the cost-benefit analysis front and center.

Differentiated Standards

The NPR proposes differentiating fuel economy standards for light trucks using six discrete size categories, but requests comments on the use of both alternative attributes and/or more size categories (or even a continuous function). The size of a vehicle, or “footprint,” is defined by multiplying the track width (distance between tires on the same axle) multiplied by the wheelbase (distance between centerlines on each axle). The proposed ranges for each footprint category, according to NHTSA, were based on an effort to keep the majority of models in the low end of each range; that is, to avoid creating significant opportunities for firms to slightly increase the size of a vehicle and have it move into the next higher range with a correspondingly lower standard.

NHTSA then establishes the *relative* position of targets for each category. That is, category 2 is 0.8 mpg lower than category 1; category 3 is 3.4 mpg lower than category 2; etc. These relative positions are determined based on the difficulty / cost of achieving fuel economy levels in each category. The result is a schedule of fuel economy targets for different size categories, but only defined relative to each other.

Setting the Standards

The actual standards are determined by moving the absolute level of this schedule up or down in order to meet one of two criteria. From 2008-2010, the criterion is that the total cost to industry under the reformed regulation should equal the total cost to industry under the unreformed regulation, described earlier. From 2011 onward, the criterion is that benefits to society, minus costs, are maximized. Table 1 summarizes the resulting standards in the NPR.

With the target for each category in hand, the standard for each manufacturer is based on how many trucks the manufacturer produces in each category. Based on current projections by NHTSA, that results in the manufacturer-specific standards given in Table 2. Note that manufacturers do not have to meet the target in any one category, but underachievement in one category has to be offset by overachievement in another.

Analysis

Several questions naturally arise when evaluating the proposed reform package. Does it cost more or less than the unreformed policy? Even if the cost is roughly the same, is the *distribution* of costs different across manufacturers? Does it achieve more overall fuel economy for a given cost? Are these cost-benefit estimates consistent with other cost-benefit estimates? We briefly examine each question in turn based on available data.

Does Reformed CAFE Cost More?

There are no direct comparisons of costs under the proposed, cost-benefit approach to setting the standard versus costs based on the existing, least-capable manufacturer approach. A footnote in Table 3 highlights this fact—costs are similar in each year where both reformed and unreformed CAFE costs are reported *by design*.

However, looking at those same cost estimates in Table 3 *across years*, we do not see a dramatic difference moving from 2010 to 2011, when the new metric of maximizing net benefits is applied for the first time, versus moving from 2007 to 2008, 2008 to 2009, or 2009 to 2010, when the overall cost to industry is set based on unreformed CAFE. Costs per vehicle rise by \$89 from 2010 to 2011, but they rise by \$88 from 2008 to 2009. That suggests, at the very least, that any increase in costs from the reformed approach is in line with the spending trend for fuel economy improvements over time under the unreformed program.

Is the distribution of costs different across manufacturers?

Unreformed CAFE sets a common standard for all manufacturers, whereas reformed CAFE will set differentiated standards based on each manufacturer's product line—higher standards for manufacturers specializing in smaller trucks. Other things equal, this suggests a shift in costs away from manufacturers of larger trucks and toward those which only manufacture smaller light trucks. Table 4 quantifies this shift using historical data on CAFE credits: Under both reformed and unreformed CAFE, manufacturers can earn credits equal to the amount by which their fleet exceeds the standard, expressed in tenths of a mile-per-gallon, per vehicle. These credits can then be used in future years to make up a deficit if they fail to meet the standard.

Based on historic manufacturing data for 2002-2004, Table 4 shows the change in manufacturers' net CAFE credits position under the reformed versus unreformed program; positive numbers reflect a better outcome under reformed CAFE. What we see is that three manufacturers, Hyundai, Isuzu, and Suzuki, do noticeably worse, facing a deficit of perhaps 30 credits per vehicle absent changes. Meanwhile, GM, to a lesser extent Ford, and eventually Nissan, all see an improvement of 2-6 credits per vehicle. If we look at the underlying production data available in Tables III-3 through III-5 of the PRIA, the three manufacturers who face the greatest deficit are the ones whose trucks fall entirely in the smallest two of the six reformed CAFE categories. Meanwhile, GM, Ford, and Nissan have the largest share—more than one-third—in the largest two categories by 2004 (only 20 percent of DaimlerChrysler vehicles fell in those two categories in that year).

Does reformed CAFE achieve more fuel economy for a given cost?

Given that the costs of reformed CAFE are similar to the costs of unreformed CAFE, the delivered value of the proposed reforms turns on whether benefits are higher. Table 5 compares estimates of the fuel economy, gallons saved, and dollar benefits under the two programs. For all three metrics, we see reformed CAFE improvements that are 12-15 percent higher in 2008, 19-20 percent higher in 2009, and 6-7 percent higher in 2010. No comparison is possible in 2011, because only reformed CAFE estimates were provided.

Are the cost estimates consistent with other studies?

In an effort to benchmark the cost analysis in the NPR and PRIA, we used the data contained in the 2001 National Academy of Science (NAS) CAFE study to estimate cost curves for fuel economy improvements for different classes of light trucks (SUVs, trucks, and minivans). We compare these costs to the benefits from fuel savings in the NPR, ignoring all of the additions and subtractions for various externalities the PRIA considers that have a net effect of lowering benefits 2-4% (see PRIA Tables VIII-4 through VIII-10). We then estimate the net benefit maximizing level of fuel economy.

Despite the fact that our data is now five years old and that we could not replicate the size-based categories in the NPR, our results suggest a benefit-maximizing fuel economy squarely in the range of the 22.6-24.0 mpg levels forecast under the proposed rule. However, it is important to highlight that this estimate uses the NPR and PRIA oil price forecast of \$25-30 from the *Annual Energy Outlook 2005*. More recent private-sector forecasts suggest an increase of perhaps \$20 per barrel, adding an additional \$0.50 per gallon to the fuel economy savings and raising our estimate of the benefit-maximizing fuel economy by 4-5 mpg.

Perspective

From an economist's perspective, the proposed reforms represent a clear move toward greater efficiency, perhaps even an optimum given current statutory constraints. Moving beyond this constraint, however, the efficiency of the CAFE program could still

be improved by allowing trades among manufacturers and between cars and trucks. Because the benefit per gallon is now the metric for setting the standard, one could also ask whether this value ought to be used to cap the cost of any compliance efforts by allowing manufacturers to pay that value (or some multiple) if they miss the standard. One might even want to back up and ask whether CAFE itself—that is a performance standard for vehicles rather than fuel taxes or emissions trading—is what we really want. Many economists argue that consumers and manufacturers already make the desired fuel economy decisions without regulation, excluding concerns over the environment, security, and safety. If so, the fuel economy savings and technology cost ought to balance at the margin, suggesting they have been incorrectly valued in this analysis.

Importantly, by raising the target for small trucks above the standard for passenger vehicles the proposed reforms eliminate the incentive to redesign what is essentially a passenger vehicle in order to be classified as a light truck and to face a lighter CAFE standard. Under the current program, such redesigns are often cited as a significant, adverse, and unintended consequence of the wide gap in standards between cars and trucks.

Finally, our calculations, showing that recent increases in long-run oil prices raise the desired fuel economy by 4-5 mpg, highlight the importance of assumptions about these prices. While it is unclear what role oil prices played in setting standards under the unreformed program, they *drive* the standards set by benefit maximization under the reformed program.

Tables and Figures

Table 1. Proposed Targets (in mpg)

Category	1	2	3	4	5	6
Range of vehicle footprint (sq. ft.)	≤ 43.0	> 43.0-47.0	> 47.0-52.0	> 52.0-56.5	> 56.5-65.0	> 65.0
MY 2008 Targets	26.8	25.6	22.3	22.2	20.7	20.4
MY 2009 Targets	27.4	26.4	23.5	22.7	21.0	21.0
MY 2010 Targets	27.8	26.4	24.0	22.9	21.6	20.8 ⁶²
MY 2011 Targets	28.4	27.1	24.5	23.3	21.9	21.3

Source: NPR Table 6

Table 2. Estimates of Required Fuel Economy Levels (in mpg)

Manufacturer	MY 2008	MY 2009	MY 2010	MY 2011
BMW	23.8	24.8	25.1	25.7
Suzuki	26.0	26.7	26.8	27.5
Volkswagen	22.7	23.9	24.3	24.8
General Motors	22.2	22.8	23.2	23.7
Ford	22.4	22.9	23.1	23.6
DaimlerChrysler	22.8	23.5	23.7	24.2
Honda	23.1	24.0	24.2	24.8
Hyundai	24.2	25.9	25.7	26.3
Nissan	22.1	22.8	23.2	23.7
Toyota	23.2	24.1	24.5	25.0
Fuji (Subaru)	24.8	25.6	25.8	26.4
Porsche	22.3	23.5	24.0	24.5
Isuzu	22.3	22.9	23.2	23.7

Source: NPR Table 7

Table 3. Incremental Cost per Vehicle

	MY 2008	MY 2009	MY 2010	MY 2011
Unreformed CAFE in 2008-2010	56	130	185	NA
Reformed CAFE 2008-2011	54*	142*	186*	275

* By policy design, the proposed mpg levels under Reformed CAFE are set so that the industry-wide costs of Reformed CAFE are roughly equal to the industry-wide costs of Unreformed CAFE for MY 2008-2010.

Source: PRIA Table 1

Table 4. Effect of Reformed CAFE, Relative to Unreformed CAFE, on Manufacturer's CAFE Credit Position using Historic Data (change in credits per vehicle)

Manufacturer	Market share (2004)	2002	2003	2004
BMW	0.01	-4.29	-0.92	-16.23
DaimlerChrysler	0.19	-3.03	-6.00	-7.25
Ford	0.23	2.80	-1.00	3.01
GM	0.29	7.87	6.00	5.63
Honda	0.06	-3.51	-11.00	-9.91
Hyundai	0.02	-13.64	-30.05	-27.15
Isuzu	0.00	-14.32	-29.76	-27.21
Nissan	0.06	-9.89	-16.02	2.18
Suzuki	0.00	-16.71	-29.90	-29.40
Toyota	0.13	-4.50	-5.01	-7.99
Volkswagen	0.01	-8.53	-15.12	-8.14

Source: PRIA Tables III-3 through III-5

Table 5. Benefit Estimates, Reformed and Unreformed CAFE

	2008	2009	2010	2011
Fuel economy improvement versus baseline (mpg)				
unreformed	0.26	0.59	0.87	
reformed	0.29	0.71	0.88	1.34
Gallons saved over vehicle lifetime versus baseline (millions, undiscounted)				
unreformed	826	1860	2715	
reformed	942	2218	2892	4110
Benefits versus baseline (\$millions, net present value at 7% over vehicle life for each model year)				
unreformed	605	1366	2007	
reformed	694	1633	2144	3069

Source: PRIA Tables VI-1b, VI-2, VI-3 (Fuel Economy), PRIA Table 5 (Gallons), PRIA Table 3 (benefits)

MR. BILIRAKIS. Thank you, Dr. Pizer. Mr. Reuther.

MR. REUTHER. Thank you, Mr. Chairman. My name is Alan Reuther. I am the Legislative Director for the UAW. We appreciate the opportunity to testify before this committee on the draft legislation authorizing NHTSA to set new passenger car fuel economy standards.

The UAW has repeatedly emphasized two important points about the CAFE program. First, we have urged that the structure of the program be modified to eliminate discrimination against full line producers, based on their product mix. In our view, all companies should be required to make similar efforts to improve fuel economy across their entire line of vehicles.

Second, we have consistently emphasized the importance of retaining both the fleet-wide averaging and the two fleet, domestic and foreign components of the passenger car CAFE structure. These two requirements ensure that full line auto manufacturers must maintain small car production in North America. This is because the production of smaller, more fuel-efficient vehicles is needed to offset the production of larger, less fuel-efficient vehicles.

