WRITTEN STATEMENT OF

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before the

Subcommittee on Commerce, Manufacturing and Trade

Subcommittee on Energy and Power

Energy and Commerce Committee

U.S. House of Representatives

hearing entitled

"Midterm Review and an Update on the Corporate Average Fuel Economy Program and Greenhouse Gas Emissions Standards for Motor Vehicles"

September 22, 2016

Chairman Burgess and Vice-Chairman Olson, Ranking Members Schakowsky and Rush, and members of the Subcommittees, thank you for inviting me to testify. My name is Peter K. Welch, and I am President of the National Automobile Dealers Association (NADA). NADA is a national trade association that represents over 16,500 franchised new car and truck dealer members. NADA members are primarily engaged in the retail sale and lease of new and used motor vehicles, but also engage in automotive service, repairs and parts sales. Last year America's franchised dealers collectively employed over 1.1 million individuals, and sold or leased over 17.84 million new passenger, light duty and heavy duty vehicles and 14.65 used vehicles (32.49 million vehicles in total). NADA members operate in every congressional district in the country, and 40 percent of our members sell fewer than 300 new vehicles per year.

We welcome the opportunity to comment on EPA's recently released Technical Assessment Report (TAR) through the lens of the customer. The success or failure of any new fuel economy regulation ultimately will be determined not by regulators, but by individual customers, who will "vote" with their checkbooks by purchasing vehicles that best meet their needs and budgets. There is only one infallible metric for measuring customer choices for motor vehicles – which vehicles are registered for use each year in the United States.

Through the franchise system, the nation's automobile manufacturers rely upon the nation's franchised dealers to sell vehicles to individual customers. The auto manufacturers

design and manufacture cars and trucks, but the nation's dealers sell them to customers. Automakers engage in significant marketing campaigns to create brand awareness and stimulate customer demand for vehicles; however, the dealers assume the economic burden for stale inventory. The risk of loss for new vehicle inventory passes from the manufacturer to the dealer at the factory gate. The manufacturer books a sale once a vehicle rolls off the assembly line and is shipped to a dealership, but the dealer only books a sale when a customer actually buys the vehicle. Because the nation's franchised auto dealers are willing to invest their own private capital in a national sales and distribution network, customers enjoy an extraordinary array of competitive choices both within brands and across brands and for new and used vehicles. This franchised dealer network is good for customer choice and convenience, good for manufacturers and their shareholders, and good for local, state and national economies.

In America, the motor vehicle is not a luxury good; affordable transportation is a core component of personal mobility and freedom, an essential building block to individual economic empowerment, and a key driver of national productivity. Henry Ford's vision of a more efficient manufacturing process was premised on dramatically expanding the number of people who would be able to buy cars. For example, he wanted to produce a vehicle that Ford factory workers could afford. In a similar vein, NADA was founded nearly 100 years ago because some in Congress wrongly viewed automobiles as luxury goods and wanted to tax them as such. The imposition of regulatory-driven costs could have exactly the same adverse impact on customers as a luxury tax.

We have a constitutional right to travel freely within our country, but that right is nearly meaningless without affordable mobility. Just as important, when viewed through the lens of an individual, vehicle ownership dramatically increases personal economic opportunity. Car owners have a better chance of finding affordable housing, and they have a better chance of finding a job or keeping a job. They can relocate more easily if the job opportunities decline in one area and increase in another. Often access to an affordable vehicle creates the opportunity to become an entrepreneur. In sum, an affordable, reliable car is an essential part of the economic fabric for families all across America. That is why NADA continues to focus on how future regulatory changes will affect the costs of new and used vehicles. Policy makers should do all that they can to avoid the negative consequences of driving up vehicle costs beyond the financial reach of working men and women.

If the fuel economy policies force auto manufacturers to produce vehicles that customers do not want or cannot afford to buy, no one wins. In sharp contrast, a flexible, fact-based policy that reinforces customer preferences for newer vehicles will accelerate fleet turnover, thereby simultaneously providing numerous environmental, safety, economic, and national security benefits. Typically, an individual choosing a newer vehicle will be acquiring a safer, more fuel efficient vehicle. The societal benefits are even broader, including the national security benefits associated with increases in fuel efficiency, increased air quality gains, and the economic benefits directly attributed to motor vehicle commerce in America. America's auto dealers support continuous improvement in the fuel economy of the fleet of vehicles that customers drive on the nation's roads. The key is to design policies that leverage, rather than frustrate, customer choices in the market so that we accelerate the replacement of the older cars that are less safe and less fuel efficient.

