



AUTO ALLIANCE

DRIVING INNOVATION®

STATEMENT

OF

THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:

**ENERGY AND COMMERCE COMMITTEE
THE SUBCOMMITTEE ON ENERGY AND POWER
U.S. HOUSE OF REPRESENTATIVES**

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PRESENTED BY:

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Summary

Auto manufacturers recognize that renewable fuels are an important component in our nation's energy strategy, and Alliance members have long contended that we can make vehicles that can run on virtually any fuel. However, the mere existence of vehicles that can run on a particular fuel or combination of fuels is not enough to make a coherent, successful energy policy.

It is important to recognize that some of the assumptions underlying the RFS when it was enacted in 2007 have turned out to be wrong, and that has created significant implementation challenges. No commercial production of cellulosic biofuels was reported in 2010 and 2011 and only 20,069 gallons were registered as RINs with EPA in 2012. As a result, EPA has waived or proposed waiving most of the original RFS mandates for cellulosic biofuels every year. U.S. gasoline consumption peaked in 2007 and declined to 133 billion gal/yr in 2012. EIA now projects a continued decline to 128 billion gallons by 2020. If even half of FFVs on the road today were being operated on E-85, they would consume a third of current ethanol production. Flawed assumptions have led to flawed policies such as EPA's retroactive E15 fuel waiver for MY 2001 and newer motor vehicles and the push by some for FFV mandates.

If Congress decides to revisit RFS2, automakers are open to prospective policies that reflect a comprehensive commitment to make renewable fuels successful in the marketplace. Such policies would need to address fuel production and distribution equally with vehicles and consumer acceptance. In considering potential new fuels, questions about infrastructure, cost, feasibility, impact on fuel economy and consumer acceptance must be considered. Appropriate cadence between a fuel's availability and vehicles that can run on it is important. In promoting a particular fuel, policy makers must take care not to disadvantage other potentially beneficial technologies.

Above all, automakers need lead-time and certainty to design and develop vehicles that can best meet the multitude of requirements placed on us by regulators, and by consumers.

Testimony

Thank you, Chairman Whitfield, Ranking Member Rush and members of the Subcommittee. The Alliance of Automobile Manufacturers (Alliance) is a trade association of twelve car and light truck manufacturers including BMW Group, Chrysler Group LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche Cars, Toyota, Volkswagen Group and Volvo Cars. Together, Alliance members account for roughly 3 out of every 4 new vehicles sold in the U.S. each year. On behalf of the Alliance, I appreciate the opportunity to offer our views on the Renewable Fuel Standard (RFS) and the role alternative fuels can play in helping address our nation's energy security and environmental concerns. We commend the Committee for its thoughtful and thorough examination of this energy policy.

Auto manufacturers believe that renewable fuels are an important component in our nation's energy strategy, and Alliance members have long contended that we can make vehicles that can run on virtually any fuel. Of course, doing so while still meeting all applicable requirements – including cost and acceptability to our customers – is far more complicated. The mere existence of vehicles that can run on a particular fuel or combination of fuels is not enough to make a coherent, successful energy policy.

The Alliance did not take a position on the volumetric targets or timing for renewables when the RFS2 was being debated in 2007, and we continue to defer to other stakeholders and policy makers who have more expertise with regard to fuel production. However, it is important to recognize that some of the assumptions underlying the RFS2 have turned out to be wrong, and that has created significant implementation challenges. As the Committee studies the RFS2 to determine if reform is necessary, the Alliance is committed to work in a constructive fashion to create certainty regarding our transportation fuel future and implementation from a vehicle and infrastructure point of view.

In 2007, when the RFS2 was significantly expanded as part of the broader Energy Independence and Security Act, policy makers and various stakeholders anticipated significant production of cellulosic biofuels within a relatively short timeframe. RFS2 has a substantial requirement for cellulosic biofuel by capping the volume of corn-starch derived ethanol at 15

billion gallons and increasing the cellulosic biofuel requirements from 100 million gallons in 2010 to 16 billion gallons in 2022. Unfortunately, this market has failed to come into existence on schedule. No commercial production of cellulosic biofuels was reported in 2010 and 2011 and only 20,069 gallons were registered as RINs with EPA in 2012.¹ As a result, EPA has waived or proposed waiving most of the original RFS2 mandates for cellulosic biofuels every year.