As a matter of national energy policy, we believe it is important for the U.S. to retain domestic production of smaller, more fuel-efficient passenger cars. Furthermore, currently, over 17,000 American workers are employed in seven U.S. assembly plants that produce small passenger cars. This includes GM, Ford, Daimler-Chrysler, Mitsubishi, and NUMMI plants in Lordstown, Ohio; Wilmington, Delaware; Spring Hill, Tennessee; Wayne, Michigan; Belvidere and Bloomington, Illinois; and Fremont, California. In addition, almost 50,000 American workers produce parts for these vehicles. The jobs of these workers would be directly threatened by any CAFE proposals that undermine fleet-wide averaging and/or the two-fleet rule for passenger cars.

NHTSA recently released final rules establishing a size-based CAFE system for light trucks. UAW supported these rules for several reasons. We were pleased that the size-based system eliminated the discriminatory impact on full line producers. At the same time, because the new rules only dealt with light trucks, not passenger cars, there was no threat to small car production and jobs in this country.

The UAW believes that NHTSA already has the authority to raise the flat mpg requirement in the current CAFE standards for passenger cars, but NHTSA does not have the authority to change the structure of the passenger car CAFE system to an attribute-based system. We recognize that establishing an attribute-based CAFE system for passenger cars, similar to the new light truck system, would have the benefit of eliminating the current discrimination against full line producers, but it would also have the major downside of undermining fleet-wide averaging and the two-fleet rule, and thus would enable auto manufacturers to offshore all of their small car production and jobs.

And I would like to note, Secretary Mineta, in his comments, suggested that they might retain the two-fleet rule. Only doing that would not protect the small car production and jobs. You also have to protect the fleet-wide averaging.

Some commentators have tried to dismiss these concerns about small car production by arguing that companies will simply substitute large car production at these facilities. This ignores the harsh reality that there is currently significant overcapacity in the auto industry. The UAW submits that the real world impact is that certain companies would take

advantage of the change in the CAFE rules to further downsize their operations. The net result is that small car facilities would be closed, and tens of thousands of automotive jobs would be lost.

Fortunately, the UAW believes there is an easy way to obtain the benefits of moving to an attribute-based CAFE system for passenger cars, while avoiding the downside of losing our small car production and jobs. Specifically, we urge Congress to impose an anti-backsliding requirement on any new CAFE rules that NHTSA would be authorized to promulgate for passenger cars. This requirement should specify that both the domestic and foreign passenger car fleets for each auto manufacturer would still have to meet or exceed the CAFE standard under the current system, the 27.5 mpg fleet-wide standard. This anti-backsliding benchmark should be increased, in line with the overall fuel economy improvements required under any attribute-based system.

The adoption of this type of anti-backsliding requirement would prevent companies from offshoring their small car production and jobs. It would also ensure that the auto manufacturers cannot subvert the objective of any new CAFE system by up-weighting or upsizing many of their vehicles, resulting in worse overall fuel economy.

The UAW would support legislation authorizing NHTSA to establish an attribute CAFE system for passenger cars similar to the truck system, provided this is coupled with an anti-backsliding requirement that protects the small car production and jobs. If this type of anti-backsliding requirement is not included, we would have to oppose the legislation.

The UAW firmly believes that our Nation can make substantial progress in improving fuel economy and reducing our Nation's dependence on foreign oil, and at the same time, make sure that we keep and expand automotive jobs in this country. In addition to changes in the CAFE system, we urge Congress to provide incentives to encourage the domestic production of advanced technology and flexible fuel vehicles, and their key components.

We look forward to working with the committee as you consider these proposals. Thank you.

[The prepared statement of Alan Reuther follows:]

PREPARED STATEMENT OF ALAN REUTHER, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

**SUMMARY STATEMENT OF
ALAN REUTHER, UAW LEGISLATIVE DIRECTOR**

The UAW has repeatedly emphasized two points about the CAFE program. First, we have urged that the structure of the CAFE program be modified to eliminate discrimination against full line producers based on their product mix. Second, we have emphasized the importance of retaining both the fleet wide averaging and the two-fleet (domestic and foreign) components of the passenger care CAFE structure. The combination of these two provisions ensures that full-line auto manufacturers must maintain small car production in North American. This protects the jobs of over 17,000 American workers who are currently employed in U.S. assembly plants that produce small passenger cars, and almost 50,000 workers who produce parts for these vehicles.

The UAW supported the rules that NHTSA recently promulgated establishing a new attribute based CAFE system for light trucks. Because these rules only dealt with light trucks, not passenger cars, there was no threat to small car production and jobs in this country.

The UAW believes that NHTSA already has the authority to raise the flat MPG requirement in the current CAFE standards for passenger cars. But it does not have the authority to change the structure of the passenger car CAFE system to an attribute-based system.

The UAW recognizes that establishing an attribute-based CAFE system for passenger cars similar to the new light truck system would have the benefit of eliminating the current discrimination against full line producers. But it would also have the major down side of enabling auto manufacturers to offshore all of their small car production and jobs.

The UAW strongly urges Congress to impose an "anti-backsliding" requirement on any new CAFE rules that NHTSA would be authorized to promulgate for passenger cars. This would allow us to obtain the benefits of moving to an attribute-based CAFE system for passenger cars, while avoiding the down side of losing our small car production and jobs. It would also prevent the companies from up-sizing or up-weighting their passenger cars, resulting in worse overall fuel economy. The UAW would strongly oppose any legislation authorizing NHTSA to establish an attribute-based CAFE system for passenger cars, unless it contains this type of "anti-backsliding" provision.

The UAW also urges Congress to specify that new passenger CAFE rules should only take effect in 2012 or later, after the new light truck CAFE rules have been implemented. We oppose the adoption of any credit trading system in the CAFE program, since this could also jeopardize the continuation of small car production and jobs in the United States.

Mr. Chairman, my name is Alan Reuther. I am the Legislative Director for the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW appreciates the opportunity to testify before this Committee on the draft legislation authorizing the National Highway Traffic Safety Administration (NHTSA) to set new passenger car fuel economy standards.

The UAW represents 1.1 million active and retired workers across the country, many of whom work or receive retirement benefits from auto manufacturers or auto parts companies. We were deeply involved in the original enactment of the Corporate Average Fuel Economy (CAFE) program, and continue to have a very strong interest in this

program because of its major impact on automotive production and employment in this country and the jobs and benefits of our members.

The UAW strongly supported the establishment of the CAFE program, and we support continuation of this program as an essential mechanism for improving fuel economy and reducing our dependence on foreign oil. We have previously stated, and continue to believe, that modest increases in the CAFE standards over time are technologically and economical feasible.

However, the UAW has repeatedly emphasized two critically important points about the CAFE program. First, we have urged that the structure of the CAFE program be modified to eliminate discrimination against full line producers based on their product mix. In our view, all companies should be required to make similar efforts to improve fuel economy across their entire line of vehicles. Because of this, we have strongly opposed legislative proposals that would have a discriminatory impact on full line producers, and therefore jeopardize the jobs and benefits of tens of thousands of active and retired workers.

Second, we have consistently emphasized the importance of retaining **both** the fleet wide averaging and the two-fleet (domestic and foreign) components of the passenger car CAFE structure. The fleet wide averaging requirement provides important flexibility to automotive manufacturers, while ensuring that the CAFE standards produce an overall improvement in fuel economy. Furthermore, the combination of fleet wide averaging and the two-fleet requirement ensures that full-line auto manufacturers must maintain small car production in North America. This is because the production of smaller, more fuel efficient vehicles is needed to offset the production of larger, less fuel efficient vehicles.

As a matter of national energy policy, we believe it is vital that the U.S. retain domestic production of smaller, more fuel efficient passenger cars. As we have all witnessed, sharp increases in gas prices can lead to shifts in consumer demand towards smaller, more fuel efficient vehicles. Unless we retain domestic production of such vehicles, consumers interested in this segment of the market could be forced to purchase foreign-made vehicles.

Over 17,000 American workers are currently employed in seven U.S. assembly plants that produce small passenger cars. This includes GM, Ford, DCX, Mitsubishi and NUMMI plants in Lordstown (Ohio), Wilmington (Delaware), Spring Hill (Tennessee), Wayne (Michigan), Belvidere (Illinois), Bloomington (Indiana) and Fremont (California). Almost 50,000 American workers produce parts for these vehicles. The jobs of these workers would be directly threatened by any CAFE proposals that undermine fleet wide averaging and/or the two-fleet rule for passenger cars. In addition, the loss of these jobs would inevitably have a negative ripple effect on the rest of the economy.

NHTSA recently released final rules establishing new CAFE standards for light trucks. These rules require modest improvements in light truck fuel economy, and also establish a sized-based CAFE system for light trucks. The UAW supported these rules for several reasons. We believed the magnitude and timing of the proposed increases in light truck fuel economy were feasible. We were also very pleased that the size-based CAFE system eliminated the discriminatory impact on full line producers. At the same time, because the old light truck CAFE standards did not contain any two-fleet rule, there was no threat to the continuation of small truck production and jobs in the United States. Furthermore, because the new rules only dealt with light trucks, not passenger cars, and did not change the definitions of what is a "passenger car" and what is a "light truck", there was no threat to small car production and jobs in this country.

The draft legislation that is the subject of this hearing would authorize NHTSA to set new CAFE standards for passenger cars. The UAW believes that NHTSA already has the authority to raise the flat MPG requirement in the current standards, and that legislation is not needed to enable it to go forward in this manner.

However, in his recent letters to Congress, Secretary Mineta made it clear that the Department of Transportation also wants Congress to give NHTSA the authority to change the structure of the passenger car CAFE system to an attribute-based system similar to the new structure that has been implemented for light trucks. There is general agreement among the various stakeholders in the fuel economy issue that NHTSA does not currently have this authority, and that authorizing legislation would be required before such structural changes in the passenger car CAFE program could be adopted.

The UAW recognizes that establishing an attribute-based CAFE system for passenger cars similar to the new light truck system would have the benefit of eliminating the current discrimination against full line producers. We would strongly applaud this development.

However, it would also have the major down side of enabling auto manufacturers to offshore all of their small car production and jobs. This would happen due to the elimination of the two-fleet rule. But even if this rule was retained, the companies would still be able to offshore their small car production and jobs due to the shift from a uniform, flat MPG fleet wide requirement for all companies to a pure attribute-based system.

Some commentators have tried to dismiss concerns about the loss of small car production by arguing that the companies will simply substitute large car production at these facilities, leaving the overall production and employment levels unchanged. This ignores the harsh reality that there currently is significant over capacity in the auto industry. The UAW submits that the real world impact is that certain companies would take advantage of the change in the CAFE rules to further downsize their operations. The net result is that small car facilities would be closed, and tens of thousands of automotive jobs would be lost, without any compensating replacements with large vehicle production and jobs.

Fortunately, the UAW believes there is an easy way to obtain the benefits of moving to an attribute-based CAFE system for passenger cars, while avoiding the down side of losing our small car production and jobs. Specifically, the UAW urges Congress to impose an "anti-backsliding" requirement on any new CAFE rules that NHTSA would be authorized to promulgate for passenger cars. This requirement should specify that both the domestic and foreign passenger car fleets for each auto manufacturer would still have to meet or exceed the CAFE standard under the current system (i.e. the 27.5 flat MPG fleet wide standard). This "anti-backsliding" benchmark should be increased in line with the overall fuel economy improvements required under any attribute-based passenger car CAFE system.

The adoption of this type of "anti-backsliding" requirement would prevent companies from offshoring all of their small car production and jobs. This would help protect the jobs of tens of thousands of American workers. It would also guarantee that we continue to maintain domestic production capacity for smaller, more fuel efficient vehicles.