The effectiveness of our national fuel economy policies depends not only upon the efficiency of the new vehicles coming off the assembly line, but also on the efficiency of the entire national fleet in operation in the United States. Today, a total of approximately 262 million cars and trucks are registered for use on America's public roads. During the past two decades, motor vehicle manufacturers have made dramatic improvements in the quality of their respective vehicles. As the manufacturers have increased the reliability and durability of their products, customers have held onto their vehicles longer. The average age of the light-duty vehicles on the road in 2015 was 11.5 years. As a result, one of the key elements of a truly effective fuel economy policy – accelerating overall fleet turnover – has become more challenging.

America's franchised dealers meet customer demand by making one sale at a time. There is not one monolithic market for new cars in America; to the contrary, there literally are hundreds of different markets. Throughout the country franchise dealers do what they have done for more than 100 years – they match supply and demand in their respective markets. And how do they accomplish that? By meeting the unique transportation needs of their respective customers. Each customer has different transportation needs, different budget constraints, different credit concerns, different trade in allowances, and different tolerances for new technology. No two customers are exactly alike, so no two purchases are exactly alike. While two customers may buy the same trim package on the same new car, the customers are likely to have different credit profiles, use different lenders, have different trade in values or no trade in at all, one may customer may buy and one may lease, one may buy when gasoline costs $4.00 a gallon and one may buy when gas costs $3.00 a gallon, and one may have a 60 mile commute and one may not have a commute at all. As a result, attempts by government to control the precise product mix and market outcomes will be doomed from the start.

Vehicle cost is a key driver in the vast majority of vehicle purchases, affecting both the ability and the willingness of customers to make a purchase. Customers finance or lease more than 90 percent of all new-vehicle acquisitions. Each time regulatory costs drive up the price of vehicles coming from the factory, fewer customers will be able to qualify for the loan amounts necessary to buy a new car. For example, the average price of a new car today is approximately $34,250, which is beyond the reach of millions of Americans. To put that in perspective, the average monthly payment for such a vehicle, even with today's low interest rates, is $510 per month to buy and $406 to lease. These numbers presume a 10 percent down payment, exclude taxes, title and registration fees and are calculated using current historically lower finance rates of 4.19 percent. Proponents of higher fuel economy standards readily admit that vehicle costs will increase, but they assert that customers will be able to use the savings from lower fuel costs to cash flow the higher monthly payments. Unfortunately, the market does not work that way. Auto lenders do not extend credit based on future savings – they extend credit based on the purchase price of the car, the amount financed, and the buyer's debt to income ratio. Lenders require a borrower to qualify for a loan amount equal to the "up-front" costs of the car, regardless of the prevailing price of the fuel. The lenders do not (and will not) assume the risk of fluctuating energy prices when underwriting an auto loan. These upcoming fuel economy rules will price millions of potential buyers out of the market, simply because auto lenders will not finance a new fuel efficient vehicle based on its future fuel savings.

For individual customers, in addition to the threshold question of what will the bank finance, the more important assessment is what the customer is willing to pay. How does a vehicle purchase fit within a customer's family budget? The answer to that question drives individual decisions in dealer showrooms thousands of times each day, and long before customers ever drive onto a dealer's lot. Should I buy a new car or a newer used car? Should I repair my existing car? Should I defer a car purchase because of an uncertain economy? After all, I still have to pay for my son's braces, my daughter's college tuition, or other important family expenses. Dealers meeting the needs of their customers in the market today will tell you that a difference of less than $20 or $30 dollars per month will have a material difference in an individual's choice of vehicle. These are the real choices that confront customers every day, and the answers to those questions will be affected directly by regulatory-driven price increases. And the impact is not just on new vehicles. Each time the manufacturer increases the price of a new car or truck, the price of recent used cars or trucks of the same make and model will increase as well. These real world, market-driven pricing realities reduce the pool of people able to purchase new and used vehicles and the pool of those willing to purchase new and used vehicles.

