



Consumer Federation of America

1620 I Street, N.W., Suite 200 * Washington, DC 20006

THE CONSUMER BENEFITS OF THE PROPOSED FUEL ECONOMY STANDARDS: A PRELIMINARY ASSESSMENT

Mark Cooper, Director of Research

JANUARY 2012

CONSUMER BENEFITS OF HIGHER FUEL ECONOMY STANDARDS

The Consumer Federation of America's preliminary 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) finds they are a landmark in U.S. energy policy. These standards will deliver major economic, national security and environmental benefits to consumers and the nation, while putting the U.S. auto industry on a path to global success. By far the single largest benefit is the reduction of consumer expenditures on gasoline.

Consumer pocketbook savings, enumerated below, for the typical consumer, who purchases a new auto that complies with the 2025 standard, assuming a five year auto loan, will be immediate and substantial (see Exhibit 1).

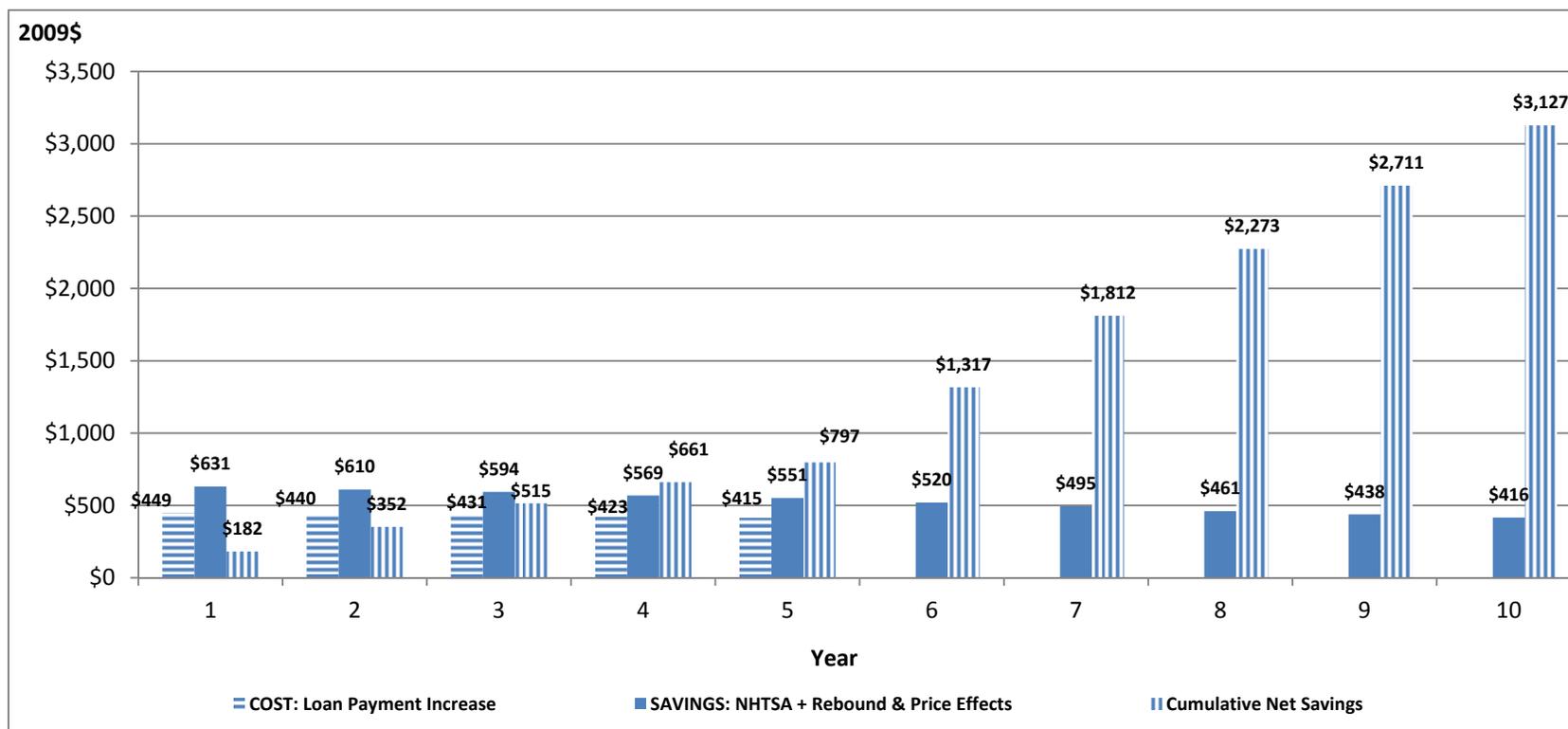
- Higher fuel economy standards lower the cost of driving from the first month because the reduction in gasoline expenditures is greater than the increase in the monthly payment to cover the cost of fuel saving technology.
- At the end of the auto loan, the consumer will have saved an average of about \$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.
- 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 of higher fuel economy standards come at a moment when American consumers are in 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 (see Exhibit 2).