This type of "anti-backsliding" requirement also would ensure that the auto manufacturers cannot subvert the objective of any new CAFE system by "up-weighting" or "up-sizing" many of their vehicles, resulting in worse overall fuel economy. It would guarantee that the companies will actually improve fuel economy across the entire range of their passenger cars, and that consumers and our nation will indeed receive the benefits of more fuel efficient vehicles.

The imposition of this type of an "anti-backsliding" requirement would not be burdensome for the auto manufacturers. If the companies are genuinely taking steps to improve fuel economy across their entire range of passenger vehicles, and if they do not shift small car production overseas, they should easily be able to meet this requirement.

Thus, the UAW would support legislation that authorizes NHTSA to establish an attribute-based CAFE system for passenger cars similar to the recently promulgated rule

for light trucks, **provided** this is coupled with an "anti-backsliding" requirement that protects small car production and jobs in this country and prevents up-weighting or up-sizing of cars. If this type of "anti-backsliding" requirement is not included, then we would vigorously oppose such legislation.

In addition to imposing an "anti-backsliding" requirement on any new passenger car CAFE rules, the UAW urges Congress to specify that such rules should only take effect in 2012 or later, after the new light truck CAFE rules have been implemented. In light of the serious economic difficulties currently facing certain auto manufacturers, we believe it is important to avoid placing undue regulatory burdens on the industry. The auto companies will have to make significant investments to meet the challenges posed by the new light truck CAFE rules. In our judgment, these burdens should not be compounded by simultaneously requiring changes in passenger car CAFE rules. By delaying the effective date of any new CAFE rules for passenger cars, NHTSA can gain the benefit of valuable experience in the implementation of the size-based CAFE system for light trucks. This will also ease the financial burdens on the auto manufacturers.

The UAW recognizes that there are other important issues associated with any shift to an attribute-based system of CAFE rules for passenger cars. This includes whether this type of a system should be based on weight, size or some combination of factors. We believe that resolution of these complex issues can best be resolved through the administrative rulemaking process.

We understand that some persons have also called for the adoption of a "credit trading" system that would allow auto manufacturers to buy and sell CAFE credits for passenger cars and/or trucks. The UAW strongly opposes such proposals, and urges Congress not to give NHTSA any authority to establish this type of a credit trading system. A system for trading CAFE credits would inevitably have the effect of undermining the two fleet rule and/or fleet wide averaging, and would therefore jeopardize the continuation of small car production and jobs in the United States. It could also aggravate the uneven playing field that currently exists between foreign and domestic auto manufacturers.

The UAW believes it is important for Congress to recognize that changing the CAFE standards for passenger cars, by itself, will not solve either the immediate problem of high gas prices or the larger problems of energy security and environmental protection. Because of the long lead time needed to implement any changes in CAFE, there clearly will not be any impact whatsoever on current gas prices. Furthermore, light duty vehicles (passenger cars and light trucks) only account for 40 percent of oil demand in 2006. Passenger cars account for less than half of light-duty vehicle sales, and new passenger cars sold each year represent a very small percentage of the total vehicle stock on the road. Thus, changing the CAFE standard for passenger cars would, over five years, only moderate demand from a source comprising less than 10 percent of our nation's oil use. In order to significantly reduce our oil usage and our dependence on foreign oil, clearly there is a need for broader national energy policies.

The UAW submits that these critically important energy security objectives do not have to be at odds with the goal of protecting and creating jobs for American workers. Indeed, we firmly believe our nation can make substantial progress in improving fuel economy and reducing our nation's dependence on foreign oil, and at the same time help make sure that we keep and expand automotive jobs in this country.

The UAW urges this Committee, the entire Congress and the Bush administration to support energy initiatives that further both of these important objectives. Specifically, we urge Congress and the Bush administration to move forward with proposals to encourage the domestic production of advanced technology vehicles and their key components. We believe great strides can be made in improving fuel economy and reducing our dependence on foreign oil by accelerating the introduction of such vehicles. But, as was demonstrated by a November, 2004 study conducted by the Office for the Study of

Automotive Transportation (OSAT) of the University of Michigan Transportation Research Institute, and commissioned by the bipartisan National Commission on Energy Policy, the United States will lose tens of thousands of automotive jobs unless steps are taken to encourage the domestic production of these vehicles and their components. Currently, most of the advanced technology vehicles are assembled overseas, and almost all of the key components for the hybrid and diesel vehicles are built overseas. As these vehicles gain a larger share of the market, we will inevitably lose automotive jobs unless we make sure that these vehicles are assembled in the U.S. and the main components are also built here.

We are very pleased that proposals along these lines have already been introduced by Members on both sides of the aisle, including the Kingston-Engel (H.R. 4409), Inslee (H.R. 4370) and other bills. The UAW submits that the types of manufacturer's incentives in these bills can help to create thousands of automotive jobs for American workers, while at the same time improving fuel economy, reducing global warming and our dependence on foreign oil.

The UAW also urges Congress and the Bush administration to move forward with proposals to aggressively promote the production, sale and use of alternative fuel vehicles. Several automakers are already producing vehicles that can run on a blend of 85 percent ethanol, 15 percent gas. This technology is relatively inexpensive - about \$150 per vehicle. But production and sales of flex fuel vehicles represent only a small fraction of the market. And the actual use of alternative fuels has been hampered by bottlenecks in processing and, more importantly, the lack of a distribution network. The UAW believes these problems can be overcome by mandating that a certain percentage of all vehicles sold in the U.S. by each automaker must be flex-fuel capable by a specified date. Indeed, there's no reason why automakers can't make 100 percent of their vehicles fuel capable within a reasonable time frame. We also believe that there should be additional incentives to encourage the creation of more processing plants to increase the supply of alternative fuels, and to encourage the conversion of existing filling stations so they have the capability to distribute alternative fuels. In our judgment, this combination of flex fuel policies offers the best opportunity to make progress in the near term on reducing oil consumption and our dependence on foreign oil.

In conclusion, the UAW looks forward to working with this Committee as you consider proposals to improve fuel economy. Thank you for considering our views on these important issues.

MR. BILIRAKIS. [Presiding] Thank you very much, sir. I am sorry if I caused you to speed it up there at the end.

First of all, I want to welcome Mr. Sharp, who is a good friend. He was a very effective Congressman, a very effective member of this committee, and we are sorry to have lost you, Phil, even though you have gone on to bigger and better things.

Second of all, I want to apologize to all four of you, you sat there through so many opening statements, if you will, and the other two panels, and then when you come up, there are only three or four of us here to listen to you. But the record is being kept, and of course, the television is on, and hopefully, your words are going to be seriously taken, and be helpful.

Mr. Webber, I was asked by Mr. Joe Barton to ask you this question. Would you support an increase, a new increase in the fines for those manufacturers who do not meet the standard, the CAFE standard?

MR. WEBBER. You put me in a very difficult position, Mr. Chairman.

MR. BILIRAKIS. Yeah, that is probably why he wanted me to ask you.

MR. WEBBER. You know who I represent. I would say that this has not been discussed, and I would like to defer my answer, but I think there are better ways to skin the car.

MR. BILIRAKIS. Well, that is really what concerns me here, is we forget too easily, we Americans, we have already forgotten, almost, 9/11 and whatnot. And when we have our problems at the pump, our gas problems at the pump, with the long lines, that has taken place over the years and whatnot, we get all shook up, and we think we can maybe come up with something. And then when the problem sort of goes away, we relax again, and I honestly feel that is what is going to happen this time around, if we don't soon do something. That is why it is critical, I think, that now that we have the door sort of open a little bit, that we address ways to try to solve the problem. The problem is not \$3 a gallon of gasoline. The problem is our dependency on foreign oil.

So, with that in mind, I asked Mr. Mineta if they have gotten around, sat around a table, with the auto manufacturers, and I didn't bring up the unions, but certainly, the unions would be very, very significant in that regard, and sit down and say, hey, there is a problem here, and we may not have the legal authority to change the CAFE standard, particularly, as Mr. Reuther has already indicated, and the other side kept insisting the authority was there, and this is, what we are doing here today is not necessary. But you know, why can't people sit around a table and discuss these problems, and try, maybe have a give and a take and whatnot, and not basically require almost Congress to do it, in this ivory tower of ours. We ordinarily, sometimes, will cause more problems and more harm than good.

Let me ask you, and I will ask all four of you that.

MR. WEBBER. Well, I will lead off. We do from time to time sit down--

MR. BILIRAKIS. Yeah, I would like to have you answer, and then Mr. Reuther after that, because I do want to hear that viewpoint. Go ahead, sir.

MR. WEBBER. We do, from time to time, sit down and talk through these problems, and participate in panels, and come up with ideas, but I would just repeat what I said in my summary statement a few minutes ago. We acknowledge the challenge. The good news is advanced technology has become a competitive issue. My industry, the manufacturers I represent, are moving on several fronts to gain the marketplace share, because of advanced technology.

You know, when safety became a competitive issue, all kinds of good things happened. And today, you and I drive vehicles that have never been safer. The same is true today with advanced technology. It indeed is a competitive issue. And I think that bodes well for our future.

MR. BILIRAKIS. Well, and you pointed those out in a very good manner in your statement. Mr. Reuther.

MR. REUTHER. The UAW does not believe that we can solve our energy security issues just by CAFE alone. That is why--

MR. BILIRAKIS. I would agree.

MR. REUTHER. --we have called for policies to aggressively promote both the hybrid and advanced diesel, and the flex fuel vehicles.

MR. BILIRAKIS. How would you do that?

MR. REUTHER. We would like to see incentives to the manufacturers to encourage domestic production of these vehicles, in terms of the hybrids and diesels. Those cost benefits would flow through to the consumers, but in addition, it would ensure that we retain domestic production. That would also be good for jobs. We don't think there has to be this tension between jobs and promoting energy security. We think we can move forward on both.

On flex fuel, we have the technology already. It is very inexpensive. We would even support a mandate that by a certain date, there has to be a much higher percentage of flex fuel vehicles produced in this country. The challenge there is providing the incentives so that we have the distribution and processing of the flex fuels, and we would support policies along those lines.

MR. BILIRAKIS. Thank you, sir. Phil, very quickly, if you have maybe a real quick response.

MR. SHARP. Well, I just would go back to the proposition that right now, we have this intense interest, understandably, from everybody, consumers alike, in fuel economy. But what happens to us is if these oil prices decline again, as they might, they might not. But if they do, as the past patterns have been, then we lose that as consumers. Naturally, the industry has to adjust to consumer issues.

So the difficulty is how to sustain a proposition, and that is why I think the Government, in one way or another, unfortunately needs to be in the act.

MR. BILIRAKIS. Yeah. Okay, thank you, gentlemen.

Ms. Schakowsky has walked out. Mr. Inslee.

MR. INSLEE. Thank you. I am just following up Mr. Sharp's comment that price is not the only reason, there are a variety of reasons, this is a trifecta. It is good for price, it is good for our national security, so that we stop funding our enemies. We are sending billions and billions of dollars to the Mideast, funding our enemies. It is a security

issue, and climate change is something we have got to come to grips with, and today, another agency of the Federal Government issued another report categorically saying that essentially the debate is over, that the science is in, and we have got to deal with this issue. I just pointed out this solves a lot of our problems, some economic, some security, some environmental.

I want to thank Mr. Sharp for your work on the commission that came up with really broad-based suggestions, not just on CAFE, but on a whole host of issues, and I want to point out that a lot of the commission's reports are found in a bill I have introduced, called the New Apollo Energy Act, which really takes a holistic approach to dealing with this, and this is just one part of it, and I just want to thank your efforts on that.

Mr. Reuther, I wanted to ask you about the flex fuel issue. I really appreciate the UAW's leadership, saying that you are even willing to consider Congress demanding, essentially, some percentage of our vehicles to be using this existing technology, but we also are sensitive to the financial condition of our auto industry, and it is something we have got to be aware of, too, and some of us have suggested a variety of ways to assist in that regard. Senator Obama has introduced a bill. I have introduced one here, to help with the legacy healthcare costs of the industry, as they go through this transition period.

