



Consumer Federation of America

1620 I Street, N.W., Suite 200 * Washington, DC 20006

Statement of Jack Gillis
Director of Public Affairs, Consumer Federation of America
author, *The Car Book*
before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025
San Francisco, California
January 24, 2012

My name is Jack Gillis. I am Director of Public Affairs at the Consumer Federation of America and author of *The Car Book*. Formed in 1968, CFA is an association of nearly 280 non-profit organizations, working to advance the consumer interest through research, education and advocacy. We greatly appreciate the opportunity to testify on what we believe is a historic landmark in U.S. energy policy. These proposed standards will deliver major economic, security and air-quality benefits to consumers and the nation, while putting the U.S. auto industry on a path to global success.

We are not alone in expressing support for this proposal, nearly all of the stakeholders in the auto industry – consumers, automakers and auto workers – recognize the important need for, and achievability of, more fuel-efficient vehicles. It is remarkable that 13 of the 16 major car manufacturers support the standards. Clearly they know they can manufacture the vehicles that meet the standard and they understand it's what their customers want and will pay for. The only major opponents of this consumer-backed policy are car dealers. Their opposition shows an incomprehensible disregard for the desires of their customers, the capabilities of the manufacturers of the cars they sell, and the critically important need to reduce our dependence on foreign oil.

In the public hearings to date, the National Automobile Dealers Association have put forward a series of arguments against the standards that do not fit the facts, would doom U.S. auto makers to second class status in the global auto industry, and ignore the demands of their customers.

We'd like to go on record with a point by point consumer response to the car dealers' objections to this new standard:

- *NADA said that "just because vehicles can be built, doesn't mean they will be bought."* Surely dealers have not forgotten the millions of fuel inefficient SUVs that languished on their lots in 2007 and 2008 because customers wanted more fuel-efficient vehicles. Actual sales data is very clear: Consumers want and will pay for more fuel-efficient vehicles—and the manufacturers supporting the new standard have agreed to make them. Consider Ford for

**Statement of Jack Gillis, Consumer Federation of America before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025—San Francisco, California
January 24, 2012**

example: the combined sales of their two new fuel-efficient cars (Fiesta and Focus) in May 2011 were up 74% in one year. It was Ford's largest sales of these vehicles since May 2008.

- *Car dealers say “fuel economy performance [is] typically not high on a customer’s list of priorities.”* If this were true, why do we see so many car companies advertising fuel economy as a selling point? The car manufacturers, who spend millions studying consumer behavior, obviously disagree with their dealers. Fuel economy performance is at the very top of the priority list for consumers looking to purchase a new car. In fact, Consumers Union, publisher of *Consumer Reports*, determined that fuel economy is the No. 2 reason, after quality, that causes people to defect to a different brand.

- *In their testimony, car dealers expressed concern about lost jobs and dealerships implying that the new standards will further hurt them.* While the dealers, like the rest of the economy, are reeling from financial setbacks, the reduction in the cost of driving from the new standards will cause more autos to be sold and over 100,000 jobs to be created. More jobs, and vehicles that are less expensive to drive, means more consumers, not less, will be buying cars.

- *A NADA representative testified that “when prospective purchasers come to [their] new vehicle showrooms they rarely, if ever, engage in up-front fuel economy ‘pay-back’ analyses.”* Virtually every dealer sells extended service contracts, rust protection, and paint sealant based solely on the fact that these overpriced items will “pay-back” the customer when it comes to repair savings or resale value. While these dealers are already selling products on a “pay-back” basis that hardly ever pay back the consumer, they say they can’t sell a product, that will begin paying back the customer the minute they drive out of the showroom. Higher fuel economy standards lower the cost of driving from the first month because the reduction in gasoline expenditures is greater than the increase in the monthly payment to cover the cost of fuel saving technology.