- Gasoline prices set a record high in 2011 in both nominal and real terms, averaging \$3.53 per gallon.
- Household gasoline expenditures set a record as well, reaching an average of over \$2850 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.

EXHIBIT 1: CONSUMER POCKETBOOK BENEFITS OF NEW CARS MEETING THE 2025 STANDARD FAR EXCEED THE COSTS

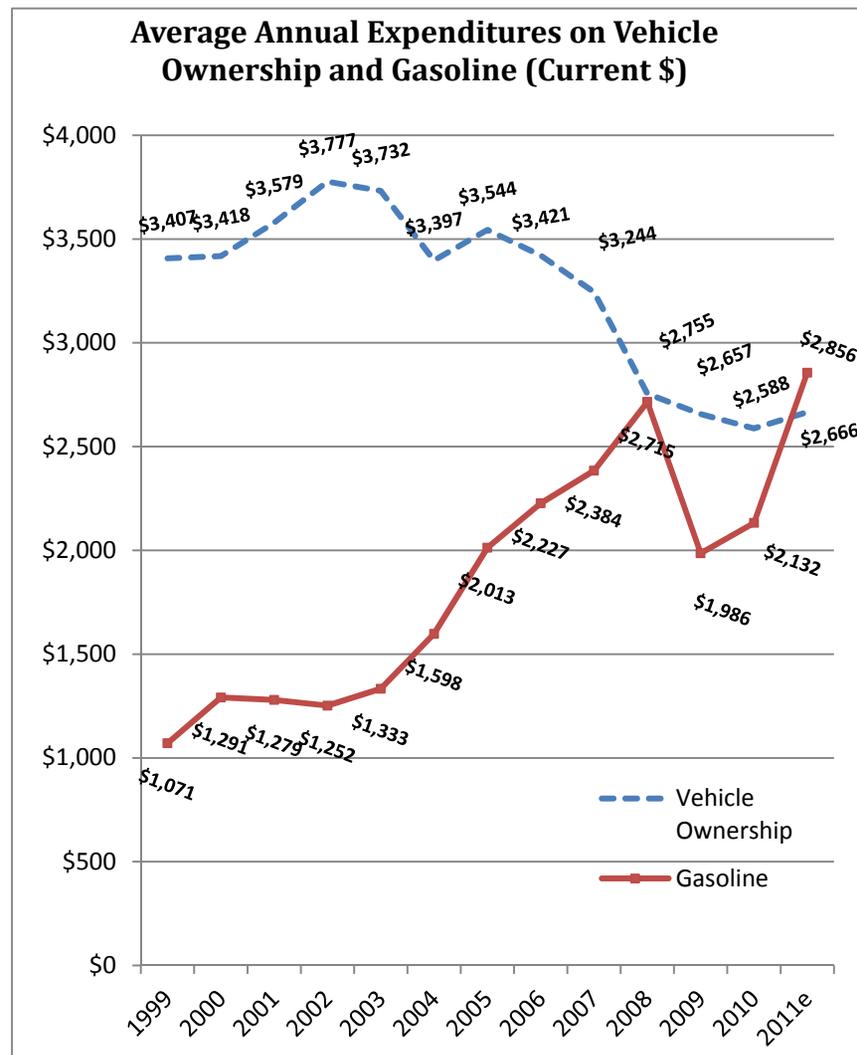
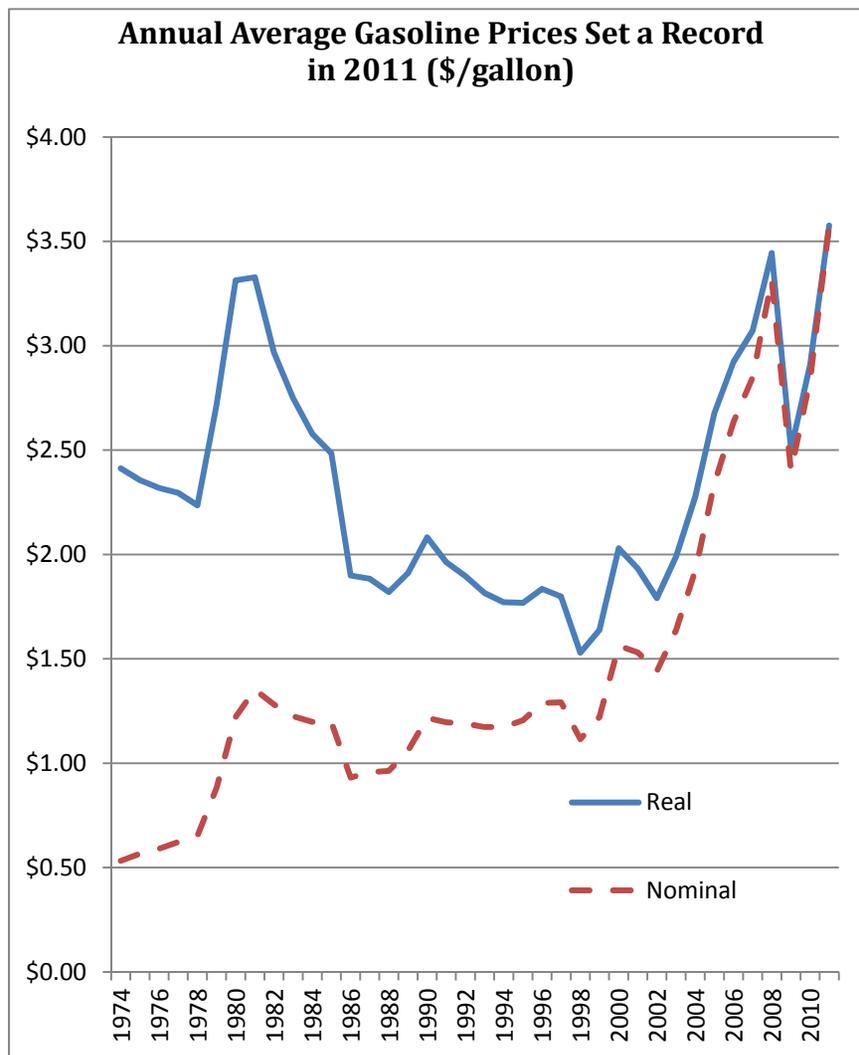


CONSUMER POCKETBOOK ANALYSIS ASSUMPTIONS

<u>Vehicle Attributes</u>		<u>Economic</u>		<u>Financial</u>	
Vehicle Type	Cars	Incremental Cost	\$2026	Loan period	5- Years
MPG 2025	56	Gasoline Cost 2025/gallon	\$3.53	Interest rate	5%
Base year 2016 mpg =	38	Inflation rate	2%		
Onroad Adjustment Factor	0.8	Discount rate	3%		
Onroad mpg 2025	44.8				
Onroad mpg base year 2016	30.4				

Source and notes: Office of Regulatory Analysis and Evaluation National Center for Statistics and Analysis, *Preliminary Regulatory Impact Analysis Corporate Average Fuel Economy for MY 2017-MY 2025, Passenger Cars and Light Trucks*, November 2011, CFA pocketbook savings calculated without subtracting the rebound effect and adding \$.25/gallon for the price effect.