I just wondered what your observations are. What should we be thinking about in that regard? What is the most effective thing to do, as far as incentives, from your observation, that actually works?

MR. REUTHER. We believe the important thing is to make sure that all companies in the industry are able to utilize the incentives, and because of the different tax situations, financial situations of the companies, simply providing, for example, an investment tax credit might not be equally beneficial to all companies.

So in order to have a level playing field, we want all companies to be making investments here in these advanced technology vehicles, flex fuel vehicles. We think mechanisms have to be found, so that all companies get the same incentives. One way to do that would be, as you have suggested in your bill, to give companies the ability to get relief on legacy healthcare costs, perhaps giving companies the alternative, either the tax benefit, or the healthcare benefit. There may be other mechanisms, but the notion should be a level playing field, all companies given the same incentives.

MR. INSLEE. Appreciate that. You know, the flex fuel, one of the reasons I am excited about this prospect, it is an existing technology. In your testimony, I think, you said it costs maybe \$150 a vehicle, which is peanuts relative to what you are going to save, if we can keep these

prices down by introducing a competitor to oil and gas. If we can get bio-fuels to be a competitive element, to help reduce, to essentially get another alternative source, we think that can have a very beneficial impact on costs. So there are savings actually over the long run.

Do all the industry have the capacity, do all the companies have the capacity to provide us these flex fuel vehicles today? Is there any particular advantage in one or the other? Is there any sort of domestic, non-domestic concern here, or is everybody on the same wavelength?

MR. REUTHER. My understanding is that the Big Three companies may be slightly ahead in producing the flex fuel vehicles, but the technology is very simple and inexpensive. If there is direction from the Government to move forward in that direction, we think all auto companies can easily do it. We believe this holds the best prospect for near-term significant oil savings, and that is why we call on the Government to aggressively promote flex fuel vehicles, and the domestic production.

MR. INSLEE. Some of us would rather send our money to Midwestern farmers and Middle Eastern sheikhs, and I don't think that is too parochial to say that. I will ask you kind of a rhetorical question. There are suggestions that we continue our research into advanced fuels, hydrogen vehicles. I support that, but I hate to think of that as a cover for inaction, to use the technologies today. Today, we can drive hybrid vehicles. I drive one. It gets over 50 miles a gallon. I am 6'2", 205 pounds, and I am very comfortable and safe in it. Today, we can drive flex fuel vehicles that can grow this demand for bio-fuels. Hopefully, we will have cellulosic ethanol at some point.

Would you counsel us against using research as a cover for inaction? I guess that is a rhetorical question, but I will ask it anyway.

MR. REUTHER. I don't think it is an either/or situation. Obviously, additional research is needed, and would be helpful on, you know, plug-in batteries, hybrids, fuel cells, et cetera, but we think we can move forward, in terms of encouraging domestic production of the advanced technology vehicles, and in encouraging flex fuel vehicles, and move forward on CAFE, as we have said in our testimony.

MR. INSLEE. Thank you.

MR. BILIRAKIS. Thank you. The gentleman's time has expired. Dr. Burgess to inquire.

MR. BURGESS. Thank you, Mr. Chairman. Mr. Webber, there is a question that I have just got to ask you. It is really a little bit off the subject of CAFE standards, but I have heard this for years, that ethanol was harmful to some of the parts in the engines of automobiles. Is that just an urban myth, or is that true? I hear that mostly from my Corvette guys.

MR. WEBBER. I don't think the companies that have committed to ethanol would have done so had they not solved that problem, or had they not believed that they could solve that problem. Whereas that might have been a problem in the past, it is my understanding that the ethanol-capable, the E-85-capable vehicles that are in the marketplace today, and I think we have got about five million on the American road today, and we are going to have another million before the year is out, you are not going to see any harm to the engines. That is my clear understanding.

But I do want to raise one issue, and I go back to the Congressman from Washington's comments on ethanol. To me, the real challenge with ethanol has to do with infrastructure. We have 180,000 plus gas stations in the United States. Only 500 will give you ethanol, or what I would call E-85.

MR. BURGESS. Yeah. Let me reclaim my time, so the gentleman from Washington doesn't use it. Being from Texas, I am not sure I am liking the direction that is going.

We have heard, of course, today, about innovation and taxation and regulation, so we have got the whole gamut ahead of us. Mr. Webber, let me stay with you on that line of questioning. Do you think an increase in the corporate average fuel economy standards would substantially increase the number of hybrids offered by American manufacturers?

MR. WEBBER. Your questions are very easy, Dr. Burgess, or not easy, I should say.

I don't know the answer to that question. I do know that by increasing CAFE, and it will take time. It is a complex issue, especially if you go the reform route that they did with light trucks. It is going to take time, and so it is not an immediate fix. It is not a silver bullet. If you are looking for immediate answers, they are probably not there. We will have, as my testimony explained, a million hybrids on the road by the year 2010. I think that is fairly impressive. I drive one. The mileage is very, very impressive, even though I drive an SUV hybrid. I am very impressed. It is double what I would probably normally get in a standard SUV.

MR. BURGESS. Yeah.

MR. WEBBER. So I think hybrid technology is here to stay. I think you are going to see more and more companies getting involved in it, and I think it is one of the answers. But there are several answers. That, indeed, clearly is one of them.

MR. BURGESS. Let me ask Mr. Reuther, are we going to see those hybrids from American manufacturers?

MR. REUTHER. Well, there already are hybrids from the manufacturers. The Ford Escape--

MR. BURGESS. Mr. Reuther, with all due respect, I waited 5 years for a Ford Escape before I broke down and bought a Toyota. I desperately wanted an American-made hybrid. Now, I like the hybrid, and I like the fuel economy. I like the feeling of moral superiority, but I would really like to be able to know that I wasn't outsourcing a job in driving that hybrid vehicle. So what can we do to encourage American manufacturers along those lines?

MR. REUTHER. Well, that is why we specifically urge that there be incentives for the domestic production of the hybrids, and especially, the components. A lot of people often think of just the final assembly, but it is actually the components, the hybrid electric motors, the diesel engines, where there are thousands and thousands of jobs, and you know, unfortunately, right now, none of those key components are built in this country. We think with the proper incentives, we could get those built here, create jobs, and at the same time, accelerate the introduction of these fuel-saving vehicles.

MR. BURGESS. Isn't the success story of the Toyota, though, isn't that enough incentive for the industry? I mean, I had to wait 6 months to get one.

MR. REUTHER. But there is a difference between--

MR. BURGESS. That is paying full price.

MR. REUTHER. --producing it and producing it in this country, and we want to make sure the jobs are created for American workers, not over in China or Japan.

MR. BURGESS. And I agree with that. Mr. Sharp, let me just ask you--of course, you made a statement that I probably don't agree with fundamentally, but about the vehicle miles driven, and that leading to the tax increase. I asked the question of Mr. Mineta, but I asked it so clumsily, I don't know if he really understood it. If you have one of Mr. Reuther's American-produced hybrid vehicles, now, that is getting 50 miles to the gallon, and it has got a plug-in battery that you run off a solar cell, so that you are really only using one gallon of fossil fuel for every hundred miles driven, would you just tax the fossil fuel, or would you tax the ethanol that goes into the E-85 at the same rate that you are--do you really care if those vehicle miles driven are that great, unless you are burning fossil fuel? Is it the question of fossil fuel, or the vehicle miles?

MR. SHARP. I actually never thought of that question, and I don't have an answer for you. Although I would quickly say when we get to that point, that they have so many on the road, then the Ways and Means Committee can consider relieving us of the gasoline tax. I think the risk of our getting to that point is nowhere on the horizon.

MR. BURGESS. Mr. Sharp, nothing has changed since you were here. Once we get a tax, we never undo it. At least, that has been my experience.

MR. BILIRAKIS. The gentleman's time--

MR. SHARP. Or an ethanol subsidy, I might think.

MR. BILIRAKIS. The gentleman's time has expired. Ms. Baldwin.

MS. BALDWIN. Thank you, Mr. Chairman. In November of last year, I and 12 colleagues sent a letter to Secretary Mineta voicing concerns about the Department's proposed rule with regard to light trucks and specifically, I was asking the Administration to consider increasing the fleet-wide fuel economies by more than 1.8 miles per gallon, and including standards for vehicles between 8,500 and 10,000 pounds gross vehicle weight. I was pleased that the Department was moving forward, but I felt that this was something that could be a little bit more ambitious.

Now, I know, Dr. Pizer, in your remarks, you--thank you, by the way, for providing us with some new, creative ideas to be thinking about, but you avoided addressing the substance of the light truck rule. I am hoping I can coax you to do that. I know your caveat, that your views being expressed are your own, but as a Senior Fellow, who has looked very closely at this, I just--your comments, and do you agree that it would not have caused manufacturers undue hardship to include pickup trucks, or to have created a standard higher, even just slightly higher, than a 1.8 miles per gallon over four years?

DR. PIZER. The main comment I had about the level of the standard was when NHTSA put out the proposed rule. It was based on a forecast of oil prices that was outdated by the time the proposed rule was even printed. By the time the rule went final, the forecasts were about \$20 per barrel higher, over the long run, or about \$0.50 per gallon higher. By my reckoning, that would have raised the benefits from the fuel economy standard by about 50 percent. And I was very surprised when they had that 50 percent increase in benefits, and they are doing a cost/benefit analysis, that it didn't alter the standard very much. The difference between the proposed rule and the final rule was 0.2 mpg, and there were some countervailing reasons mentioned in the rule, more lead time, and changes on the cost side, but it was still surprising to me that there wasn't a larger increase. If we have these much higher oil prices that are forecast to continue, we would expect, I think, to see a stronger response on the CAFE standard, and that was very surprising to me.

MS. BALDWIN. Thank you, Dr. Pizer. Congressman, I thank you for your testimony here today. In your testimony, you were urging strong Congressional oversight and involvement, if the Department is going to be creating CAFE standards for passenger cars. One thing I am curious

to know is, specifically, do you believe that the committee print that we are looking at today, that we are considering, needs to be strengthened in that regard, or are you talking specifically about just the general oversight of this committee, and our relevant Senate committees, with regard to the Department taking over this responsibility?

MR. SHARP. Well, two things--

MS. BALDWIN. Exercising it, I should say.

MR. SHARP. I used the word, not an artful word, but legislative guidance, which is what I consider what you put in the legislation. It does seem to me that you could put more guidance in the legislation, as to what you expect, or the factors to be considered. Although, as I understand it, the legislation is reverting back to the four provisions that were discussed earlier today.

But secondly, I think you can follow up as the process is going on, since it will and it should take some time for them to redesign this, through hearings, through other ways that Congress has traditionally exercised oversight. And historically, from time to time, Congress has done a very good job of that, and sometimes not, and there is an opportunity here to do some serious work, because these are not casual questions, as many of you have indicated. What is at stake here are large in terms of employment, are large in terms of our economy, are large in terms of the environment, and on the energy front as well.

MS. BALDWIN. Thank you.

MR. BURGESS. Mrs. Blackburn.

MRS. BLACKBURN. Thank you, Mr. Chairman, and I thank all of you for being with us, and for your patience today.

Dr. Pizer, I think I want to come to you first, and I enjoyed reading your testimony, and appreciate what you had to say. When you were looking in your testimony, talking about fuel efficiency and considering how to best develop new technologies to meet the environmental needs, and the demands that consumers have, that drivers have--and I would just like a concise answer from you, as we go through this process of deciding what the right balance is going to be--and looking at CAFE standards, and looking at what the impact of government ought to be, and looking at the consequences of more governmental action, and then looking at the free market and consumers, and what they want, and what we hear from our consumers.

