

STATEMENT OF DIANE K. STEED
ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION,
U.S. DEPARTMENT OF TRANSPORTATION
BEFORE THE SUBCOMMITTEE ON ENERGY CONSERVATION AND POWER OF THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE ON THE AUTOMOTIVE FUEL ECONOMY PROGRAM

September 19, 1985

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the automotive fuel economy program. I will give you a brief overview of the fuel economy program, review the status of current rulemaking and litigation issues, and then invite any questions you might have.

THE FUEL ECONOMY PROGRAM

In the aftermath of the Arab oil embargo of 1973-1974 that led to gasoline shortages, Congress determined that statutory measures were necessary to conserve energy supplies. In the Energy Policy and Conservation Act of 1975, Congress enacted a variety of measures to conserve energy, including a new Title V in the Motor Vehicle Information and Cost Savings Act to establish fuel economy requirements for passenger cars and light trucks. For passenger cars, the Act directed each auto manufacturer to achieve progressively higher corporate average fuel economy (CAFE) levels, beginning at 18 miles per gallon in model year 1978 and increasing to 27.5 miles per gallon in model year 1985 and thereafter. The Secretary of Transportation was given administrative authority to determine the intermediate levels in

model years 1981-1984, and to adjust the standard from 27.5 for model year 1985 and beyond, if necessary. The Act also required the Secretary to set separate fuel economy standards for light trucks each year. These responsibilities have been delegated to the National Highway Traffic Safety Administration (NHTSA).

In setting fuel economy standards for both passenger cars and light trucks, the Act requires us to determine the "maximum feasible average fuel economy level" for the model year to which the standard applies. The Act establishes civil penalties for failures to meet applicable CAFE standards, but also permits manufacturers to offset these penalties with accumulated past credits or estimated future credits for exceeding such standards.

NHTSA established intermediate fuel economy levels for 1981-1984 in 1977, leading to a standard of 27.5 mpg for model year 1985 and thereafter. Through model year 1982, the strong market demand for fuel-efficient cars enabled the manufacturers to increase fuel economy rapidly and to exceed the required CAFE levels for those intermediate years. By model year 1983, some manufacturers began to fall below the standards, as declining fuel prices lessened consumers' interest in the most efficient cars. Nevertheless, the auto 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 fuel-efficient than many of the so-called economy cars of 15 years ago.

Although the demand for increased fuel efficiency has abated to some extent in the last few years, the CAFE levels actually achieved by the domestic manufacturers have nonetheless continued to increase. The CAFE levels for the domestic fleet rose from 24.2 mpg in model year 1983 to estimates of 25.5 mpg in 1984 and an estimated 25.7 mpg in 1985. This contrasts with an estimated CAFE achievement level of approximately 15 mpg in model year 1975, when the Act was passed. We expect that the rate of increase will continue to be determined by the factors of new technology and consumer demand. Consumer demand is to a large extent outside the control of the manufacturers, although the manufacturers may, to some extent, influence demand through their marketing and pricing strategies. A shift in market demand away from fuel efficient cars could cause the average fuel economy levels to rise less rapidly or even decline. Such a shift could offset the fuel economy gains from improved technology.

It is the Administration's belief that free market factors will determine the levels of fuel economy over the long run. The laws of supply and demand, and free market pricing, will balance the desire of the motoring public for fuel efficiency, on the one hand, and for product attributes such as performance, durability, handling, and comfort, on the other. With the decontrol of oil prices, today's oil market is demand responsive, unlike the controlled market of the

mid-1970's when the Act was passed. We have, therefore, opposed efforts to set higher CAFE standards by statute. Passenger car CAFE levels as high as 45 mpg have been proposed for the 1990's in some bills. We are not aware of any evidence to support the feasibility of these levels when economic practicability is considered. Regardless of feasibility, however, the result of such legislation would be to restrict the types of vehicles available to American consumers, thus denying them the larger vehicles which they may need for carrying large families or for towing trailers. It could also reduce the levels of sales, investment and employment in the domestic auto industry.

The question of whether adjustments should be made in CAFE levels is also presented by administrative petitions for rulemaking that we have received from some manufacturers who claim that even 27.5 mpg is not feasible. I want to turn now to discuss our current rulemaking activities.

CURRENT RULEMAKING

First, I should emphasize that our rulemaking deliberations are governed by the criteria spelled out in the Act. The Department is required to establish "maximum feasible average fuel economy levels," which are to be determined on the basis of specified criteria: technological feasibility, economic practicability, the effect of other Federal motor vehicle standards on fuel economy, and energy conservation needs.

In late 1984 and early 1985 we granted three petitions for rulemaking to amend the fuel economy standards for passenger cars. The first of these petitions, filed by the Center for Auto Safety, seeks an increase in the standard to 31.5 mpg for model year 1987, with subsequent increases of 3 mpg per year to 40.5 mpg by model year 1990. The other two petitions, filed by General Motors and Ford, request a reduction in the standard for model year 1986 and beyond to 26 mpg. Both General Motors and Ford cited the possibility of severe economic harm if the standards are not lowered.

The closeness of the 1986 model year led us to consider rulemaking for that year first. On the basis of our analysis and in light of the four statutory criteria, we tentatively concluded that the maximum feasible average fuel economy for model year 1986 is 26.0 mpg. Our analysis indicated that GM and Ford, representing a substantial part of the industry, had made substantial good-faith efforts to meet the 27.5 mpg standard, but that those efforts had been overtaken by events beyond their control, such as declining gasoline prices and increased consumer demand for larger cars. We also tentatively concluded that a 27.5 mpg standard for model year 1986 could have serious adverse consequences, such as job losses and restrictions on consumer choice. Accordingly, we published a notice on July 22 which proposed to revise the fuel economy standard for model year 1986 to 26.0 mpg. The comment period closed on August 21. We are now reviewing the comments to that notice.

Because we are in rulemaking, we cannot respond to comments on the proposal until we make and publish a final decision. There are strong views on both sides of the issue. Regardless of our final decision, the issues raised in the rulemaking need to be answered carefully. We intend to move quickly to complete this rulemaking action, and to issue a proposal concerning the standards for subsequent model years.

We are also involved in rulemaking for light truck fuel economy. We have outstanding a notice of proposed rulemaking to set standards for model year 1987 on which we plan to issue a final rule shortly. We also plan shortly to issue a notice of proposed rulemaking to set light truck standards for model year 1988, and possibly for subsequent model years.

On October 16, 1984, the agency issued a final rule revising the light truck CAFE standard from 21.0 mpg to 19.5 mpg for model year 1985 and establishing a standard of 20 mpg for model year 1986. We denied petitions for reconsideration of these standards on March 15, 1985. Several organizations have challenged these standards in the U.S. Court of Appeals for the District of Columbia Circuit. They seek a court order reinstating the previous standards for model year 1985 light trucks and requiring the agency to set the model year 1986 standards at that level or a higher level. The agency believes that its action was fully in accord with the statute and well justified by the record. The briefing on the case is now complete, with oral argument expected to be held in the late fall.

In a separate action in the Court of Appeals, the same organizations have filed a petition for an order requiring the prompt issuance of a light truck standard for model year 1987, the promulgation of standards for future model years at least 18 months before the start of each model year, and the promulgation of any amendments before the start of the model year to which they apply. As I previously indicated, we plan to issue our final rule for model year 1987 shortly. The schedule for briefing and argument of this case is the same as for the litigation concerning the model year 1985 and 1986 light truck standard.

Mr. Chairman, this completes my prepared remarks. I would be glad to try to answer any questions you may have.