

STATEMENT OF JOAN CLAYBROOK, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON SCIENCE, TECHNOLOGY AND SPACE, SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION, CONCERNING PROPOSED AMENDMENTS TO TITLE V OF THE MOTOR VEHICLE INFORMATION AND COST SAVINGS ACT, JANUARY 23, 1980

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before your Subcommittee to discuss S. 1583, S. 2010, S. 2035 and the Administration's proposals relating to the Automotive Fuel Economy Program under Title V of the Motor Vehicle Information and Cost Savings Act. With me today are Michael Finkelstein, Associate Administrator for Rulemaking, Barry Felrice, Associate Administrator for Plans and Programs, Rhoads Stephenson, Associate Administrator for Research and Development and Steve Wood, Assistant Chief Counsel for Rulemaking.

The Energy Policy and Conservation Act, enacted on December 22, 1975, was designed to increase domestic energy supplies and availability, restrain energy demand and plan for coping with energy emergencies. As an integral part of its provisions for conservation, Title V, Improving Automotive Efficiency, was established, requiring the Secretary of Transportation to set corporate average fuel economy standards for passenger cars and light trucks.

These standards make significant contributions to the Nation's total effort to conserve energy. Projected cumulative

passenger automobile fuel savings from model year 1978 through model year 2000 will approximate 395 billion gallons (9.4 billion barrels). Comparable fuel savings for light trucks are estimated to be approximately 114 billion gallons (2.7 billion barrels). Thus, total fuel savings should be more than 500 billion gallons over the next 20 years. This is equivalent to a 25 percent savings -- compared to pre-standard consumption levels -- and will provide the Nation with the equivalent of an additional 5 year supply of gasoline for its passenger car and light truck fleet.

These savings over the 1978-2000 period yield a combined discounted present value of approximately \$215 billion (1979 dollars). In the year 2000 alone, the savings for passenger car owners are estimated to be \$12.1 billion and \$3.7 billion for light trucks, resulting in a combined present value of \$15.8 billion (1979 dollars).

Consumer savings from the fuel economy standards are significant. The average purchaser of a 1985 model year car, for instance, is expected to realize a net savings over the vehicle's lifetime of \$1,540 (present value of fuel savings minus estimated retail price increases) when compared to a model year 1977 automobile. Likewise, the average purchaser of a model year 1981 light truck is expected to realize a net savings of \$1,240 over the average 1978 vehicle.

In administering the fuel economy program, we try to be alert to any difficulties that the manufacturers may encounter in meeting the standards. We have been willing to respond to reasonable requests for changes, consistent with the statutory mandate to attain the maximum feasible average fuel economy level for each year.

The National Highway Traffic Safety Administration (NHTSA) conducted an analysis of the need for changes in the fuel economy program for our January 1979 Report to Congress, as required by section 502(a)(2) of the Cost Savings Act. As part of this analysis, we sought the views of the manufacturers and the public on possible program improvements. One of our prime concerns in developing our legislative recommendations was to minimize unnecessary burdens on the vehicle manufacturers while still securing substantial improvements in automotive fuel economy.

In that Report on Automotive Fuel Economy, we recommended three amendments to the Act. These amendments, together with an additional fourth amendment, are now incorporated into a Departmental draft bill transmitted to the Congress last December. The first amendment would amend section 502(c) of the Act to exempt passenger car and light truck manufacturers producing fewer than 10,000 vehicles per year

from both the fuel economy standards and the Act's semi-annual reporting requirements. The production volume of these manufacturers is so low that there is minimal gasoline saved through such regulation and their economic and technical capabilities to make necessary fuel economy improvements are severely limited. An exemption for these manufacturers would therefore have no significant effect on fuel economy and would save both the manufacturers and the government a lot of unnecessary work.

The low volume manufacturer would not, by this amendment, be altogether free from fuel economy considerations. Upon being certified each year by EPA, a fuel economy value for each of its base levels is established. This value becomes the basis for the Gas Mileage Guide, labeling provisions, and the "gas guzzler" excise tax. Therefore, although exemption from fuel economy standards and reporting would be granted, a limited amount of pressure to improve fuel economy would remain. In our view, this represents a constructive form of deregulation.

The second amendment would amend section 503(b)(1) of the Act to allow a manufacturer to average U.S. assembled automobiles with its imports if U.S. production began after the Act was passed. This amendment would be consistent with the purpose of section 503(b)(1), in that it would help domestic employment by encouraging foreign manufacturers to

build cars in this country, as Volkswagen has recently done, using a high percentage of U.S.-made parts and materials. Absent such an amendment, V.W. would be forced to continue using less than 75% domestic content of parts and materials in their U.S.-built vehicles. We intend to pay careful attention to any discussion in subsequent testimony concerning the economic and competitive effects of this amendment.

