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BEFORE THE
SUBCOMMITTEE ON ENERGY AND POWER
OF THE
HOUSE COMMITTEE ON COMMERCE
REGARDING FUEL ECONOMY

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Mr. Chairman and Members of the Subcommittee. It is a pleasure to appear before you today to discuss the status of the corporate average fuel economy (CAFE) program. Your hearing offers a timely opportunity to reflect on the program, since 1995 marks CAFE's 20th anniversary. Accompanying me at the witness table is Bob Shelton, our Director of Regulatory Analysis.

Congress created the program through the Energy Policy and Conservation Act as a response to the threat of further oil embargoes by the Organization of Petroleum Exporting Countries. Congress was determined to reduce our dependency on foreign oil.

After considering several alternatives, Congress concluded that the least intrusive means of improving fuel economy would be to require the manufacturers to meet a corporate average fuel economy standard. This would enable a manufacturer to produce a range of vehicles, including larger, less fuel-efficient vehicles, as long as the average of all the manufacturer's vehicles met the standard.

Congress directed the Secretary of Transportation to set the CAFE standards. The standards are set at the "maximum feasible

average fuel economy level." The Secretary determines this level by considering specific criteria: technological feasibility, economic practicability, the effect of other Federal motor vehicle standards on fuel economy, and the need of the nation to conserve energy.

For passenger automobiles, Congress took the further step of specifying what level the manufacturers were to meet. After beginning at 18.0 miles per gallon (mpg) in model year 1978, the standard was to reach 27.5 mpg in model year 1985 and remain at that level unless the Secretary determines otherwise. The Secretary has authority to establish a different standard through rulemaking upon finding that the maximum feasible average fuel economy level is different from 27.5 mpg. Although the standard was set below 27.5 mpg for model years 1986-1989, the standard returned to 27.5 mpg in model year 1990 and remains at that level.

Light trucks received a different treatment under the CAFE law. Rather than enact a specific CAFE level, Congress directed the Secretary to establish the level for each year by applying the criteria for maximum feasible average fuel economy. The standard for each model year is to be established not less than 18 months before the beginning of the model year. The result has been a series of rulemaking actions, some applying to one model year and others to two or three model years, with the standard moving upward from a starting point of 14 mpg (for 4-wheel drive

vehicles in model year 1980) to 20.5 mpg (for all vehicles) by the late 1980's. The standard for model year 1995 is 20.6 mpg, which will increase to 20.7 mpg for model years 1996 and 1997. We have not yet adopted a standard for model year 1998, but must do so by the end of March 1996.

With this statutory setting as background, I will give the status report you have requested. First, there can be no doubt about the energy conservation effects of improved fuel economy levels. The average fuel economy level of the new passenger car fleet in model year 1975 was 16.2 mpg. The average fuel economy level for new passenger cars since model year 1993 has been 28.2 mpg. The total "on-road" passenger car fleet contained 40 percent more vehicles in 1993 than in 1975. These vehicles travelled 60 percent more miles but consumed 2 percent less fuel than in 1975.

This improvement in average fuel economy has direct consequences for the level of petroleum imports. Although recent headlines have focused on the fact that foreign sources account for more than 40 percent of our total oil consumption, compared to 36 percent in 1975, the situation would be far worse if passenger car fuel economy had not improved. If the average fuel economy of all passenger cars in today's fleet were the same as 1975's fleet, we would consume a billion more barrels of oil each year.

The issue, of course, is the degree to which the CAFE

program has brought about the improvements in fuel economy. Some assert that the improvements resulted from the increased demand for fuel efficient vehicles during the late '70's and early '80's, and that the CAFE program had little to do with it.

Others maintain that the CAFE standards have played a central role in the improvement of fuel economy and that without them the fuel efficiency of the fleet would be much lower.

The agency agrees that consumer demand is a major factor in the manufacturers' abilities to meet a given CAFE standard, but it believes that the CAFE program played a role in the virtual doubling of fuel economy levels in the early 1980's. In addition to the oil embargo of the early 1970's, the presence of the CAFE standards probably contributed to the domestic manufacturers' decisions to produce the smaller and more fuel efficient vehicles that were available for sale when the demand for such cars escalated in response to the 1979 oil embargo.

The trade effects of increased fuel efficiency are difficult to assess. The foreign makers of small fuel efficient cars, notably the Japanese, benefited from the increased demand for small cars and easily met the CAFE standards. In contrast, other foreign makers that primarily market luxury cars actually declined in fuel economy during the late 1980's, choosing to pay civil penalties rather than develop vehicles outside their preferred market niche. It is not clear that the CAFE program had a marked effect on these manufacturers.