EXHIBIT 2: RECORD GASOLINE PRICES, RECORD HOUSEHOLD EXPENDITURES AND THE COST OF DRIVING



Sources and notes: EIA, Database, BLS, Consumer Price Index. Energy Information Administration data base on gasoline prices; Bureau of Labor Statistics, *Consumer Expenditure Survey*, various years. A short-run elasticity of demand is included in the projections of -0.244 , based on the elasticity of household demand implicit in the CES data for 1997 - 2009.

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.

PUBLIC CONCERNS ABOUT GASOLINE PRICES LEADS TO SUPPORT FOR HIGHER FUEL ECONOMY STANDARDS

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 as a good way to do so.

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; and,
- Support is uniform across traditional auto belt states, clean cars states, and other states.

NATIONAL BENEFITS OF HIGHER FUEL ECONOMY STANDARDS

The Consumer Federation of America estimates that total national benefits (i.e. all vehicles produced for MY 2017 to 2025 for their full lives) are close to \$600 billion (see Exhibit 3):

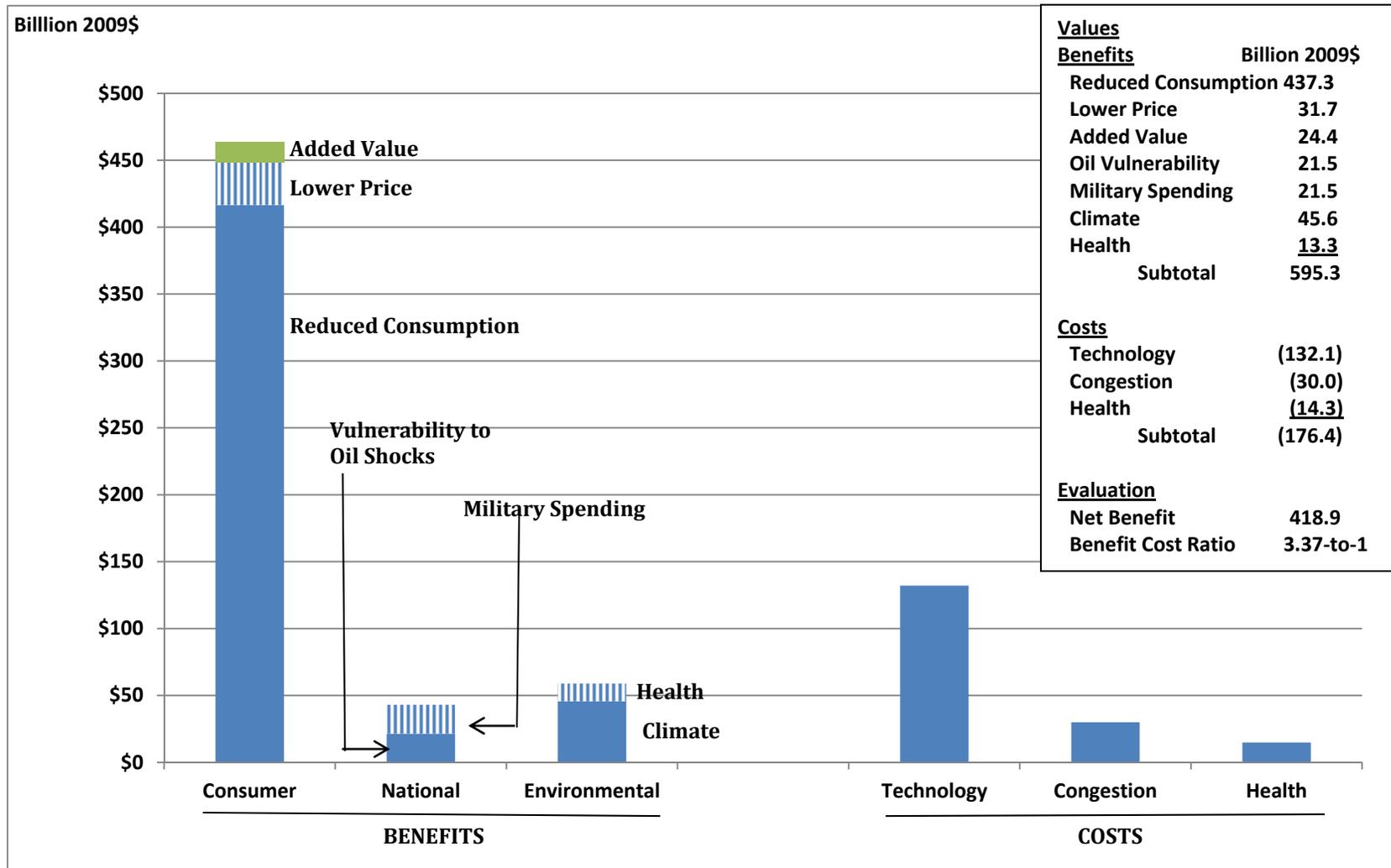
- Consumer savings: nearly \$500 billion, resulting from all of the vehicles covered by the new standards, represent over 80 percent of the total national benefits;
- Environmental benefits: almost \$60 billion (just over 10 percent of the total);
- Indirect national security and economic benefits: just over \$40 billion (about 7 percent of the total); and,
- Employment increases in the auto industry: well over 100,000 jobs.