The prevailing price of gasoline is also a key cost variable that affects customer preferences. The number of fuel efficient vehicles on dealer lots today, whether conventionally fueled or powered by new technology, is unprecedented. Almost 500 vehicle models in dealer showrooms have ratings in excess of 30 mpg. Similarly, customers can find over 75 models of hybrids, plug-in electric and battery electric vehicles on lots if they wish to drive one home tonight. And, NADA assisted them by producing and distributing a best practices guide specifically focused on providing practical tips to meet the growing customer demand for electric vehicles.[1] However, the fleet mix of traditionally-fueled vehicles and the market penetration of electric vehicles is directly affected by the prevailing price of gasoline. The ratio of passenger cars to light trucks and SUVs tracks the price of fuel, and that relationship again has been reflected in the purchasing mix since the price of oil has dropped precipitously. Americans are buying more light trucks and SUVs than passenger vehicles. Similarly, the sale of EVs did not reach the President's goal of 1 million vehicles by 2015 (despite substantial federal and state tax credits and other inducements) because EV sales are directly influenced by fuel price fluctuations.[2] Simply put, customers can do the math. They understand that lower fuel costs extend the payback of the additional upfront costs of a hybrid or an EV.

Despite the administration's attempt to create "one national program" for fuel economy, three counter-productive and duplicative standard-setting mechanisms persist, creating excessive costs and threatening vehicle affordability. As part of the Energy Policy and Conservation Act of 1975, Congress created the Corporate Average Fuel Economy (CAFE) Program under the authority of the National Highway Safety Administration (NHTSA), which was for over three decades the only fuel economy program. As recently as 2007, Congress directed NHTSA alone to increase fuel economy by 40 percent under CAFE.

However, a single regulator no longer exists. The combination of California's effort to increase fuel economy by mandating the reduction of greenhouse gases and the Obama Administration's initiative to regulate greenhouse gases under *Massachusetts vs. EPA* has created a far more complicated structure for regulating fuel economy. Currently three regulators

[1] *A Dealer Guide to Marketing Electric Vehicles.*

[2] Brad Tuttle, *"So About That Goal of 1 Million Electric Cars by 2015…"* Money, Jan. 22, 2015.

write three different fuel economy rules pursuant to three different laws. In 2010, the Administration set a 35.5 mpg standard by model year (MY) 2016. EPA regulators again bypassed Congress by announcing a new 54.5 mpg fuel economy target for MY 2025 vehicles on August 28, 2012, which included a mid-term review. This approach of setting CAFE standards enhances the likelihood of unintended consequences, because under the Clean Air Act, a law which was not designed to regulate fuel economy, EPA and California do not account for national job loss, customer choice, and vehicle affordability during the standard setting process.

In issuing the TAR, the administration is setting the stage for another counter-productive regulatory action next year to implement the mid-term review. Despite the complexity of the 1,200 page document and the abbreviated public comment period, one thing is abundantly clear from our preliminary analysis – our customers will have to pay more to meet their transportation needs as a direct result of assumptions in the TAR. We believe that the TAR grossly underestimates the economic impact our customers will face unless the regulations are improved. Based on the types of available technology that will be needed to meet the 2025 CAFE/GHG targets (multi-speed transmissions, turbo-charging, mass hybridization, electrification, etc.), we project that the average price of a new vehicle would increase significantly. As a result, more people will be priced completely out of the new car market or face fewer economic choices for new vehicles. The same will be true in the used vehicle market, because the pricing trends in the used vehicle market reflect the new vehicle trends. Given the potential magnitude of these cost increases, in addition to other environmental and technology-driven cost increases in recent years, the American consumer cannot afford a rush to judgment. The TAR and the mid-term review must be done with full transparency and rigorous, public analysis.

In conclusion, while government regulations can force manufacturers to make certain types of vehicles and deliver them to dealers, if customers are not willing or able to buy the vehicles, the policy objectives will fail. Our members' primary concern is for their customers because of the prices increases that are inevitable. But as a practical matter, the additional reality is that any mandate that forces the production of vehicles that customers do not want or cannot afford will only serve to slow down, rather than accelerate, the already dramatic fuel economy improvements that the industry has made to date.

Customers will render the final verdict on the success or failure of the EPA/NHTSA/California fuel economy programs. Customers will vote with their pocket books, and the results will be reflected in the number and the mix of new vehicles registered for use each year in the United States. The faster we turn over the existing fleet of 262 million cars, the sooner we will achieve our safety and environmental goals, strengthen our national security and enhance our economy.