AUTO ALLIANCE
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February 16, 2018

Allie Burry
Legislative Clerk
Committee on Energy and Commerce
U.S. House of Congress
2125 Rayburn House Office Building
Washington, DC 20515

Re: December 12, 2017 joint hearing entitled, "Update on the Corporate Average Fuel Economy Program (CAFE) and Greenhouse Gas Emissions Standards for Motor Vehicles."

Dear Ms. Burry,

In response to Chairman Shimkus' and Chairman Latta's letter of February 2, 2016, attached you will find responses to the additional questions directed to Mitch Bainwol in relation to the joint hearing of the Subcommittee on the Environment and the Subcommittee on Digital Commerce and Consumer Protection held on December 12, 2017.

Sincerely,

[redacted]

Jennifer Thomas
Vice President, Federal Government Affairs
Alliance of Automobile Manufacturers

Attachment

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Question for the Record from the Honorable Richard Hudson:

1. Mr. Bainwol, during the hearing we spent a fair amount of time discussing the Obama Administration's final Mid-Term Evaluation. We have heard that the original target for this report was April of 2018, but instead it was released over a year early in January 2017. To say that this was rushed, I think, is a dramatic understatement.

    a. If the EPA did take the additional year to gather information from all stakeholders, what do you think the final outcome would have been?

    b. How do you think this would have impacted the industry as a whole and their goal to reduce emissions while creating consumer friendly vehicles?

Alliance Response:

a. The Auto Alliance and our members would agree – characterizing the final determination as "rushed" is an understatement. That determination was to be issued jointly by the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) no later than April 2018 and the agencies had repeatedly represented that they would not complete a Proposed Determination/NPRM until mid-2017, at the earliest. By rushing to issue the proposed determination after the November election and the final determination just days before the previous Administration left office, the previous EPA ignored key data such as:

- consumer purchase trends showing an increased shift away from passenger cars and into crossover utility vehicles (CUVs), sport utility vehicles (SUVs), and light-duty trucks,
- regulatory compliance challenges faced by automakers as a result of this shift in consumer buying habits,
- continued low adoption of advanced technology vehicles and;
- updated data on gas prices, technology cost and effectiveness.

In their flawed determination, the previous EPA relied on incomplete and outdated data demonstrating that the auto industry, on average, outperformed its targets during the first four years of the light-duty vehicle GHG program (MYs 2012-2015) as justification to maintain the aggressive MY 2022-2025 GHG emissions standards. However, had they waited to consider more up-to-date information, they would have seen that compliance trend data – including the feasibility of meeting the standards, projections on compliance, and the credit system – are increasingly indicating that it is not feasible to meet the MY 2022-2025 GHG emission standards as originally envisioned when they were published back in 2012.

For example, EPA's recently released 2016 GHG Manufacturer Performance Report and the 2017 Fuel Economy Trends Report continues to demonstrate that more and more automakers are not able to comply with MY 2016 and 2017 standards – effectively disputing the EPA's previous final determination. In short, the auto industry on average is no longer meeting its targets. These two reports show that in

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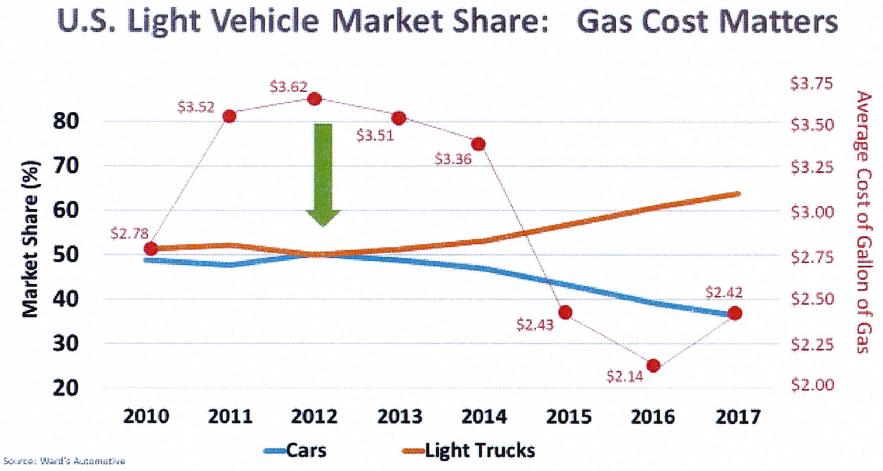
MY 2016 – for the first time ever – the U.S. light-duty vehicle fleet missed compliance targets by nine grams per mile of carbon dioxide. The 2016 Compliance Report shows that 10 companies – up from four in 2015 – will need to either purchase credits or use prior over compliance to offset the 2016 MY shortfalls. Keep in mind, in MY 2016 the light-duty fleet set not only an all-time fuel economy record and greenhouse gas reduction but still fell short of the standards originally published in 2012.

