



Consumer Federation of America

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**STATEMENT OF DR. MARK COOPER,
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JOINT NHTSA-EPA HEARINGS ON FUEL ECONOMY STANDARDS FOR 2017-2025
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I am Dr. Mark Cooper, director of Research at the Consumer Federation of America. We greatly appreciate the opportunity to testify today because our analysis of the fuel economy and pollution emission standards proposed by the National Highway Traffic Safety Administration (NHTSA), the Environmental Protection Agency (EPA) and the California Air Resources Boards (CARB) leads us to conclude that they are a landmark in U.S. energy policy. These standards will deliver major economic, security and environmental benefits to consumers and the nation, while putting the U.S. auto industry on a path to global success. Our support for the standard is based on real world answers to two fundamental questions.

ARE THE STANDARDS IN THE CONSUMER INTEREST?

Consumer pocketbook savings: By far the single largest benefit of the standards is the reduction of consumer expenditures on gasoline and the decrease in the cost of driving. For the typical consumer, who purchases a new auto that complies with the 2025 standard with a five year auto loan, the consumer pocketbook savings will be immediate and substantial.

- Higher fuel economy standards lower the cost of driving from the first month because the reduction in gasoline expenditures is greater than the increase in the monthly payment to cover the cost of fuel saving technology.
- At the end of the auto loan, the consumer will have saved an average of about \$800 by purchasing a new car that meets the standard.
- By the tenth year, the vehicle will have generated an average of over \$3,000 in savings.
- Therefore, the resale value of the vehicle is also likely to be much higher.

The burden rising gasoline prices place on household budgets: These potential consumer benefits come at a moment when American consumers are in desperate need of relief from rising and volatile gasoline prices. Over the past decade, gasoline prices have gyrated wildly around a strong upward trend that has been particularly troubling for consumers.

- Gasoline prices set a record high in 2011 in both nominal and real terms, averaging \$3.53 per gallon. This week's prices are a record for January.
- Household gasoline expenditures set a record last year, reaching an average of over \$2,850 per year.
- In 2011, gasoline expenditures were 40 percent higher than expenditures on home energy (electricity, natural gas, and heating oil); ten years ago, they were 13% lower.
- Rising gasoline prices have changed the structure of the cost of driving. Ten years ago, the cost of owning a vehicle was the largest single component of the cost of driving, about three times as high as the cost of gasoline. In 2011, the cost of gasoline will equal or exceed the cost of owning the vehicle for the first time.

- If there is one thing to take away from this hearing, it is that this is a consumer benefit program that addresses an important problem that has afflicted U.S. households for a decade.

National benefits of higher fuel economy standards: Indirect national energy, economic, and security benefits are substantial as well, including:

- a reduction in oil consumption and imports by almost 4 billion barrels over the full life of all vehicles covered by the 2017-2025 standards which lowers the balance of payments deficit by \$370 billion;
- driving down the price of oil by \$0.25 per gallon, which produce a major boost to domestic economic growth (valued at \$31.5 billion);
- lowering vulnerability to oil price shocks (valued at \$21.5 billion); and
- reducing the need for national security expenditures (\$21.5 billion).

The total national benefits (i.e. all vehicles produced for MY 2017 to 2025 for their full lives) are close to \$600 billion, of which \$500 billion are consumer savings.

- The total benefits are equal to almost 3.4 times the costs.
- In fact, the proposed standards are so clearly in the public interest that the benefits of the proposed rule far exceed the cost in every scenario considered by NHTSA and EPA, no matter how extreme the assumptions.

WILL THE STANDARDS SUCCEED IN RAISING FUEL ECONOMY?

Our analysis also leads us to conclude that consumers will buy the new fuel efficient vehicles enabling auto makers to reach the targets set by the standard not simply because the standards produce large economic benefits, but also because they have been designed in a consumer-friendly manner that is sensitive to auto industry needs.

Public concerns about gasoline leads to support for higher fuel economy standards and changes in consumer behavior: Given the burden on household budgets and the continuing problem of oil vulnerability, it is not surprising to find that 75 percent or more of respondents to our public opinion polls:

- are concerned about gasoline prices and dependence on Mid-East oil;
- think it is important to reduce oil consumption; and
- support higher fuel economy standards.

We also found high levels of support for much higher fuel economy standards.

- Almost two-thirds of the respondents support a 60 mile per gallon standard with a payback period of 3-5 years and think it will be good for automakers.

Consumers have shown a willingness to shift their buying patterns in light of gas price spikes. Between 2004, the year before the worst price increases began, and 2011, market shares have shifted toward more fuel efficient vehicles:

- 4-cylinder engines increased from 28% to 48%;
- car purchases increased from 48% to 59% of total yearly sales;
- small and mid-sized crossover SUVs more than doubled to over 21%; and,
- hybrids increased from less than 1% to more than 6%; while,
- small cars remained constant at 47%.

The new approach to setting standards is consumer-friendly and facilitates automaker compliance: Congress ordered significant improvements in the way fuel economy is regulated in the Energy Independence and Security Act of 2007 and both the Bush and Obama administrations have proposed standards that are aggressive, but reasonable.

- The new attribute-based approach ensures that the standards do not require radical changes in the types or size of vehicles consumers drive; so the full range of choice will be available to consumers.
- They should accelerate the adoption of technologies that have begun to be utilized in small parts of the vehicle fleet at costs.
- The standards also provide incentives and flexibility in introducing new technologies -- particularly in electric vehicles.
- The setting of a steady path over a long time period gives consumers and the industry time to adapt to change.
- The coordination between the federal and state agencies that set standards for both fuel economy and pollution emissions creates certainty that the auto makers and auto buyers desperately need.

The auto industry has strong incentives to comply with the program: The proposed standard reduces the supply-side risk of introducing new fuel savings technologies and triggers competition around fuel economy which will help the domestic industry compete globally.

- The proposed standard brings U.S. standards up to international levels.
- With high disposable income and a reduction in the cost of driving, more autos will be sold and over 100,000 jobs created.

The proposed rule recognizes the need to keep the standards in touch with reality: By proposing a mid-term review, the rule allows midcourse corrections if underlying assumptions do not pan out. History suggests it is just as likely that the review will result in a recommendation to increase the standards as to decrease them because

- the price of gasoline used in the current rule for 2025, is equal to the price of gasoline for 2011 – we think it will rise over time, and
- the cost of technology has consistently proven to be lower than the industry and the regulators estimated in previous major standards.

Widespread support for the standards: Because the standards are beneficial, moderate and achievable, they have been supported by all who have a stake in the industry, (includes setting of standards that affect cars and trucks), including:

- virtually all auto makers who sell vehicles in the U.S.;
- the labor unions that represent the workers who manufacture light duty vehicles; and,
- consumers (as shown in survey research conducted by consumer organizations), who are the people who buy and drive the vehicles.

From the consumer, economic, security and environmental point of view implementing the proposed standards are a “win-win-win-win” proposition. We urge the agencies to adopt them.