The third amendment (listed fourth in the order of our bill) would amend section 508(a)(3)(A) of the Act to modify the automotive fuel economy system of credits and penalties to allow the credits a manufacturer may earn to be carried forward or backward for three years instead of the current one year. This amendment is designed to facilitate compliance by manufacturers in the unlikely event that they may be unable to meet the required levels during a given year due to unforeseen circumstances. It is not intended either that manufacturers, other than those that are financially troubled, would use the extended credit period routinely or that any manufacturer would exploit it in order to deliberately delay fuel economy improvements in later years.

Accordingly, our first three amendments are substantively identical to amendments proposed in S. 2010.

The fourth amendment (listed third in the order of our bill) would amend section 507 of the Act to exempt a manufacturer from a finding of unlawful conduct for its failure to comply

with a fuel economy standard if it has earned sufficient credits in the three years prior to the year of the penalty to completely offset such penalty. The section would also provide relief from a finding of unlawful conduct to a manufacturer that has not earned sufficient credits before the year of penalty, on the condition that the manufacturer submits a plan showing that it will earn sufficient credits during the following three years to offset the penalties. If the manufacturer, despite its plan, has a net penalty at the end of the three-year carry-back period, it would be considered to have acted unlawfully. The amendment would thus continue the statute's emphasis on compliance.

The only difference between our fourth amendment and similar provisions in S. 2010 and S. 1583 is that while each of the bills would provide relief from a finding of unlawful conduct to a manufacturer that has not earned sufficient credits before the year of penalty, our bill would condition that relief on the submission by the manufacturer of a plan showing that it will earn sufficient credits during the following three years to offset the penalties. The submission of the plan would not affect a finding of unlawful conduct if the manufacturer, despite its plan, has a net penalty at the end of the three-year period. However, it is our view that the very process of developing such a plan and its

review could contribute significantly to assuring its achievement and thus contribute to the success of the program.

We have mixed feelings about S. 2035, the bill designed to permit American Motors Corporation to include up to 150,000 non-domestic passenger automobiles in its corporate average fuel economy. We are very concerned about the economic well-being of the smaller domestic manufacturers and we do not want the fuel economy program to limit unduly the efforts of those companies to prosper in the marketplace. AMC's recent arrangement with Renault appears to be a creative solution to their mutual problems and should, in the long run, promote the goals of improved fuel economy, higher domestic employment, and increased competition in the domestic auto industry. In preparing our 1979 Report to the Congress on the fuel economy program, we considered a variety of approaches to minimize the potential adverse impacts of the fuel economy program on limited product line manufacturers such as American Motors. The provisions discussed today, for a 3-year carry-forward/carry-back of credits and the elimination of the "unlawful conduct" characterization where credits exist to offset civil penalties, were designed to provide additional flexibility for manufacturers such as American Motors which have unique problems of a few years' duration.

Our preliminary analysis of the American Motors/Renault joint product plan through 1987 indicates that our legislative proposals adequately take care of AMC during the transition to full domestic production of the Renault vehicles. Credits earned by AMC in 1980, 1981 and 1985-87 should more than offset any civil penalties incurred during the 1982-84 period. Absent a clear need for the special provision AMC is requesting, we are naturally reluctant to support such legislation.

We are also concerned that S. 2035 does not require any showing of need for the waiver. Rather, AMC must only demonstrate that it cannot develop on its own the technology needed to meet fuel economy standards. AMC purchases engines, transmissions, and a variety of other components for its passenger automobiles, and the question of whether it can purchase the technology to meet fuel economy standards is also highly relevant.

On the other hand, the adverse energy consequences of adopting S. 2035 are minimal, compared to requiring complete reliance on domestic vehicles to meet fuel economy standards. Employment at AMC may be reduced in 1982-84 compared to levels which would exist if the company focused its resources on improving the fuel economy of its current vehicles. However, long-run employment will likely be higher at AMC under its current plan of producing the high fuel economy,

front-wheel drive Renault vehicle. On the basis of available data, we are not able to predict what the net effects of the amendment would be on employment.

We are unable to conclude that the AMC proposal is either needed or appropriate at this time, although the adverse impacts of adopting the proposal appear quite small and speculative. There are questions still to be answered about the effect of the amendment on employment and competition. If such an amendment were to be enacted, however, it should be given a sunset date of 1985, to encourage AMC to proceed expeditiously with its conversion. We favor waiting to determine whether AMC does in fact have a real problem before enacting their proposal.

On the subject of long-range fuel economy, I would call your attention to the provisions of S. 2015, the Transportation Energy Efficiency Act, under which a total of \$200 million over 10 years would be authorized in conjunction with the Windfall Profits Tax for carrying out fuel economy technology assessment under the Motor Vehicle Information and Cost Savings Act. The Act would enable us to undertake a rigorous assessment of technology to determine what fuel economy improvements are commercially achievable beyond 1985. Among the projects to be addressed under this Act would be projects on engine and drive-train technology; diesel emission

controls, transmission optimization; and advanced materials and structures. Such an assessment is essential to the success of long-range fuel economy planning.

This completes my statement. I would be pleased to answer any questions you might have.