Do you think that we should just have the Highway Traffic Safety Administration, the Administration develop the standards, and then allow the manufacturers just to compete with what the best technologies are going to be? As Dr. Burgess has pointed out, some of the concerns his constituents had, and then we hear from different constituents. They like this, they don't like that, they can get this at just the normal competition,

the market. And this, in conjunction with that, do you think, what is your advice to us in being careful that policies we make aren't inadvertently promoting one technology over the other, instead of just preparing a playing field, a level playing field, and letting people, letting companies go to it, and so I would love your response.

DR. PIZER. I agree with you completely. You want to have a policy that sets a goal very clearly, and then allows the private sector to achieve that policy goal as cheaply and as efficiently as possible, also recognizing whatever competing concerns there might be, like about safety, about jobs, and things like that. I think a CAFE program suitably reformed, can achieve that. I am not sure, I would be happy to hear other people comment. I think a CAFE program does not favor one particular technology, in terms of how you are going to achieve the fuel economy savings.

Now, there are some other things that were mentioned that would be complementary policies, for example, alternative fuels, that would be very important. But in terms of the technology for achieving fuel economy, I think a fuel economy standard is probably the most appropriate policy, if it is well designed.

MRS. BLACKBURN. So set it and move it. That is what you are saying.

DR. PIZER. Well, reform it, so it is as efficient as possible, and it gives manufacturers as much flexibility as possible.

MRS. BLACKBURN. Yeah. Mr. Webber, do you want to add something to that? I saw you look up.

MR. WEBBER. No.

MRS. BLACKBURN. Okay.

MR. WEBBER. I am fine.

MRS. BLACKBURN. All right. Great. Mr. Reuther, in your testimony, you mentioned the importance of the two-fleet rule, and this is something that I found interesting, and I had hoped to be back while Secretary Mineta was still here, because I wanted to talk with him about that, and Academy of Sciences study, that basically said that the two-fleet rule did not seem to protect or grow domestic jobs. And I would like for you to talk for just a second as to why you disagree with that, and then what I would like to know whatever type evidence you have to substantiate whatever type quantifiable data you have to substantiate your position, and if you would like to submit that to me.

MR. REUTHER. The NAS study's conclusion was based on the assumption that the companies would simply substitute other production for the small car production, and we think that is not a real world assumption. We think it ignores the fact that there is significant overcapacity in the industry, and that if given the opportunity, the

companies would like to close additional facilities. Our evidence is that the companies talk about that they are not making the profits in the small vehicles--discussions with the companies, and--

MRS. BLACKBURN. So it is anecdotal, basically.

MR. REUTHER. Well, we believe--

MRS. BLACKBURN. Let me--

MR. REUTHER. --based on what would actually happen--

MRS. BLACKBURN. Okay, and let me ask you something else. You mentioned in your testimony the 17,000 American workers who are currently employed at U.S. assembly plants, and I appreciate that you did mention the Saturn Spring Hill plant, which is at the edge of my district, right outside my district. You didn't mention the Smyrna, Tennessee plant that has 6,000 workers. That is on the other side of my district, and they build the Nissan Altima that is there. And was there a specific reason that you left the Smyrna location off your list?

MR. REUTHER. We were focused on plants that have UAW members.

MRS. BLACKBURN. Just UAW members. Okay. All right. Thank you so much.

MR. BURGESS. The gentleman from Massachusetts is recognized for 5 minutes.

MR. MARKEY. Thank you so much, and I am going to go in the Wayback Machine and explain to people why fuel economy standards set by Congress were the single most important thing that has ever happened in the history of our energy dependence.

As you can see, in the '60s and the '70s, there was a continued rise in the amount of dependence upon imported oil, just continued to rise. Then Congress, in 1975, passed a law, which mandated that over a 10 year period, the fuel economy average for the United States had to be 27.5 miles per gallon. After a couple of years, what you saw is a ramping up of the efficiency, in this green line, and a plummeting of the amount of imported oil from OPEC, just a plummeting over that 10 year period, until we reach the point where imported oil had dropped from--down to only 27 percent of the oil we consumed, from 35 percent, just as we reached the peak of where the fuel economy standards had reached.

But then as we know, President Bush took over, the first President Bush. No additional changes were made. The number actually stagnated and declined after that point, and so we saw a reemergence of the historic trend, higher and higher. And each time Sherry Boehlert and I asked for the imposition of the NAS, the National Academy of Sciences standards, the Republican Congress voted no, no, no, and we never saw, actually, a request from the Administration, in the form of legislation, to act in this area.

So this is a devastating historical reality. Okay. Congress acting, fuel economy standards going into place, plummeting of imported oil, and then once the pressure was relieved, it once again started to escalate. So the NAS, in 2001, they actually assumed in their analysis three technology paths, and they assumed \$1.50 a gallon of gasoline, that the cost of the technologies at the time, they took that as the assumption, and they all assumed that 5 percent weight increase, as a result of the addition of new CAFE or safety technology. And so clearly, the assumptions are outdated, since there is now a much higher cost of gasoline, which would imply that the technologies are now more affordable than they were in 2001.

So there were three assumptions. We selected the middle assumption, Sherry Boehlert and I, the mid path, and what they did in their report, on pages 35 to 39, the National Academy of Sciences in 2001, was they took 13 technologies, and they used the existing state of those technologies, if they were incorporated into the automotive fleet. So nothing new, you don't have to invent a single thing. Hybrid technology is not included. And what they do is they take engine friction and other mechanical, hydrodynamic loss reduction that would be a one to five percent fuel economy improvement. Application of advanced low friction lubricants, multi-valve, overhead camshaft valve trains, variable valve timing, variable valve lifting and timing. So they just went through, using these you know, Ph.D.s and summa cum laudes from Harvard and Cal Tech and MIT, to figure out what it would be if they included it, if the automotive industry used over the counter, available technologies, and they assumed that there would be a 65 percent increase, a 34 to 65 percent increase in fuel economy standards.

But what Mr. Boehlert and I do, for the purposes of our amendment, is we picked the low number. We picked the 34 percent number, the one-third improvement that the NAS determined was possible, using off the shelf technologies, not the 65 percent.

So here we are now, 6 years later. The Secretary of Transportation is saying they have yet to really evaluate this report. They have been waiting for authority, apparently, to study something that the Secretary of Energy says is a crisis, because 70 percent of the oil goes into gasoline tanks.

So I guess my question to the panel, maybe you--my good friend and mentor, Phil Sharp, on energy issues--maybe you could give us some historical commentary on this NAS report, the findings that they made on page 35 to 39, and whether or not, you know, they were and still are implementable?

MR. SHARP. Well, if anything, you are correct that they are more implementable today than they were in 2000. There is the issue over

here, 2001 and 2002, as it was reported in 2001, but not printed until 2002, so you and the Secretary got into an issue over that, but there is no question that the price of gasoline used was \$1.50 in these calculations, and so there should be more benefit.

The one thing that I don't know in your proposal is the timetable that you allow for. That is critical to this issue of how costly it becomes.

MR. MARKEY. We used 10 years, which is the same that NAS used, so it was 10 years.

MR. SHARP. Well, I believe the NAS said 10 to 15 years, but I am not sure at what point we are talking about in the report. But the point is, is that is a key factor on the cost thing.

But also, to add to your argument in part--

MR. MARKEY. Even if it is 15, since 5 years has elapsed, if we gave them 10 more years that would have given them 15 years.

MR. SHARP. Well, they might not see it that way.

MR. MARKEY. Well, I know they are not going to see it that way, because they don't want to do it, but--

MR. SHARP. But let me say more significantly, the NAS study simply did not consider the possibility of significant increase in hybrids, which we are seeing.

MR. MARKEY. Exactly.

MR. SHARP. Because at the time, they could not foresee what the actual costs would be, and what the consumer response would be, so it left that out, so in fact, that has made it somewhat easier to do.

Now, I must say, on behalf of the National Academy report--which I was a part of--that they refused vehemently, over and over, to actually say what number they recommend. They simply said these are possibilities at certain cost levels, and gave options.

MR. MARKEY. No, what they did in the report was they said two plus two, we are not going to tell you what the number is. You pick the number that two plus two equals. So they took very simple analysis, and they said this will improve it by two percent, that will improve it by 2.5 percent. That will improve it by four percent. And then they left the math to you, to take home and add up, which is what we did. And no one in six years at the NAS has ever contested that that isn't the result, 34 to 65 percent increase.

MR. SHARP. The NAS committee does not exist any more. It does not respond, except as individuals, to questions, so there would be no response from the National Academy.

MR. MARKEY. Well, let me ask just one final question, if I may, Mr. Chairman.

Do you agree that 33 miles per gallon CAFE improvement is consistent with the lower end of the range of what the NAS concluded was achievable using existing technology?

MR. SHARP. Mr. Markey, you may be right. I don't know. I have not tried to calculate and add that up. You were combining both, obviously the two fleets together.

MR. MARKEY. Right.

MR. SHARP. The light duty truck and the other.

MR. MARKEY. Exactly. Exactly.

MR. SHARP. You may well be correct. I simply can't authoritatively say absolutely you are.

MR. MARKEY. Does anyone down there dispute it?

MR. REUTHER. Well, I would like to add that besides the magnitude of any increase, there is the question of the structure. Simply mandating a significant flat mpg increase has a very disparate impact on different companies, depending on their product mix.

MR. MARKEY. No, I agree with that, but look at the impact on America. Okay, look at how much less dependent we were upon Middle Eastern Persian Gulf oil, so that is also something that should be factored in. Yes.

MR. WEBBER. Congressman Markey, if I may respond to that chart. For the record, fuel economy since 1978, of cars and trucks, has gone up one to two percent a year, but what you have seen is a change in purchasing. Now, we are selling more light trucks, for example, than automobiles. That is one factor. The real challenge for this country, though, is the proverbial VMT, vehicle miles traveled. If you look at the EIA charts--and I have studied them until I am blue in the face--that is a straight up line, a diagonal line. Vehicle miles traveled.

MR. MARKEY. You are going to have to explain this away, Mr. Webber, and I don't think you can do it, with all your VMTs. You can't explain away '75 to '86.

MR. WEBBER. You have a VMT challenge, you have more people driving more, you have more vehicles on the road.

MR. MARKEY. Is this aberrational, Mr. Webber? What happened there?

MR. WEBBER. Well, I think it is aberrational.

MR. MARKEY. I don't think so Mr. Webber.

MR. WEBBER. And I know that we can have a friendly disagreement on that. The other thing I would like to point out is that production from U.S. oil sources has gone down appreciably, and that is one of the reasons why oil imports have risen.

MR. BURGESS. The gentleman's time has expired.

MR. MARKEY. We are only down one million barrels of production, but we are up to 13 million that we import, so we are up 6.5 million that we import--

MR. BURGESS. The gentleman's time has expired.

MR. WEBBER. But U.S. production is down.

MR. BURGESS. Now, we do have another hearing coming into this room, but I was going to give Mr. Inslee one last question. He wasn't here, so Mr. Markey took it. Taking the Chairman's prerogative, I want to have the last word.

Dr. Pizer, I had asked the question about that gallon of fossil into the hypothetical hybrid vehicle, but also burning ethanol. Would that be eligible for those, to bank those credits that you talked about? Would you be able to--are those credits only applicable to fossil fuel burned, or would the fact that it was burning gallons of E-85 ethanol make it ineligible for those credits? Could the credit just apply to the fossil fuel burned?

DR. PIZER. Well, I am not sure quite how it works under the current system. I mean, presumably, you don't know what kind of fuel a vehicle is going to burn when you sell it. It can burn either. So that is something that would really have to be addressed in the rules you are making. But as a general rule, I think all of the problems that we have identified, well, I shouldn't say that. A lot of the problems we identified really have to do with the oil usage, and I think that you would probably want to think about oil a little bit differently than you would want to think about ethanol.

But as Mr. Sharp suggested, it would really require a little bit of study, to think about exactly what all the differences are, and how many are common across ethanol and oil, and how many different. Obviously, the security ones are very different, but maybe some of the other ones are similar. I don't know.

MR. BURGESS. Very well.

