

STATEMENT OF WILLIAM J. BECKHAM, DEPUTY SECRETARY, DEPARTMENT OF TRANSPORTATION,  
BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES, APRIL 30, 1980

Mr. Chairman and Members of the Committee:

I am pleased to appear before your Committee to discuss the potential of the Automotive Fuel Economy Program under Title V of the Motor Vehicle Information and Cost Savings Act in the 1986-1995 period and Senator Jackson's proposal to raise the automotive fuel economy standards in the post-1985 period. With me today are Joan Claybrook, the Administrator of the National Highway Traffic Safety Administration (NHTSA) and Howard Dugoff, the Administrator of the Research and Special Projects Administration (RSPA).

Senator Jackson has introduced a proposal, one of four offered as amendments to the Administration's Transportation Energy Efficiency bill (S.2015), to raise the mandated fuel economy standards for the post-1985 automobile fleet above the existing 1985 standard of 27.5 miles per gallon. Another amendment, coupled with this proposal, would provide the automakers with a tax incentive -- accelerated depreciation -- designed to ease the burden of the increased capital investment required to gear up plants for production of automobiles with much higher fuel economy. The last two amendments address a different subject, attempts to increase the fuel economy of the existing American automobile and truck fleet, and are not within the scope of this hearing.

My remarks will be confined to the topic of this hearing. that is, how our nation can best insure that those automobiles produced after 1985 will continue to have improved fuel economy and how our government can best assist the automobile manufacturers to achieve this goal in view of the massive capital investments required.

For several years, and most intensively over the past few months, the Department of Transportation has examined in some detail this particular issue and related concerns. In no other sector of the economy is there felt the vise-like squeeze of national energy goals meeting national economic and employment goals, as there is in transportation in general and the automotive industry in particular.

Clearly, a lead item on our national agenda is the reconciliation of these goals -- for they need not be in conflict. But the distance we still have to travel to bring them together is great and may be measured in the pain we are experiencing today in oil dependency on the one hand and in unemployment and industrial red-ink on the other.

Consider these monumental sets of facts:

First, America today is still far too dependent on imported crude oil than at any time in the past. Imported oil in 1979 accounted for 44 percent of all oil consumed in this country. Over 50 percent of the oil was consumed by transportation, 36 percent by the private automobile and light trucks. We have come to recognize the fragility of this foreign oil supply and its susceptibility to frequent and possibly prolonged interruption. Indeed, it is this uncertain prospect of gasoline availability -- as well as price -- which we believe has caused the shift in the auto market.

Second, our dependence on foreign oil is commanding an increasing portion of our nation's wealth. In 1975, imported oil sold for \$12.70 per barrel and total oil imports cost our nation \$27 billion. By December 1979, the price had more than doubled to \$28.91 per barrel and the 1979 imported oil

bill totaled more than \$60 billion. This year that figure will approach \$90 billion.

These payments have a devastating impact on our economy, on inflation, on employment, on our balance of payments and the value of the dollar. Moreover, the pervasive nature of energy as the resource that drives all that we do has triggered a re-adjustment of this nation's way of life. It is requiring, in particular, a massive transition in our domestic economy and in a number of sectors is creating a capital scarcity to rival the energy scarcity.

One sector which is so affected is the auto industry, an industry historically central to our economy.

Roughly one out of every six jobs in the country is related to the auto industry. It accounts for almost nine percent of our manufacturing output, 18 percent of wholesale and 20 percent of retail sales. It consumes over one-fifth of the nation's steel supply, over half of the rubber, one fourth of the glass and significant percentages of plastic, aluminum, electronics and other commodities.

Today, as you know, the auto industry and the industrial base which undergirds it, are in trouble -- in part because of the energy situation and the industry's failure to anticipate it fully, in part because of carefully structured industrial strategies of other nations which have targetted on this market.

The result of these forces converging is a massive and painful conversion of the auto industry. In the next five years, domestic auto makers will spend an estimated \$70 billion to re-tool the industry.