The indirect national benefits include progress on major national public policy goals, including:

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

The total benefits (from all of the vehicles produced subject to the standard) are almost 3.4 times the costs.

EXHIBIT 3: THE BENEFITS AND COSTS OF THE PROPOSED HIGHER FUEL ECONOMY STANDARDS: COMBINED CARS AND TRUCKS, 3% DISCOUNT RATE



Source and notes: Office of Regulatory Analysis and Evaluation National Center for Statistics and Analysis, *Preliminary Regulatory Impact Analysis Corporate Average Fuel Economy for MY 2017-MY 2025, Passenger Cars and Light Trucks*, November 2011, Tables13, VIII-27b. Consumer Benefits include a price effect of \$31.6 billion based on a valued of \$0.25/gallon. National benefits include a rebound effect of 5% and reduced military spending valued at \$0.17 per gallon.

THE POLICY RESPONSE

The steady increase in gasoline prices and continuing dependence on oil are problems that commanded policy attention, highlighted by President Bush's State of the Union address to the 110th Congress in 2006. He declared that "here we have a serious problem: America is addicted to oil, which is often imported from unstable parts of the world. The best way to break this addiction is through technology."

In response, Congress, with Republican majorities in both houses, enacted the Energy Independence and Security Act of 2007 (EISA). The law, which both the Bush administration and the Obama administration moved quickly to implement, reformed and improved the approach to standards and restarted the process of setting standards, after almost three decades in which the fuel economy standards program had been essentially dormant.

- 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 accelerate the adoption of technologies that have begun to be utilized in small parts of the vehicle fleet while providing incentives and flexibility in introducing new technologies -- particularly in electric vehicles.
- The costs rise moderately over time and are consistent with the analyses provided by several independent institutions that have recently analyzed potential fuel economy increases.

The Obama administration has now come forward with a longer-term proposal that will assist the industry in meeting future standards.

- The setting of a steady path to nearly doubling the fuel economy of the new vehicles (after EISA) represents a major step forward in creating a rational, effective long-term energy policy.
- The longer time frame 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.

WIDESPREAD SUPPORT FOR THE POLICY

Because the standards are beneficial, moderate and achievable, they have been supported by virtually all who have a stake in the 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,
- the public, as shown in survey research conducted by consumer organizations, who are the people who buy and drive the vehicles (CFA, Consumers Union).

To the extent that there is opposition to increased fuel economy standards, it is based on analyses that thoroughly misrepresent the impact of the policy by vastly overstating the costs and ignoring the substantial consumer and national benefits that result from a dramatic reduction in gasoline consumption. 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. From the consumer, national energy and security point of view implementing the proposed standards is a "win-win-win" proposition that needs to be adopted.