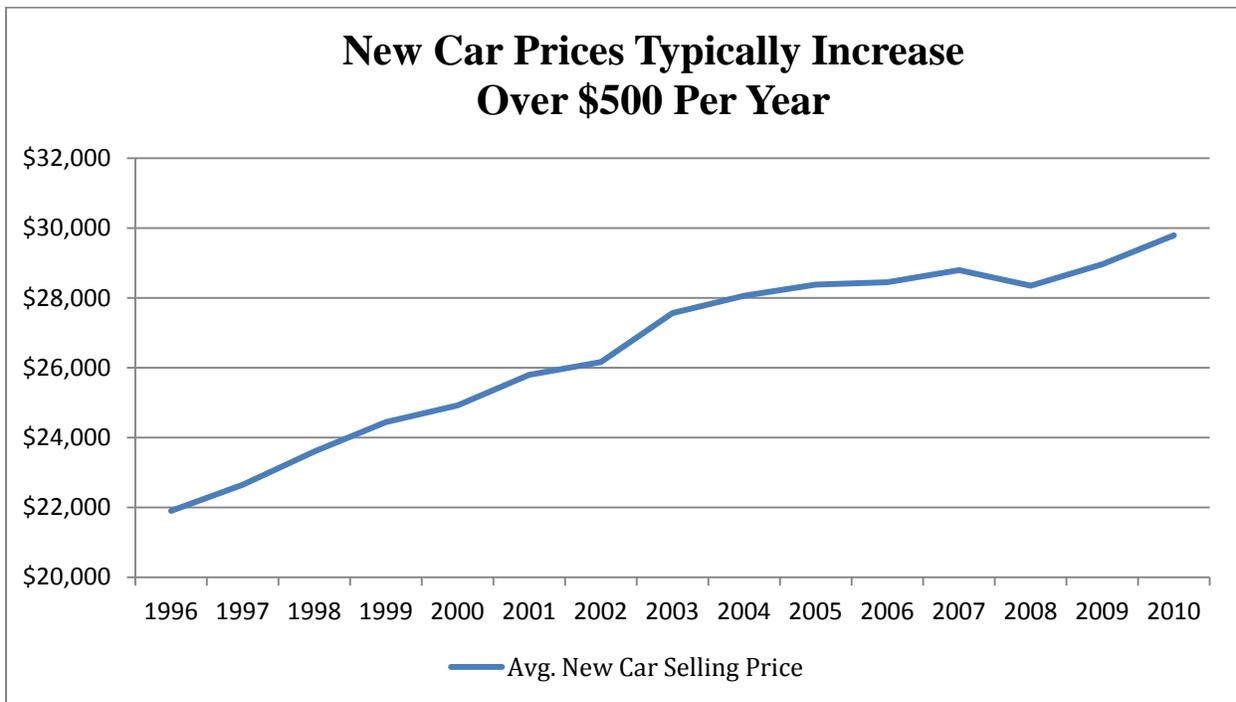
- *At a recent public hearing a NADA representative stated, “What matters is what [consumers] actually do in the showroom based on their needs and what they can afford.”* We could not agree more – and here’s what consumers have done:

- Changes in consumer demand caused GM, Ford, and Chrysler to shutter 17 factories that were building mainly lower mileage vehicles. These same companies are now investing millions in new facilities for production of fuel-efficient cars.
- Consumers are shifting their buying patterns in light of gas price spikes. Between 2004, the year before the worst price increases began, and 2011, consumers have bought more and more fuel-efficient vehicles:
 - 4-cylinder engines increased from 28% to 48%;
 - car purchases increased from 48% to 59% of annual vehicle sales;
 - sales of small and mid-sized SUVs increased by more than one-third to almost 21% of vehicles sold, while large SUVs dropped by 70% to less than 2% of vehicles sold; and,
 - hybrids increased from less than 1% to more than 6%.

**Statement of Jack Gillis, Consumer Federation of America before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025—San Francisco, California
January 24, 2012**

- *NADA says standards would hurt new car sales and force the production of cars people don't want.* Given that survey after survey shows strong consumer demand for more fuel-efficient vehicles, given consumer's rejection of gas-hogs, given the popularity of fuel-efficiency as an advertising theme, and given increased sales of fuel-efficient vehicles, it is incomprehensible that car dealers believe that consumers don't want and won't buy fuel-efficient vehicles. Furthermore, this new standard will give Americans MORE options to buy the cars they really want. Because the new standards are attribute-based, they will not result in radical changes in the types or sizes of vehicles consumers drive. The full range of choice will be available to consumers. The standards also provide incentives and flexibility in introducing new technologies – particularly in electric vehicles, and will accelerate the adoption of technologies that are already showing up in certain vehicles.