Additionally, in 2007, U.S. gasoline consumption stood at a record 142 billion gallons per year (gal/yr) and had been growing at an average rate of 1.6% per year for the previous 10 years.² In its *Annual Energy Outlook 2007*, the U.S. Energy Information Administration projected gasoline demand to grow to 152 billion gal/yr in 2013 and 168 billion gal/yr in 2020.³ In fact, U.S. gasoline consumption peaked in 2007 and declined to 133 billion gal/yr in 2012.⁴ EIA now projects a continued decline to 128 billion gallons by 2020.⁵

The decline in fuel consumption combined with increasing mandates for corn ethanol would not necessarily have led to the “blend wall” concerns that we are facing now, if not for another flawed assumption – that consumers driving flexible fuel vehicles (FFVs) would use E85 in significant quantities. Automakers believe FFVs are a potentially useful piece of an overall alternative fuel strategy; however, their market penetration has not led to a meaningful uptick in renewable fuel usage. There are over 15 million FFVs on U.S. roads today, yet only about 2 percent of gas stations have an E-85 dispenser, and most are concentrated in the Midwest, where most ethanol is produced. If even half of these vehicles were being operated on E-85, they would consume a third of current ethanol production.

¹ 2012 RFS2RFS22 Data (as of June 7, 103) available at <http://epa.gov/otaq/fuels/RFS2RFS22data/2012emts.htm>.

² U.S. Energy Information Administration, “U.S. Product Supplied of Finished Motor Gasoline,” March, 2013, <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MGFUPUS2&f=A>.

³ U.S. Energy Information Administration, *Annual Energy Outlook 2007*, “Table 1.1. Liquid Fuels Supply and Disposition,” http://www.eia.gov/oiaf/archive/aeo07/pdf/aeotab_11.pdf

⁴ U.S. Energy Information Administration, “U.S. Product Supplied of Finished Motor Gasoline,” March, 2013, <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MGFUPUS2&f=A>.

⁵ U.S. Energy Information Administration, *Annual Energy Outlook 2013*, “Table A11. Liquid Fuels Supply and Disposition,” pg. 143.

This shifting landscape is certainly amongst the many drivers fueling the RFS2 debate and continues to create uncertainty for how the policy will be implemented. Biofuel producers and other stakeholders have been forced to think of alternative ways to ensure the RFS2 mandates are met. The Alliance believes this has led to the promotion of flawed policies such as EPA's retroactive E15 fuel waiver for MY 2001 and newer motor vehicles, a flawed pump labeling rule that fails to properly warn consumers away from vehicles not designed for use of E15, and the Open Fuels Standard.

E15 Waivers

The decision to approve the use of E15 for model year (MY) vehicles 2001 and newer is the poster child for policies that were adopted to mitigate the implementation challenges arising from RFS2. The Alliance strongly believes that EPA's decision to approve the use of E15 was made absent critical research and testing results, will likely lead to misfueling and vehicle damage or poor performance; and as a result, may result in a consumer "backlash" against biofuels. Prior to MY 2012, all motor vehicles were designed, certified, and warranted to only withstand up to 10% of ethanol in gasoline; today only two major OEMs produce E15 capable vehicles and all flexible fuel vehicles (FFVs) are able to consume the fuel. Recent studies, including studies conducted by the Coordinating Research Council (CRC), have demonstrated the potential adverse effects of E15 use on certain, post-MY 2001 motor vehicles not designed for such a fuel.

The CRC engine durability study found signs of valve seat wear caused by the mid-level blend (i.e., E15-E20). The CRC fuel system durability study also showed evidence of fuel level sensor errors, fuel pump failures and component swelling caused by the fuel. Recent data also underscored the risk of widespread damage from misfueling other types of engines on E15 as EPA recognized by excluding many products in its partial waivers. During EPA's rulemaking process, automakers and other engine manufacturers consistently urged EPA to wait to make its decision on the introduction of E15 to the nation's fuel market until all of these studies on the potential impacts of E15 on the existing fleet were completed.

The desire to allow more renewable fuels to be blended into the transportation fuel pool cannot be allowed to harm the significant investments made by consumers. We believe that E15

misfueling is unavoidable, particularly in light of the lack of any meaningful measures in place to prevent it. Indeed, EPA concurs in that it has never proposed a misfueling *prevention* plan, only a *mitigation* plan. The only deterrent to E15 misfueling in the mitigation plan is a pump label and it is unlikely that this English-only label would be read and followed by all consumers. EPA so weakened the label's cautionary messaging during the rulemaking process as to render the label essentially ineffective. Motorists focus almost exclusively on price, and inattention can lead to unintentional or inadvertent misfueling of their vehicles, and Clean Air Act violations, even when the passive warnings are provided. As EPA has noted, misfueling with leaded gasoline was widespread even when different nozzle sizes were used in addition to labels.