They must make these expenditures at a time of economic setbacks -- Ford reported a North American negative operating cash flow of \$1.1 billion last year, General Motors \$.5 billion and Chrysler \$1.5 billion -- and at a time when the market for large cars, whose sales would ordinarily have financed the transition, has largely disappeared. In 1977, sales of full-sized cars in this country held a solid 30 percent of the market; today that share has shrunk to 14 percent. Sales of small cars today account for 60 percent of the market and 50 percent of them are imports.

The result of this domestic shift is financial distress for the industry, for the workers and, potentially, for the regions in which the companies' operations are located.

Fundamentally, then, the industry which has in the past rebounded from cyclical market shifts, now faces a structural market redefinition -- one which is redefining the domestic auto industry, as well.

In 1975, the Congress, recognizing the seriousness of the drastic changes in the price and availability of imported crude oil, initiated a mandatory fuel economy program. This program has proved a uniquely valuable tool in conserving energy and, ultimately, in assisting in maintaining the viability of domestic automakers facing international competition. The benefits of this program and the larger energy conservation program that has been launched are vast:

\* As a result of Federally mandated fuel economy standards we anticipate an overall savings to this country in the next 5 years of roughly 53 billion gallons of gasoline compared with the fuel consumption of vehicles at the 1977 average levels. Indeed we are already witnessing a reduction in national gasoline utilization.

Between 1978 and 1979, gas consumption decreased by roughly 3.7 billion gallons.

\* The average new domestic car is already more fuel efficient - over 21 miles per gallon this year compared to under 13 miles per gallon in 1974 -- and is being driven 15 miles per week less.

\* The 1974 domestic new car fleet averaged less than 13 miles per gallon, with no models capable of achieving 30 miles per gallon. The 1985 domestically produced new car fleet will meet the mandated 27.5 miles per gallon fuel economy standard and more than 50 percent of the vehicles will achieve over 30 miles per gallon.

From all this, I believe, the following tentative conclusions may be drawn:

1) Our national interests continue to require of us a major commitment to a national energy conservation strategy. Because of transportation's role in the nation, and the auto's importance, we regard it as a sound area of emphasis. Moreover, the substantial potential for improvement associated with the auto and its use makes it a prime area of opportunity for an immediate return on our conservation investment.

2) We must conserve our capital as well, both public and private, recognizing that, like energy, it is an increasingly scarce and expensive resource, requiring careful and judicious use.

3) The current Federally mandated fuel economy standards for autos played an important role in forcing the industry to anticipate the current market demand for fuel efficient cars. This year, while the standards call for 20 miles per gallon, in fact, the average car will achieve 21.5 miles per gallon. For the future we would specifically reserve the Federal prerogative to mandate post-1985 standards in anticipation of issues regarding projected energy availability and market forces.

4) The world energy reality is a major force in a re-definition of the world economy. For autos, this means the emergence of global issues involving unprecedented international competition, capital expenditures, corporate strategies and investment decisions of long-term significance.

5) The conversion of the auto industry -- itself a response to a shock wave -- is rippling through this nation's industrial base, hitting the manufacturing industries which are central to our country's economic might and security. In other nations, the impacts today appear less severe because of an earlier internalization of some of these costs, carefully targetted export strategies designed to transfer costs, or government-industry marriages to absorb costs in pursuit of long-term national employment and economic goals.

These tentative conclusions bring us to the question -- or set of questions -- which this hearing confronts: the measure of fuel economy standards applied against a set of industrial and national criteria. The questions, I believe, are numerous and require both data analysis and personal judgment to arrive at meaningful answers.

Perhaps the easiest questions to resolve concern technology -- that is the technological capacity of the industry to produce a fleet of vehicles which achieve a prescribed level of fuel economy. It is our view that future fuel economy standards are not likely to be an issue of technology alone. Based on previous analysis of this issue, as well as the current capabilities of domestic and foreign automakers, it appears that an average fleet fuel economy of 40 miles per gallon is technologically feasible by 1995.

Moreover, a number of as yet unresolved factors -- such as public health questions concerning permissible levels of diesel engine and fuel use or the potential availability of battery powered vehicles to contribute toward the CAFE -- could offer even greater technological assurances of our ability to meet these levels.