Our time is up, and our hearing is adjourned. Thank everyone on the panel very much for their perseverance.

[Whereupon, at 2:02 p.m., the committee was adjourned.]

RESPONSE FOR THE RECORD BY ALAN REUTHER, LEGISLATIVE DIRECTOR, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA



INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

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June 2, 2006

House Committee on Energy & Commerce
2125 Rayburn House Office Bldg.
Washington, D.C. 20515
Attention: Peter Kielty

Dear Mr. Kielty:

In response to the letter from Chairman Barton dated May 31, 2006, attached is the UAW's response to the questions posed by Representative Stearns in connection with the hearing that was conducted by the Committee on May 3, 2006 on CAFE standards.

Sincerely,

A handwritten signature in cursive script that reads "Alan Reuther".

Alan Reuther
Legislative Director

AR:lb
opeiu494
Attach.
cc: Jonathan Cordone

UAW RESPONSE TO QUESTIONS POSED BY REPRESENTATIVE STEARNS

1. QUESTION: "Wouldn't you agree that the two fleet rule has created the incentive of forcing vehicle manufacturers to de-content their domestically-produced vehicles to make them apply to their import fleets, or vice versa thereby reducing their procurement of American-made supplier components?"

UAW ANSWER: No, we do not agree with this assertion. The primary impact of the two-fleet and fleet wide averaging rules has been to require full line automakers to keep small car production in the United States. This has helped to keep tens of thousands of assembly and parts jobs in this country. As is apparent from the self-contradictory nature of the question, any "incentive" that auto companies might have to lower the domestic content of higher-mileage vehicles to keep them in their foreign fleets is counterbalanced by an "incentive" to raise the domestic content of other vehicles to meet the CAFE standard for their domestic fleets. Thus, these "incentives" cancel each other out.

Overall, the two-fleet rule has a positive impact on automotive jobs in the United States because it keeps small car production in this country.

2. QUESTION: "Hasn't the ability to produce in the NAFTA region eliminated any benefit from the two fleet in forcing small car production to stay in the United States because manufacturers can produce small cars in non-UAW plants in Mexico that can be included in their domestic fleet?"

UAW ANSWER: Again, we do not agree with this assertion. One of the main impacts of NAFTA was the elimination of the 25% U.S. tariff on imported pickup trucks from Mexico. As a result, auto companies have established pickup truck production in Mexico, along with the production of cars. It is not likely that the companies would disrupt their production of pickup trucks in Mexico by shifting more small car production from the U.S. to Mexico. Furthermore, it is worth noting that vehicles produced in Mexico have significantly higher percentages of U.S. content than vehicles produced outside of North America.

However, if the two-fleet rule and/or fleet wide averaging were eliminated, there is a very real danger that full line auto producers would decide to shift small car production from the U.S. to places where small cars make up a much larger share of the market. This could include shifting small car production to Southeast Asia, Europe, and/or Brazil. This would translate into a significant loss of both assembly and parts jobs, since vehicles produced in these locations have much lower levels of U.S. content.

RESPONSE FOR THE RECORD BY THE HON. PHILIP R. SHARP, PRESIDENT, RESOURCES FOR THE FUTURE

**RESPONSE TO: Questions from The Honorable Cliff Stearns
FROM: Phil Sharp, President, Resources for the Future
June 7, 2006**

QUESTION: How far are we from significant fuel cell penetration in the passenger vehicle market – say 10%? What will be required of our infrastructure to sustain that penetration? And aren't there problems in the "wells to wheels" energy analysis depending on the feed stocks used for hydrogen production – like natural gas versus water and hydrolysis?

ANSWER: This is beyond my technical expertise, and therefore I have no basis upon which to predict this.

QUESTION: How have crossover vehicles, particularly in the SUV niche, affected the current CAFE system? Why can't we simply eliminate the passenger car and light truck classification distinction and deal with vehicles purely with an attribute based approach?

ANSWER: The attribute-based approach certainly provides, over time, the opportunity to eliminate the distinction between light-duty trucks and passenger cars.

QUESTION: Isn't it a bit ridiculous that while the production of flexible fuel vehicles generates CAFÉ credits for manufacturers the vast majority of these vehicles are never run on flexible fuels like ethanol? Can we ever get away from the "chicken or the egg" argument about enabling infrastructure and technology as we get more involved with ethanol and biodiesel?

ANSWER: When CAFÉ credits for flexible fuel vehicles were adopted, it was presumed that other government incentives were needed and would be adopted to make sure an infrastructure was built. However, given the fact that gas prices have remained for many years quite low, neither market incentives nor incentives by government to sustain policies for infrastructure ever happened.

RESPONSE FOR THE RECORD BY WILLIAM A PIZER, SENIOR FELLOW, RESOURCES FOR THE FUTURE

RESPONSE TO: Questions from the Honorable Cliff Stearns
FROM: William Pizer, Senior Fellow, Resources for the Future
June 19, 2006

1. **How far are we from significant fuel cell penetration in the passenger vehicle market – say 10%? What will be required of our infrastructure to sustain that penetration? And aren't there problems in the "well-to-wheels" energy analysis depending on the feed stocks used for hydrogen production – like natural gas versus water and hydrolysis?**

It is hard to imagine significant fuel cell penetration for several decades. The production, distribution, storage, and use of hydrogen all face significant cost disadvantages that are several times that of competitive alternatives. For example, production of hydrogen through electrolysis is about seven times more expensive per unit of energy than gasoline; production via natural gas is about two to four times more expensive. Meanwhile, the current cost of power from a fuel-cell engine is about 100 times the cost from an internal combustion engine; estimates of the cost of a fuel cell vehicle are on the order of \$1 million. Given it took 20 years for wind and solar power to see tenfold decreases in costs, it will take some time for these costs to come down.¹

Even after a fuel cell vehicle becomes competitive in price with ordinary vehicles, the penetration of such vehicles will take time. Current estimates suggest that hybrid electric vehicles will reach 10% of the passenger vehicle market by the end of the decade – ten years after such cars were first available.²

A key element of fuel cell vehicle penetration will be the widespread availability of hydrogen fuel, requiring significant changes in the existing infrastructure delivering gasoline, diesel and ethanol. Distributed generation of hydrogen, where filling stations would produce hydrogen by reforming natural gas, would require considerably less infrastructure, but would not provide as significant climate benefits or take advantage of economies of scale in production. In the long term, a recent National Research Council report predicts large-scale centralized generation with pipeline distribution.³

As the preceding comment suggests, the source of the hydrogen matters greatly for the net climate consequences of fuel cell vehicles. A recent presentation of work at Argonne National Labs highlighted that while a fuel cell vehicle using hydrogen made by reforming natural gas would have about half the emissions (well-to-wheel) of a conventional vehicle, that same vehicle using hydrogen made from electrolysis powered off the current U.S. electricity grid would have *higher* emissions than a conventional vehicle. Meanwhile, electrolysis powered by non-emitting electricity – nuclear or renewables -- would have zero emissions.⁴

¹ See R. Newell (2005), "The Hydrogen Economy," *Resources* 156.

² See <http://www.hybridcars.com/blogs/brain/how-fast>.

³ See NRC (2004), *The Hydrogen Economy: Opportunities, Costs, Barriers, and R&D Needs*, National Academy Press.

⁴ See M. Wang (2003), www.transportation.anl.gov/pdfs/TA/281.pdf.

2. **How have crossover vehicles, particularly in the SUV niche, affected the current CAFÉ system? Why can't we simply eliminate the passenger car and light truck classification distinction and deal with vehicles purely with an attribute based approach?**

Light trucks now make up more than half of the light-duty fleet. This is due, in large part, to the introduction of crossover vehicles, which went from 2% of light-duty vehicles in 1980 to more than 25% in the last few years, as shown in the table below.⁵

	Sales of Light Trucks (SUV + vans + pickups)	Sales of SUVs	Sales of Passenger Cars
1975		187,000	7,274,000
1980	2,217,000	244,000	9,095,000
1985	4,235,000	707,000	10,969,000
1990	4,515,000	930,000	9,224,000
1995	5,934,000	1,736,000	8,725,000
2000	8,307,000	3,625,000	8,978,000
2002	8,673,000	4,187,000	8,336,000
2004	9,360,000	4,648,000	7,505,000
2005		4,442,000	7,870,000

Until the recent reforms to light-truck CAFE, there was a significant incentive to build cars that could be classified as light trucks (SUV). The same vehicle, if it were classified as a light truck rather than a passenger car, would face an almost 7 mpg easier standard (declining to 4.5 mpg in 2007). Under the new program, small light trucks will actually face a standard that is more stringent than the current passenger car standard in 2011. In this way, using a size-based system and setting car and light-truck standards consistently, many of the existing problems with the two classification system are reduced.

Nonetheless, the original distinction between the fleets – for work/cargo versus personal use – has clearly broken down and the argument for supporting a two-class system is unclear. The recent NRC CAFE report suggests a fully tradable system, with consideration for an attribute-based system.⁶

At this point, the main concern about removing the distinction (or allowing companies to trade across fleets) is how it would affect the distribution of burden across manufacturers. Some companies might see a benefit if they are currently constrained by CAFE in one fleet, but not in the other – for example, if company “A” finds it difficult to meet its truck CAFE but easy to meet the car CAFÉ, they may benefit from merging the standards as they are able to trade off less effort on trucks for more effort on cars (something they currently cannot do). Meanwhile company “B”, who has equal difficulty meeting both the car and truck CAFÉ, would not see

⁵1980-2004: Bureau of Transportation Statistics, http://www.bts.gov/publications/national_transportation_statistics/pdf/entire.pdf (Tables I-17, I-19, I-20); 1975 and 2005: EPA, <http://www.epa.gov/otaq/cert/mpg/fetrends/420r05001e.pdf> (Tables E-1 and E-5)

⁶ NRC (2004), *Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards*, National Academy Press.

any benefit from this added flexibility. In this case, company “B” might oppose the standard based on the benefit (or even perceived benefit) to “A”.

Importantly, moving to an attribute-based approach tends to equalize the burden across manufacturers in each fleet even when the standards are separate for cars and trucks. This diminishes the noted distributional effects and should make it easier to merge the standards.

3. **Isn't it a bit ridiculous that while the production of flexible fuel vehicles generates CAFÉ credits for manufacturers, the vast majority of these vehicles are never run on flexible fuels like ethanol? Can we ever get away from the “chicken or the egg” argument about enabling infrastructure and technology as we get more involved with ethanol and bio-diesel?**

Currently, about 2% of vehicles on the road are flexible fuel vehicles. They use alternate fuels about 1% of the time but receive CAFE credit as if they use alternate fuel 50% of the time.⁷

From the vantage point of reducing oil use, this does not make sense. As the NRC report notes, this has led to *less* oil savings from CAFE than would occur without the flexible fuel provision. They recommend removing the CAFÉ credits for flexible fuel vehicles. However, from the perspective of creating flexibility in the vehicle fleet, it might make some sense – that is, if we value the flexibility as well as the fuel savings. For example, the ability to switch to ethanol could reduce oil price volatility by providing the flexibility to switch to an alternate fuel when oil prices are high. Reduced volatility, in turn, has economic benefits.

Unfortunately, the flexibility in the fleet has little value if ethanol is unavailable when you need it. Currently, there are only 637 E-85 stations out of about 180,000 nationwide. Of course, with only 2% of vehicles on the road able to use E-85 (and 1% using it), perhaps it is not surprising that only 0.3% of stations provide it. Hence what might appear to be a chicken and egg problem.

However, until recently, the underlying cost of ethanol did not allow it to be cost competitive with gasoline. And even now, because of current supply constraints, E-85 has not been priced in a way that made it an attractive alternative to gasoline at the pump. Before considering fuel distribution and vehicle use to be a chicken and egg problem, therefore, it may be useful to see how markets adjust over time to higher gasoline prices.