EPA's final E15 pump label language did not even refer consumers to their vehicle owner manuals for guidance, as the Alliance and others advocated. Automakers want biofuels to succeed in the U.S. and are committed to finding the right market solutions for sustainable biofuel use. If consumer satisfaction is compromised, the credibility of future biofuels and the RFS2 program may be questioned and challenged.

Flexible Fuel Vehicle Mandates

The Open Fuels Standard legislation would effectively require that 50 percent of all light-duty vehicles be FFVs. This is challenging enough – and completely unwarranted – based on the current definition of FFVs as vehicles capable of running on any blend of gasoline and ethanol up to 85 percent (E85). But the proponents of the bill have re-defined what constitutes an FFV – as a vehicle that must be able to run effectively on three fuels – gasoline, E85 and methanol blends up to 85 percent (M85). Insisting that automakers produce vehicles that must accommodate three fuels – of varying energy contents and in any combination – is unworkable. An array of compromises would be needed – at significant cost – to make vehicles capable of using all three fuels. Performance would be sacrificed, durability issues would be enhanced, reliability concerns would be raised, vehicle costs would increase – all to the dissatisfaction of customers and for little to no benefit, since M85 is available nowhere and E85 is available and used very sparingly.

As noted previously, automakers believe the FFV is a worthwhile technology that has a place as part of a broader portfolio of alternative fuel technologies; however, the last six years

have demonstrated that the mere existence of FFVs will not lead to more renewable fuel usage. The primary factors affecting the lack of E85 usage are pricing, availability, total full-tank range, and consumers' willingness to use the fuel. Because ethanol is often priced above its relative energy value (it has less energy than gasoline, so its cost per vehicle mile travelled (VMT) can be higher than comparable VMT cost of gasoline if not priced accordingly), E85 use is not competitive with the use of gasoline. And, because there is little demand for the product, retailers have been slow to install retail sites nationally. Policies to incentivize retailers to offer and price the product competitively and educate consumers on the value of E85 might be effective in promoting more E85 usage, but we should be realistic about potential growth of this market absent a fundamental change in the pricing relationship.

Looking Ahead

If Congress decides to revisit RFS2, automakers are open to prospective policies that reflect a comprehensive commitment to make renewable fuels successful in the marketplace. Such policies would need to address fuel production and distribution equally with vehicles and consumer acceptance, which are really the final link in the chain. In considering potential new fuels, questions about infrastructure, cost, feasibility, impact on fuel economy and consumer acceptance must be considered. Appropriate cadence between a fuel's availability and vehicles that can run on it is important. Such a prospective approach is a far preferable alternative to retroactively introducing fuels into a market that has not been designed, certified or warranted to run on them.

Some key considerations as we move forward include:

Octane Rating Level: Since ethanol provides less energy on a per gallon basis when compared to gasoline, the future fuel may need to provide for a higher octane rating to allow automakers to enhance efficiency and mitigate fuel economy decreases as more ethanol is added to gasoline. Higher octane rated fuels enable automakers to calibrate our engines to improve fuel economy. This change may be crucial for consumer acceptance. It is also critical that automakers are no longer penalized under future regulations for any decreases in fuel economy that are attributable to greater ethanol or lower aromatics use.

Legacy Fuels: Legacy fuels must continue to be available for older vehicles while the refueling infrastructure for higher level ethanol blends is transitioning. Government assistance in implementing an effective program to educate consumers about the fueling capabilities of their vehicles to prevent misfueling will also be crucial to the success of the effort. In addition, enforcement of fuel blend and labeling requirements must be extensively and effectively executed.

Above all, this approach must give automakers the lead-time required and establish the certainty needed to design and develop vehicles that can best meet the multitude of requirements placed on us by regulators, and by consumers. It should also provide certainty for producers, retailers, engine manufacturers and other stakeholders. With certainty about the fuels our vehicles will be using and with sufficient lead time, our engineers can design vehicles that are optimized for that fuel. Ultimately, providing the appropriate mechanisms and policies to allow the industry to deliver better fuel economy, better performance, and more cost-effective compliance with emissions standards will in turn improve the value proposition for our customers.

Finally, Congress must take care to minimize negative side effects of promoting a particular fuel. Several Alliance members are expanding their diesel offerings in the US market, because diesels offer significant fuel economy gains relative to their gasoline counterparts. Our members are very concerned by recent studies⁶ indicating that failure to address the blend wall could lead to spikes in diesel fuel prices, which in turn, would drive consumers away from an important technology for reducing our overall dependence on oil.

Thank you for the opportunity to offer our views on the Renewable Fuel Standard and I will be happy to answer any questions.

⁶ NERA Economic Consulting, "Economic Impacts Resulting from Implementation of RFS2 Program," October, 2012.