

STATEMENT OF JOAN CLAYBROOK, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER, HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE, CONCERNING PROPOSED AMENDMENTS TO TITLE V OF THE MOTOR VEHICLE INFORMATION AND COST SAVINGS ACT, MARCH 28, 1980

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before your Subcommittee to discuss H.R. 5140, H.R. 5944 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, enhance national security, 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. Based on the

highest level of standards set to date, projected cumulative passenger car 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 20 percent savings -- compared to pre-standard consumption levels -- and will provide the Nation with the equivalent of an additional 4-year supply of gasoline for its passenger car and light truck fleet. In 1979, gasoline consumption declined five percent from 1978 levels. Improvements in new car fuel economy accounted for almost 25 percent of this saving. The improvements in fuel economy alone have reduced our trade deficit in 1979 by about \$1 billion and we project another \$1-1.5 billion reduction in our trade deficit in 1980.

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. A purchaser of the average 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 the average model year 1977 automobile. Likewise, a purchaser of the average 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 compliance tasks of the smaller 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 on December 17, 1979. This bill has yet to be introduced

in this House, although two of its four amendments are substantially reflected in H.R. 5140 and H.R. 5944. I would therefore begin by urging consideration of the two amendments in our draft bill that have not been incorporated in House bills.

The first of these amendments 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 domestic and foreign manufacturers (which together produce a total of less than 10,000 vehicles annually) is so low that there is minimal gasoline that could even theoretically be saved through such regulation. Also, 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 analytical and paperwork. Seventy-two percent of the production that would be exempted from compliance with the fuel economy standards would be U.S. production.

The low volume manufacturer would not, by this amendment, be altogether free from fuel economy considerations. A fuel economy value would still be established each year by EPA for each of the manufacturer's base levels. This value is used for the Gas Mileage Guide, labeling provisions, and the "gas guzzler" excise tax. These informational and taxing mechanisms would reinforce market forces favoring higher fuel economy. Therefore, although exemption from fuel economy standards and reporting would be granted, pressure to improve fuel economy would remain. In our view, this represents a constructive form of deregulation.

A list of the manufacturers that would be exempted by this amendment and the amount of excise tax they would pay this year and in 1986 is appended to this statement. As the list indicates, some of the companies in 1980 would pay as much as \$550 per vehicle in excise tax under the existing excise tax requirements, and by 1986 some of them would pay as much as \$3800 per vehicle in excise tax.

The second of these amendments 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 not only to build cars in this country, as Volkswagen has recently done, but also to use a high percentage of U.S.-made parts and materials. The current law encourages VW to do the opposite, i.e., to continue using less than 75% domestic content of parts and materials in its U.S.-built vehicles. If it exceeds that level, then VW's lower fuel economy imported fleet must separately comply with the standards since its higher U.S. fleet could no longer be averaged with the imported one. It is our view that each of these amendments is consistent with the purposes of the Act and that each is worthy of your consideration.

The third amendment in our draft bill is substantively identical to one of the amendments proposed in H.R. 5140. It 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, could use the extended credit period routinely or that any manufacturer could exploit it in order to deliberately delay fuel economy improvements in later years.

The fourth amendment in our bill addresses the other aspect of H.R. 5140. It 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 had earned sufficient credits in the three years before the penalty year to completely offset such penalty. The section would also provide relief from a finding of unlawful conduct to a manufacturer that has not earned fully offsetting credits before the penalty year, if the manufacturer submits a plan, demonstrating that it will earn sufficient credits during the following three years to offset the penalty. 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 the counterpart provision in H.R. 5140 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 H.R. 5944, 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 be inconsistent with the efforts of those companies to prosper in the marketplace.

AM'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. Our proposals for a 3-year carry-forward/carryback 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 AM during the transition to full domestic production of the Renault vehicles. Credits earned by AM 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 AM is requesting, we are naturally reluctant to support such legislation.

We are also concerned that H.R. 5944 does not require any showing of need for the waiver. Rather, AM must only demonstrate that it cannot develop on its own the technology needed to meet fuel economy standards. AM 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 H.R. 5944 are minimal, compared to requiring complete reliance on domestic vehicles to meet fuel economy standards. Employment at AM 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 AM 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.

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 AM to proceed expeditiously with its conversion. We favor waiting to determine whether AM does in fact have a real problem before enacting their proposal.

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

