

STATEMENT OF HOWARD M. SMOLKIN, DEPUTY ADMINISTRATOR
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DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON ENERGY
CONSERVATION AND POWER, HOUSE COMMITTEE ON ENERGY AND COMMERCE,
CONCERNING AUTOMOBILE FUEL ECONOMY,

July 31, 1984

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you to discuss automobile fuel economy. With me today is Mr. Barry Felrice, our Associate Administrator for Rulemaking.

I want to begin by stating our strong opposition to H.R. 5583, a bill that would require a corporate average fuel economy (CAFE) of 45 mpg for passenger cars and 35 mpg for light trucks by 1995.

As the Department testified last year, we favor adopting a free market approach to the maximum extent possible to the manufacture and sale of fuel-efficient cars. H.R. 5583 would be a substantial intrusion into the free market, without regard to consumer preferences or the

technological capabilities of the manufacturers. Even if the fuel economy levels specified in the legislation were technologically feasible, (and we are not aware of any evidence to support the feasibility of these levels when economic practicability is considered) the result of the legislation could be to deny to American consumers the larger and adequately powered vehicles they are able to purchase today. The station wagon, the full-size six-passenger car, and the large light-duty truck could become obsolete. Many families might be unable to purchase a car large enough for their needs. Some families would find it necessary to travel in two vehicles -- which certainly would not aid fuel conservation. Small businesses which depend on the use of pickup trucks and other utility vehicles might find it impossible to purchase a light-duty vehicle adequate for their needs. Many of these businesses would be forced to buy heavier trucks, which would not be subject to the stringent standards in the legislation, but which would consume more fuel than light-duty vehicles. In short, the outcome of the legislation could be perverse, resulting in little increase in fuel consumption as the public found alternative methods of accomplishing their transportation goals, while denying to the consumer and the small business community the transportation that best suits their needs.

Another reason we oppose this legislation is the inflexible limitation on the Department's authority to make changes in the standards of more than 1.5 mpg. Neither the government nor the industry has the ability to foresee consumer demand, technological developments or the effect of

other government standards on the car and truck fleet of 1995 with the precision called for in the legislation. We cannot know in 1984 that the fleet could, or should, achieve 45 mpg, plus or minus just 1.5 mpg, in more than 10 years.

Yet another problem with the proposal is the constraint it would place on advances in safety, some of which come at a price of decreased fuel economy. For example, improved side door strength for passenger cars may be technically feasible before 1995, but a CAFE standard of 45 mpg might preclude its feasibility, thereby denying a possible safety improvement to the public.

There is no justification for this legislation's major disruption of the marketplace. Deregulated oil prices are giving consumers an incentive to conserve energy; and consistent with that incentive, cars and light trucks of today are substantially more fuel efficient than vehicles of one decade ago. But, consumers have other, competing reasons for selecting any particular vehicle -- factors such as safety, durability, size, and comfort. Our economy and the public are best served by national policies which allow these competing interests to be resolved by the consumer making a choice in the marketplace, not by laws which elevate just one of those factors to this unwarranted degree, and remove from the marketplace choices now enjoyed by consumers.

I would like to turn now to our current situation. I am pleased to report that the fuel efficiency of the domestic fleet continues to increase. The average fuel economy reported for new domestic cars in model year 1976 was approximately 15 mpg. When we testified before you last July, we reported a CAFE for model year 1983 of 24.2 mpg. I can now report that for model year 1984 the CAFE climbed to 25.4 mpg.

The rate of increase is determined largely by two factors: new technology and consumer demand. The manufacturers have steadily incorporated new fuel saving technology into their vehicles. They have reduced vehicle weight dramatically by downsizing and materials substitution, and have made great improvements in efficiency through better transmissions, better aerodynamics, and electronic engine controls. Even the least efficient of the new domestic cars is more efficient than many of the so-called economy cars of 15 years ago.

Consumer demand significantly affects the mix of cars that the manufacturers are able to sell. Fluctuations in demand have created peaks and valleys in the upward movement of CAFE levels. Over the past two years the steady or falling price of gasoline has lessened demand for some of the smaller, more fuel efficient cars. Despite this, the aggregate CAFE levels currently projected by the manufacturers for model year 1985 approach 26 mpg.

At the time of last year's hearing, we were awaiting answers from the largest domestic manufacturers to our questions about their longer-term CAFE performance. The responses we have now received indicate that the upward trend in CAFE will continue, and that the CAFE levels expected to be achieved in the years beyond 1985 are estimated to be far enough above 27.5 mpg to earn sufficient credits to offset any short-fall in model years 1984 and 1985. No domestic auto maker is expected to pay fines for these years.

The record before us leads us to oppose legislation raising the 27.5 mpg standard for passenger cars.

With respect to light trucks, in response to a petition from Ford Motor Company, we have proposed to reduce the 1985 standard for light trucks from 21.0 mpg to 19.5 mpg. Our analysis of market conditions suggested that Ford was correct in arguing that the consumer demand projected for fuel efficient light trucks and smaller displacement engines had not materialized to the extent projected when the standards were initially established. We are now in the final stages of preparing a rule to establish the CAFE level for model year 1985.

I want to point out that the proposed reduction in the MY 1985 standard affects only one year. In a separate rulemaking action, we are proposing light truck CAFE levels for model years 1986 and 1987. Instead of proposing a specific standard for each year, we have proposed a range of standards due to uncertainties regarding a number of key

factors such as the model and option mix factor presented in Ford's petition. The combined standard for model year 1986 is proposed to be in the range 20.0 - 21.5 mpg. For model year 1987, the proposed range is 20.0 - 22.5 mpg. These ranges are intended to reflect the maximum feasible fuel economy levels given the current projection of technology and consumer demand. We have received a number of comments, and are presently preparing a final rule to set the standards for those model years.

This concludes my statement. I would be glad to answer any questions you might have.