⁷ See <http://www.E-85fuel.com/index.php>.

RESPONSE FO THE RECORD BY FREDERICK L. WEBBER, PRESIDENT, ALLIANCE OF
AUTOMOBILE MANUFACTURERS

Responses to written questions from the May3, 2006 legislative hearing on H.R. ____, a bill to authorize the National Highway Traffic Safety Administration (NHTSA) to set passenger car fuel economy standards

The Honorable Cliff Stearns

Has the Alliance seen the manufacturer fleet fuel economy figures rise with gasoline prices? If so, isn't that the most efficient, market-based way to improve CAFE averages, or more specifically, conservation?

As gasoline prices have risen in recent months, consumers have started looking more toward cars and trucks that use less fuel. And, over the past few years, consumer surveys show that fuel economy has become a much higher priority for those purchasing a new vehicle. In fact, in 2000, fuel economy ranked 25th on a list of consumer priorities when purchasing a new vehicle. In 2005, fuel economy moved up to 7th place in the list of vehicle purchase priorities.

Automakers are manufacturing cars and trucks that meet this consumer demand. Currently, over 100 models are available that have EPA-estimated highway ratings of 30-miles per gallon or more. Forty-six models are available with advanced technologies like hybrids, flex-fuel vehicles, and clean-diesel. These models will add to the existing 8 million advanced technology vehicles on the road today. These technologies are improving fuel economy and helping our nation move toward energy independence. Furthermore, as shown in the *Model Year 2006 Fuel Economy Guide* published by EPA and DOE, nearly every model has a combination of engines and transmissions that typically affect fuel economy by 2-3 mpg but as much as 5 mpg, providing consumers with fuel economy choices with today's gasoline engine technologies.

Dramatic increases in gasoline prices and incentives for consumers to purchase advanced technology vehicles are shifting the marketplace. According to R.L. Polk & Co., there were more than 280,000 hybrids, 3.6 million diesel, and 3.8 million ethanol-capable vehicles on U.S. roads at the end of 2005.

The continued growth of advanced technology automobiles powered by a diverse mix of fuels is a proven market-based solution that will continue to reduce the amount of gasoline we use. Furthermore, this is the best path forward as CAFE compliance is based on what consumers actually purchase – not what automakers manufacture. Market-based incentives coupled with new fuel saving technologies are more reasonable than dramatic increases in CAFE standards.

Do other mature economies use a command and control CAFE-like approach to achieve conservation in the auto sector? Europe? Japan? How do their domestic fleet averages compare with the U.S.? If they are different, why?

The U.S. CAFE system is unique in terms of the level of command and control. Other systems in mature economies take different forms than the U.S.' mandated fleet average approach and are typically voluntary. For example, the Canadian system and E.U. systems are voluntary. Moreover, the EU is primarily focused on reductions in carbon dioxide emissions.

Other mature economies are working with stakeholders through government-industry agreements to achieve specific targets on certain emissions. North of our border, automakers entered into an agreement with the Canadian government to reduce the growth of greenhouse gas emissions from cars and light trucks by 5.3 megatonnes by

2010. Across the Atlantic, the EU has a government-industry agreement focused on reductions in carbon dioxide emissions.

European Union

A closer comparison of the United States and the next largest mature economy (The European Union) shows some dramatic differences. High taxes on gasoline are the primary method of spurring conservation across Europe. These taxes have historically made gasoline in Europe two to three times more expensive than prices here in the U.S. In addition, taxes are different between gasoline and diesel, encouraging the use of diesel fuel. Pickup trucks and sport utility vehicles are not a significant part of the European fleet, while they account for roughly half of all automobile sales here in the United States. As for fuel mix, the proliferation of diesel is about 50% in Europe compared to only about 2% in the U.S. As diesel generally offers as much as 30% better fuel economy over gasoline, European diesel models often get better mileage over similar U.S. gasoline-powered models. Additionally, vehicle miles traveled are much lower in Europe compared to the U.S. and transit usage is much higher in the older, European cities than in typical U.S. cities.

These key differences help us understand why domestic fleet averages in Europe are higher than the United States.

Japan

Japan is another modern, mature economy with significant transportation challenges. It is an island nation slightly smaller than California and has a population of 127 million people. However, given the rugged, mountainous terrain less than 40 percent of the land is habitable. To understand this impact on their transportation system, imagine about 44 percent of the U.S. population and economic activity concentrated in the state of Michigan. Thus, Japan's highly concentrated population relies heavily on mass transportation. More than 80 percent of Japan's car market consists of small cars powered by engines smaller than 2000cc. In 2004, Japan had approximately 72 million cars and trucks in use.

The Japanese government uses a simple weight-based standard to reduce fuel consumption in its transportation sector. There are eight weight classes in the Japanese system, covering both cars and light trucks. Average fuel economy targets are set within each weight class, and the targets are more stringent for the lighter weight classes and less stringent for the heavier weight classes. The targets for gasoline-powered passenger vehicles were set for 2010 and represent about a 23% improvement in fuel economy compared to the 1995 baseline. Fuel economy targets are selected by a "top runner" method, whereby the targets for each weight class are established in part based on the best performing vehicle in that weight class. The original system was established without any opportunity for a multi-class manufacturer to average compliance across classes. However, the Japanese system was more recently modified to allow "offsets" on a two-for-one basis: credits earned by a better-than-required fuel economy performance in one weight class are discounted by 50% when applied to compensate for worse-than-required performance in another weight class. Originally, Japan's system was somewhat troubling for companies importing automobiles into their market but recent refinements have helped address this issue.

RESPONSE FOR THE RECORD OF THE HON. NORMAN Y. MINETA, SECRETARY, U.S.
DEPARTMENT OF TRANSPORTATION



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

AUG 1 2006

The Honorable Joe Barton
Chairman
Energy and Commerce Committee
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman: *JOE,*

Thank you for your letter of May 31. Enclosed are the U.S. Department of Transportation's answers for the record pursuant to the House Energy and Commerce full committee hearing held May 3 regarding passenger car fuel economy standards.

Thank you for your consideration. If I can provide further information or assistance, please feel free to call me.

Sincerely yours,

Maria Cino
Maria Cino
Acting Secretary

Enclosure

QUESTIONS FOR THE RECORD FROM THE HONORABLE CLIFF STEARNS

1. How does the reformed CAFE program for light trucks prevent size creep in models to lower fuel economy requirements?

Answer

The National Highway Traffic Safety Administration (NHTSA) has structured the reformed CAFE program to minimize the regulatory incentives to make vehicles larger.

First, under the reformed program, NHTSA has based the fuel economy target for vehicles on their "footprints." To change the vehicle footprint, manufacturers would have to change the vehicle platform. Changes to the vehicle platform typically require redesign and retooling for the various models that share the platform, and making such changes requires substantial time and money. Given the costs associated with platform changes, vehicle manufacturers are unlikely to change a vehicle footprint solely, or even primarily, in response to the reformed CAFE program.

Second, the reformed CAFE program sets fuel economy targets at a level for each footprint that requires substantial use of fuel-saving technology for every size vehicle footprint. Even if a manufacturer makes its vehicles larger, it still must make substantial use of available fuel-saving technologies to enhance the fuel economy of the larger

vehicles. Under the reformed CAFE program, it is not technically easier or less expensive to achieve the fuel economy targets in the next-larger vehicle category.

Third, the new rule will set challenging targets for all models. This will encourage manufacturers to improve fuel economy without downsizing in a way that can impair safety.

Lastly, the incentive to upsize is virtually nonexistent for vehicles larger than 65 sq. ft. The continuous function is essentially flat once size exceeds 65 sq. ft., which means there is a minimal, if any, effect of upsizing on a vehicle's fuel economy target

2. Even though I believe the light truck reformed CAFE program is a step in the right direction, won't the next level of gaming be to design your over-8500-pound light trucks to qualify as pick-ups because over-8500-pound pick-ups are not covered by the new CAFE rules? Didn't we see much of this with cross-over vehicles like the PT Cruiser that qualify for CAFE as light trucks but meet car emissions standards?

Answer

Vehicle manufacturers have had the ability to make vehicles heavier and escape the truck CAFE standards since the beginning of the program. However, for the first time in the history of the CAFE program, the reformed CAFE program extends the fuel economy standards to SUVs and other vehicles between 8,500 and 10,000 pounds gross vehicle weight rating that are regulated as medium duty passenger vehicles, or MDPVs, by the EPA.

The MDPV category established by EPA excludes only those vehicles between 8,500 and 10,000 pounds that are typically designed for work-oriented functions, such as high-capacity vans and pick-up trucks with a separate cargo area 6-feet or more long. Redesigning a pick-up to increase its gross vehicle weight rating and extending the length of its cargo bed would be expensive and change how the vehicle could be marketed. Furthermore, MDPVs are used to carry 7 or more passengers. We believe that redesigning them to qualify as pick-up trucks would greatly diminish this attribute and is therefore unlikely.

Cross-over vehicles such as the PT Cruiser qualify as light trucks by having removable seats so as to provide a cargo area. Designing seats so that they are removable is inexpensive and simple compared to the changes needed to a pick-up to make it a work-oriented vehicle. Also, the reformed CAFE program has eliminated the provision that permits PT Cruisers to be classified as a light truck.

Unlike MDPVs that have come into production only in the last decade, large pick-ups have been produced before the enactment of the CAFE program and always have been produced in small numbers. Currently, large pick-ups make up less than 3 percent of annual light duty vehicle sales. These large pick-ups are used for specialized work-related purposes such as towing, hauling cargo, farming or other work-related uses and often are equipped with diesel engines.

SUBMISSION FOR THE RECORD BY EDWARD B. COHEN, VICE PRESIDENT, GOVERNMENT AND
INDUSTRY AFFAIRS, HONDA NORTH AMERICA, INC.

HONDA

Honda North America, Inc.
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Washington, D.C. 20001
Phone (202) 661-4400

May 2, 2006

The Honorable Joe Barton
Chairman
2125 Rayburn House Office Building
Committee on Energy and Commerce
Washington, D.C. 20515

Dear Mr. Chairman:

Consistent with its commitment to environmental leadership, Honda would like to express its support for the proposal to clarify the Department of Transportation's (DOT) authority to set new fuel economy standards for passenger cars. Honda also encourages the Committee to include language providing DOT the authority to reform the Corporate Average Fuel Economy (CAFE) structure similar to the attribute-based approach used in the recently completed light truck CAFE rulemaking.

In general, Honda strongly supports Federal initiatives to improve fuel efficiency and reduce greenhouse gas emissions. Higher CAFE standards for passenger cars will do both. As fuel prices continue to increase, so do the concerns about energy security and America's growing dependence on petroleum. These are important national issues and it is appropriate for the Federal government to determine the proper response, including higher CAFE standards.

Honda is on record as a supporter of higher CAFE standards provided they satisfy three criteria: technologically feasible; sufficient lead-time; and requires all manufacturers to meet the same standards at the same time. Honda specifically and vigorously opposes any form of Uniform Percentage Increase (UPI) standards. Moreover, if we are to move away from a single passenger car standard, Honda supports attribute-based requirements, using size as the criteria, such as the footprint requirements the National Highway Traffic Safety Administration (NHTSA) has already established for the light truck CAFE regulation. Honda believes size is more important than weight because it encourages weight reduction and better safety design.

We believe any future fuel economy requirements should be stated in terms of performance while not favoring any specific technology. Standards should be set by taking into consideration the challenges faced by manufacturers to offer consumers the mix of vehicles and vehicle attributes they desire. These challenges must be balanced with America's need to conserve energy.

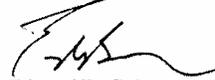
For these reasons we believe that specific CAFE standards should be set by the NHTSA, with oversight from Congress. NHTSA has raised the light truck CAFE standards twice in the last four years, covering the 2005 through 2011 model years. NHTSA used its technological and scientific expertise to assess the manufacturer's capabilities coupled with the cost effectiveness and lead-time necessary to meet the higher CAFE standards.