With regard to the trade effect on domestic manufacturers, some have argued that the CAFE standards moved the industry toward a more competitive position in the small car market, while others argue that the high fuel economy level of Japanese cars in the early 1980's enabled the Japanese manufacturers to move into the luxury car market without fear of CAFE penalties.

You have asked for comment on the safety effects of increased fuel efficiency. We have always considered safety in our CAFE rulemaking. To the extent that improvements in fuel economy in the early 1980's were achieved by reducing both the size and the weight of passenger cars, we believe that there was a negative effect on safety. However, just as the exact role of CAFE in improving fuel economy is difficult to determine in relation to other contributing factors, the relationship of the CAFE standards to these size and weight reductions is not clear.

From our field studies, it appears that smaller cars experience a higher rate of rollover than larger cars, a phenomenon that may be attributable to their narrower width and shorter wheelbase. In addition, some small cars may offer less protection from intrusion by fixed objects into the passenger compartment, as may occur in run-off-the-road crashes.

Multi-vehicle crashes present a different story. Although a crash between two vehicles of unequal size and weight poses a greater risk to the occupants of the smaller vehicle, the occupants of the larger vehicle have a correspondingly lesser

risk. It appears that the increase in fatalities among occupants of smaller vehicles in multi-vehicle crashes is offset by reductions among occupants of larger vehicles.

On balance, the safety advances of the last 20 years, including the installation of air bags and the increased usage of safety belts and child safety seats, have more than offset the negative effects of smaller size. The overall fatality rate is presently 1.7 per hundred million vehicle miles travelled, exactly one-half the rate in 1975, despite a passenger car fleet that is, on average, nearly a thousand pounds lighter than the 1975 fleet.

After 20 years, we have reached a relatively stable plateau for passenger car CAFE. The essentially full adoption of technologies such as front-wheel drive and fuel injection, with a host of other smaller improvements, has enabled the domestic manufacturers to achieve CAFE levels of 27.5 mpg or higher. We have no rulemaking underway to increase the passenger car standard above that level.

With respect to light trucks, we have issued an advance notice of proposed rulemaking to explore the possibility of increasing the CAFE level for these vehicles beyond the 20.7 mpg level that will apply in model year 1997 (59 FR 16324; April 6, 1994). Our reason for making this inquiry is twofold. First, as stated earlier, we have a statutory responsibility to set light truck standards.

Second, light trucks are becoming a larger percentage of the light vehicle fleet. In calendar year 1994, passenger car sales were 8.9 million; light truck sales were 6.1 million. Light trucks thus represent about 40 percent of the total light vehicle sales, a percentage that has increased rapidly in recent years. To the extent that sales shift from passenger cars to light trucks even further, the overall fuel efficiency of the light vehicle fleet will go down. Decreased fuel efficiency will, in turn, increase our purchases of foreign oil. To illustrate, in contrast to the passenger car fleet, which is using less fuel than in 1975, the light truck fleet is using twice as much fuel - 35 billion gallons in 1993, compared to 18 billion in 1975.

In light of the rapid growth in fuel consumption by light trucks, we believed that we should see what could reasonably be done to improve light truck fuel economy in the long run, since year-by-year rules are always limited by the lack of leadtime to do more than what the manufacturers already plan to do. To this end, our advance notice of proposed rulemaking asked exploratory questions about the manufacturers' capabilities for model years through 2006.

One thing should be clear about the advance notice on light truck CAFE: it did not propose any particular CAFE level for any year. We asked for comments about the available studies of light truck fuel economy, including the comprehensive 1992 report of the National Academy of Sciences entitled "Automotive Fuel

Economy: How Far Should We Go?" For light trucks, the NAS report projected a "technologically feasible" level of between 26 and 28 mpg for model year 2006, but emphatically stated that this level was not to be considered as the NAS recommendation for a fuel economy standard.

In our rulemaking process, we weigh the comments to an advance notice of proposed rulemaking and decide whether the available information, from comments and all other sources, supports moving to a notice of proposed rulemaking. We have not yet completed our review of the information submitted in response to the advance notice on CAFE for light trucks.

Whatever decision we make will be guided by the statutory criteria of the CAFE program. We cannot, consistent with these criteria, simply decide to set the standard at whatever level may be technologically feasible. The other criteria must be considered. We would propose levels that are not only "technologically feasible" but "economically practicable." The economic practicability criterion obliges us to consider the marketability of vehicles.

Having said this, I will close by reminding you that under the law we must issue a light truck CAFE standard for model year 1998 no later than next March.

Mr. Chairman, this concludes my remarks. I will be glad to answer any questions that you or the subcommittee members may have.