A much more difficult and complex set of questions surround the economic and social consequences of post-1985 fuel economy, regardless of whether the drive comes from Federal standards, market forces or a combination of the two. What will be the impact on the capital resources of domestic automakers, their size and structure? What impacts will be transferred to the larger industrial network of the country; the workers and the regions? How will it affect our position in international economic competition?

Indeed, these questions pertain with or without the issue of regulation per se. We must be prepared to consider the synfuels option and its energy and economic impacts; the prospects for substantially higher reliance on transit; and the all-embracing consideration of the future relationship we seek between the public and private sectors in this country. Historically we have adopted one particular regulatory model. But other nations with whom we must compete have other approaches: in some, the model is one of partnership, or promoter or, in some instances, the lines are even blurrier. The decisions we reach in our pursuit of the twin goals of energy conservation and economic health must take into account these issues of industrial policy.

The issue really is one of the structure of a new relationship between government and the private sector in a world where the fundamentals of energy cost and availability and international economic competition have recently undergone unprecedented re-definition. The task we face as a nation is the crafting of a multi-dimensional response -- a package, if you will -- that makes the most sense in employing regulations, tax incentives, employment and labor policies, trade policies, capital investment strategies, innovation and technological advancement and other tools to safeguard our energy security and our economic competitiveness.

In fact, it was precisely in recognition of these far-reaching concerns that the Congress, as a part of the Chrysler legislation, directed the Department of Transportation to examine the future of the auto industry. Specifically, under the terms of the Chrysler Loan Guarantee Act of 1979, Secretary Goldschmidt is required to make an assessment of the impact of likely energy trends and events on the auto industry. The Secretary is required to include information on long-term capital requirements, rates of technological change, shifting market characteristics, regional employment impacts, and the capability of the industry as a whole to respond to the requirements of the 1980's. This study, which is due in January, 1981, is to be followed by annual reports on the state of the auto industry and its interaction with the economy.

In addition to that charge we received direction from the White House Domestic Policy office to examine this set of issues in its broadest context -- looking at issues of the industrial base, trade, productivity, employment and more -- to develop policy choices for the government which could assure the production of fuel-efficient vehicles as well as the future health of the auto industry and our manufacturing base.

The study which is already underway recognizes first that the auto industry today is, in fact, an international auto system -- one which affects directly the manufacturing economy not only of this country but of Japan, Western Europe, as well as a number of developing nations which seek to use the auto industry as a prime vehicle for economic development. Thus, any effort to analyze the future of our domestic automakers must begin with an analysis of global forces, global markets, government and industry policies and practices around the world, as well as other key factors which describe this system as a whole.

Next, we recognize the critical variables to which the industry is subject -- most notably energy projections and economic conditions. Against

the backdrop of these known conditions and future projections we are describing alternative scenarios of the post-1985 market demand, the numbers and types of vehicles required to satisfy that demand, and the full range of components used to produce those vehicles -- including capital resources, raw materials, labor and other requirements.

As a final step in defining the shape of the industry under various assumptions, we will describe alternative responses by the automakers to projected market conditions. These alternatives would then frame the issue of the future condition of the industry, according to varying scenarios.

At the same time that the technical work is proceeding, we are advancing on an analysis of policy instruments which could be employed by government to effect the industry scenarios. Included in this analysis would be the full range of instruments available to government and a careful assessment of their likely impacts, measured against a set of criteria -- including energy conservation, jobs, regional impacts, balance of trade, capital formation, consumer issues, and more. At the conclusion of the study we expect to produce a set of choices -- again, a package -- which would attempt to integrate these interests into a coherent whole. Therefore, we cannot recommend any specific financial incentives at this time and cannot support incentives such as those proposed in Amendment No. 1665.

Beyond technology are the issues of energy and economy and the relationship between government and industry. The goal we share is an integrated strategy

which meets the multiple tests of conservation, employment, competition and long-term national economic strength. We believe that the studies now underway in the Department can point the way to such an integrated strategy and provide valuable information regarding the role of fuel economy standards as a tool in that strategy. We would reserve comment on the specific proposed legislation until the work of the studies yields concrete results. We do appreciate these hearings as an initial opportunity to air the range of issues which are before us, and we will be éager listeners throughout the proceedings, seeking to learn all that we can in pursuit of the accomplishment of our current responsibilities.