Honda also encourages the Committee to eliminate the domestic/import fleet split, or two-fleet rule for passenger vehicles. The 2002 National Academy of Sciences (NAS) CAFE study supported this change. Regardless of its original purpose, circumstances in the auto industry have markedly changed since the original statute was enacted more than 25 years ago.

Most significantly, a large number of manufacturers have built production facilities in the U.S. Honda, for example, now produces nearly 80 percent of the vehicles it sells in the U.S. in North America. In 2005, Honda purchased more than \$14 billions in parts and materials from over 500 U.S. suppliers. More than 90 percent of the steel used in our vehicles is purchased in North America. The NAS study stated the two-fleet rule might act as a disincentive for manufacturers to increase the domestic content of their U.S.-built vehicles. Also, under CAFE, Canadian vehicles are treated as domestic and Mexican vehicles as well under NAFTA. The two-fleet distinction has already been eliminated for trucks.

Honda appreciates the opportunity to provide our views on these important public policy issues and stands ready to assist the Committee in any way it can be helpful.

Sincerely,



Edward B. Cohen
Vice President
Government and Industry Affairs

EC/sg

SUBMISSION FOR THE RECORD OF THE ASSOCIATION OF INTERNATIONAL AUTOMOBILE
MANUFACTURERS, INC.



STATEMENT OF

**ASSOCIATION OF INTERNATIONAL
AUTOMOBILE MANUFACTURERS, INC.**

**BEFORE THE
HOUSE ENERGY AND COMMERCE COMMITTEE**

**REGARDING LEGISLATION AUTHORIZING
PASSENGER CAR FUEL ECONOMY STANDARDS**

May 3, 2006

The Association of International Automobile Manufacturers, Inc. (AIAM) is a trade association representing 14 international motor vehicle manufacturers accounting for over 40 percent of passenger cars and over 20 percent of light trucks sold in the United States annually.¹ AIAM appreciates the opportunity to offer its views regarding the need to reform passenger automobile CAFE standards. AIAM supports Transportation Secretary Mineta's request for additional legal authority to revise the structure of the passenger car CAFE standards. In addition to addressing this issue, we would like to stress the importance of adequate lead-time in achieving compliance with any new standards, suggest that supplemental market-based incentives would strengthen a national effort to reduce fuel consumption, and recommend the elimination of the "two-fleet rule" requiring the separation of a manufacturer's import and domestic fleets.

AIAM members are important stakeholders in the debate over passenger car fuel economy standards, representing 44 percent of all sales in this market segment last year. In addition, AIAM member companies have for many years been leaders in offering fuel-efficient vehicles for the U.S. market. Historically, vehicles produced by our member companies have headed EPA's annual list of most fuel-efficient vehicles. Member companies have achieved this fuel-economy leadership to a significant degree by pioneering the introduction of advanced automotive technology into their vehicles. Our member companies continue to introduce a variety of advanced technology models, including hybrid electric vehicles, ethanol-capable flexible-fuel vehicles, hydrogen fuel cells, clean diesel, as well as advances in traditional gasoline vehicles.

AIAM believes that there are three guiding principles that Congress should follow when it addresses CAFE matters. First and foremost, when considering the form of the CAFE standards it is of the utmost importance that the structure or underlying approach is competitively neutral, and that all manufacturers are treated fairly and equitably under the standards system. Second, under any structure, the specific requirements of the standards must be technologically feasible and economically practicable. Third, it is

¹ AIAM members include Aston Martin, Ferrari, Honda, Hyundai, Isuzu, Kia, Maserati, Mitsubishi, Nissan, Peugeot, Renault, Subaru, Suzuki and Toyota. AIAM also represents original equipment suppliers and other automotive-related trade associations.



absolutely essential that manufacturers are provided adequate lead-time to implement new standards.

In addition, standards should continue to establish performance requirements rather than specify or favor any particular technology. Reducing U.S. dependence on petroleum is a complex undertaking, and the greater the number of creative technologies that can be brought to bear, the better. In addition, performance standards allow manufacturers the flexibility to set their own research priorities based on their individual strengths and to develop the most effective and efficient approaches to meet consumer demand, while achieving the broader societal goals for which the standards are intended.

I. Reform of the Structure of the Passenger Car CAFE Standards

An April 28, 2006, White House Fact Sheet states that the Administration is requesting additional legal authority to enable DOT to reform the passenger car CAFE standards “consistent with the approach taken with the light truck rule issued March 29.”² AIAM supports authorizing DOT to establish attribute-based class standards for passenger cars, as is currently authorized for light trucks. This approach would be consistent with the recommendations of the National Academy of Sciences Committee and is generally consistent with the approach adopted by NHTSA in its recent light truck CAFE rulemaking. DOT should be given the flexibility to consider variations of the structure adopted in its light truck rule. Given our lack of experience with the new structure, it remains uncertain how the new structure will work in practice. Under no circumstances should the Department be authorized to adopt company standards based on past performance, such as uniform percentage increase (UPI) standards. We urge Congress to provide guidance to DOT by providing the underlying principles upon which the new standards must be based, including the three guiding principles discussed above.

Over the years AIAM has vehemently opposed any effort to authorize fuel economy standards based on the UPI approach. Respected analysts have consistently criticized the UPI approach, including the National Academy of Sciences, in its 2001-2002 study, which states:

The UPI system would impose higher burdens on those manufacturers who had already done the most to help reduce energy consumption. The peer-reviewed literature on environmental economics has consistently opposed this form of regulation. It is generally the most costly way to meet an environmental standard; it locks manufacturers into their relative positions, thus inhibiting competition; it rewards those who have been slow to comply with regulation; it punishes those who have done the most to help the environment; and it seems to convey a moral lesson that it is better to lag than to lead. In addition to fairness issues, the change would not eliminate the problems of the current CAFE system, but would create new ones. Implementation of such rules provides strong incentives for manufacturers to not exceed regulatory standards for fear that improvements will

² See <http://www.whitehouse.gov/news/releases/2006/04/20060428-9.html>.



lead to tighter regulations. Thus, such rules tend to create beliefs counterproductive for longer-term goals.³

In addition to these shortcomings, the UPI approach would have the effect of locking manufacturers into their current model mix, leaving them potentially unable to meet changing consumer demands.

We also believe that standards levels should be established by DOT through rulemaking. The complex technical and economic analyses necessary to set standards are better accomplished as part of an agency rulemaking rather than through direct legislation. DOT has substantial resources available to perform the required technology and economic analyses required for standard setting, and the use of an open, transparent, rulemaking process is needed to assure that the interests of all parties are considered in reaching a decision on the standards.

II. Lead-Time

The law provides that CAFE standards must be set at least 18 months prior to the start of the affected model year. However, the 18-month period is adequate to enable automakers to implement only the most minor of design changes. For more substantial changes, greater lead-time is necessary, not only to develop new technologies but also to deploy existing technologies into the fleet through normal product redesign cycles. It is instructive to note that the National Academy of Sciences Committee projected the need for up to 15 years lead-time to meet significantly higher standards. It is also desirable to our planning efforts to have standards set for multiple years in a single rulemaking, as NHTSA did with the recent light truck rule. Automakers generally plan major vehicle redesigns on a 5 to 8 year cycle, with individual model changeovers staggered to allow the best use of limited engineering resources. Significant changes in fuel economy require a stable and predictable set of requirements that corresponds to this 5 to 8 year product cycle. We urge Congress and the Administration to consider the need for lead-time beyond the statutory minimum in order to implement new vehicle technology.

III. Market-Based Approaches to Facilitating Higher Levels of Fuel Economy

CAFE standards mandate the production of more fuel efficient vehicles but provide no incentive for consumers to purchase such vehicles. The most direct market signal to encourage consumers to demand fuel efficiency is an increase in the cost of driving. Recent record-high gasoline price increases encourage consumers to value fuel saving technologies. However, motorist interest in fuel savings often dims when fuel prices decline. Therefore, other types of incentives may be useful to maintain demand for fuel efficient vehicles when fuel prices are lower or to reinforce the market signal provided by high fuel prices. Such incentives include extending and expanding current

³ "Effectiveness and Impact of Corporate Average Fuel Economy Standards," National Research Council, 2002, pages 92-93.



tax credits and tax deductions for the purchase of fuel efficient and alternative fueled vehicles, access to preferential parking areas, and mandates for government fleet purchases. These and other incentives would further encourage manufacturers to develop and introduce advanced technologies by enhancing the market for vehicles that use such technologies. Advanced fuel-efficient technologies are frequently costly, particularly in their first years of introduction, and such incentives can facilitate the introduction of advanced technologies by helping to bridge the price differential between these vehicles and conventional vehicles. Congress has considered a variety of technology-based incentives in recent years to encourage consumers to purchase advanced technology vehicles. AIAM member companies have generally supported these incentives and support the President's call to lift the current manufacturer cap on tax credits for hybrids and diesels to allow more consumers to be eligible for the full tax credit. Ideally, we believe that such incentives should be performance-based and technology-neutral, i.e., they should be designed to encourage the production and sale of fuel-efficient vehicles, regardless of the specific advanced technology selected by the manufacturer or where vehicles are manufactured.

AIAM supports new authority for credit trading under the CAFE program. Allowing credit trading would provide manufacturers with increased compliance flexibility and encourage fuel economy improvements. The 1992⁴ and 2001⁵ NAS CAFE Committees suggested this approach. Allowing such trading would also enhance the overall efficiency of the CAFE system. We believe that the rulemaking should examine credit trading among manufacturers and between a manufacturer's passenger auto and light truck classes.

IV. Domestic/Import Separate Fleet Requirement

The current law requires dividing a manufacturer's passenger car fleet into domestic and import classes that must comply separately with fuel economy standards. There is no similar requirement for light trucks. This requirement was originally intended to encourage domestic production of smaller vehicles by eliminating any compliance benefit for U.S.-based manufacturers from simply importing foreign produced, fuel efficient vehicles. Supporters of the "two-fleet" rule argue that the rule prevents manufacturers from shutting down U.S. production facilities for smaller, fuel efficient vehicles. In our view, the current record-high fuel prices and growing demand for fuel efficient vehicles indicates there is a strong incentive for maintaining or increasing U.S. production of fuel efficient vehicles by all manufacturers. Moreover, the "two-fleet" provision has created the unintended consequence of providing a disincentive for foreign-based companies to increase the U.S. content of their vehicles to levels above 75 percent, since doing so would place the vehicles in a separate compliance fleet. This disincentive is real, not theoretical, and has cost U.S. jobs. There have even been cases where a company has decreased the U.S. content of certain domestic vehicles to a level

⁴ "Automobile Fuel Economy, How Far Should We Go?", National Research Council, 1992, page 184.

⁵ "Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards," National Research Council, 2002, page 114.



below 75 percent to allow those vehicles to be averaged with the manufacturer's more efficient import fleet adversely impacting U.S. suppliers.

The 2001 National Academy of Sciences study of the CAFE program⁶ states that "since the two-fleet rule increases costs to consumers, the committee believes it is no longer justifiable and should be eliminated." The 1992 NAS CAFE committee⁷ concluded that the separate fleet requirement "has no obvious or necessary connection to the achievement of fuel economy" and encouraged Congress to consider its repeal. We strongly concur in these assessments.

V. Conclusion

The auto industry is not the same as 30 years ago when the CAFE program was established. Since that time AIAM members have invested over \$33 billion in U.S.-based vehicle, engine and parts manufacturing plants, and research and development facilities and developed a production capacity of 3.7 million vehicles annually. Combined, international automakers directly employ 103,000 Americans and generate 1.7 million U.S. jobs in dealerships and supplier industries nationwide. Approximately 60 percent of all the cars and light trucks sold each year in the U.S. by international automakers are made in the United States.

⁶, Id., page 89-90.

⁷, Id., pages 183-4.