Concerns over the deepening under compliance are exacerbated by the 2017 Fuel Economy Trends Report. EPA notes that "vehicles meeting the MY 2025 CO2 targets are comprised solely of hybrids, plug-in hybrids, electric vehicles, and fuel cell vehicles", despite being only eight years away from 2025. In EPA's 2017 Final Determination, they projected relatively few strong hybrids and plug-in hybrid electric vehicles (PHEVs) would be needed to meet the MY 2025 targets, yet we are not seeing any non-electrified vehicles that can meet future standards. Even if such "conventional" powertrains were developed tomorrow that could meet the MY 2025 targets, reaching significant fleet penetration of the new, yet to be seen powertrains, is questionable.

Low gasoline prices have been a significant factor in both the dramatic shift in consumer demand away from passenger cars to CUVs and SUVs and the low adoption of advanced technology vehicles. In the agencies' original analysis of the 2012 Joint Final Rule (covering MY 2017-2025), they predicted gas prices would be $3.87 in 2010 dollars by 2025, or about $5 a gallon. This projection was made in August of 2012, when the average price of gas was $3.72 a gallon. According to AAA, the average price of gas in January of 2018 was $2.49 a gallon and in its *2018 Annual Energy Outlook*, the U.S. Energy Information Administration continues to project gas prices to remain relatively low through 2030. This low gas price environment has resulted in an unanticipated shift in the light-duty fleet mix from passenger cars towards light trucks (see Figure 1). In 2017, passenger cars comprised only 36.4% of the vehicle market and Edmunds predicts that decline in market share will continue in 2018, projecting a record low market share of 34.5% for passenger cars – down 15.5% in just six years.[1]

Figure 1:



[1] Edmunds, *2018 Automotive Industry Trends*, https://static.ed.edmunds-media.com/unversioned/img/industry-center/analysis/2018-Industry-Trends.pdf.

The current low gas price environment has impacted the sales of advanced technology vehicles, as well, despite automakers offering an increasing amount of models for sale in dealer showrooms nationwide, including roughly 50 hybrid models and 30 EV models. Through October 2017, the calendar year 2017 U.S. sales share of zero-emission vehicles (ZEVs) (battery electric, plug-in electric and fuel cell electric vehicles) was 1.15%[2], approximately one-fifth of the level projected by EPA for MY 2025.

As the Mid-term Evaluation process moves forward, the Alliance has encouraged the agencies to fully examine the factors noted above in evaluating the feasibility of the MY 2022-2025 standards. Such data is precisely the up-to-date information the previous Administration either chose to ignore or would have had available to consider had it not truncated the MTE in January 2017.

b. Had the Trump Administration not reinstated the MTE process in March of 2017, the previous determination would have ignored market realities and the corresponding regulatory compliance trends. Among the significant ramifications, this would have adversely impacted consumer affordability and choice – resulting in a decline in vehicle sales and production, as well as an increase in the age of vehicles on the roadway.

If consumers have difficultly affording or financing the increasingly expensive vehicle technologies required for compliance, then they are more inclined to keep their current, less efficient vehicle longer or purchase in the used market. In either case, the cycle of fleet turnover is hindered – resulting in disruption to the industry and national economy, delaying the introduction of advanced vehicle safety and fuel-efficient technologies to consumers, and reducing the environmental and safety benefits of all standards relying on fleet turnover.

A decline in vehicle sales is not only bad for the environment, since older, less-efficient vehicles remain on the road, it is also bad for employment in the auto industry. There is a direct correlation between auto sector employment and vehicle sales; the higher the sales, the higher the level of employment. When new vehicle sales drop as they did in 2017, automakers and suppliers begin to scale back production, resulting in eliminated shifts and employee lay-offs. Such a downturn in the auto industry has a cascading effect on the broader U.S. economy.

As such, we very much appreciate the announcement made on March 15, 2017, by President Trump, along with Department of Transportation Secretary Elaine Chao and EPA Administrator Scott Pruitt, that EPA would revisit the previous determination and restore the Mid-term Evaluation process. That process is back on track with a determination on the appropriateness of the standards expected by April 2018.

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[2]Auto Alliance, *ZEV Sales Dashboard: ZEV Market Share,* https://autoalliance.org/energy-environment/zev-sales-dashboard/.