- *Car dealers are using the long-term projected \$3,200 increase in car prices due to new technology, to imply that it's going to happen all at once.* First of all, if these technologies were going to end up costing, not benefiting the American consumer, we would not be here testifying in support of them. When the car dealers ironically cry “sticker shock” at the added cost for more fuel-efficient vehicles, they purposefully ignore the fact that any cost increases will be spread over a 13 year period to 2025. That's an average increase of \$246 per year, well within the historical increases that car dealers have been experiencing. In fact, since 1996 the average selling price of a new car increased by over \$500 per year and dealers continue to sell them. Furthermore, what's different about this price increase (vs. the \$500+ per year historically) is that consumers will get an immediate pay-back at the pump.

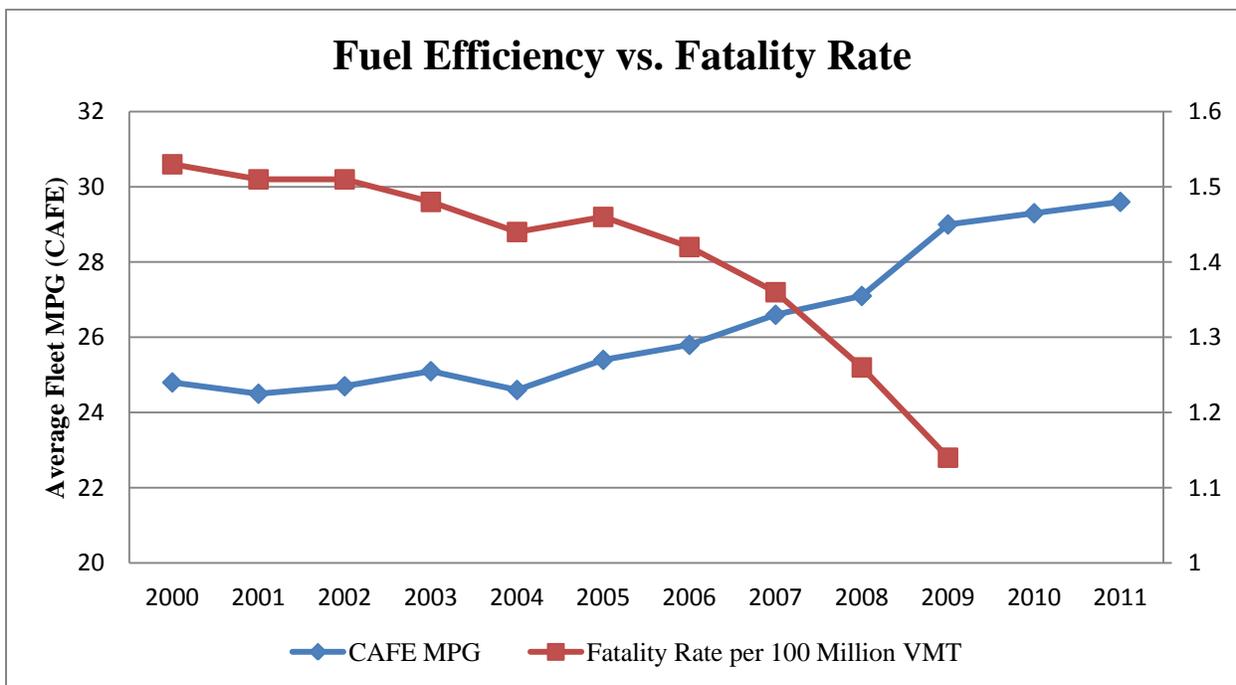


Source: NADA

**Statement of Jack Gillis, Consumer Federation of America before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025—San Francisco, California
January 24, 2012**

THE SAFETY FACTOR

Let me take a moment to address the safety issue. I began my career as an auto safety advocate as part of the Carter Administration’s crash test program at NHTSA. Since 1981, I’ve been fighting for safer cars and have published 32 editions of *The Car Book* with the Center for Auto Safety. As a long time safety advocate, I am absolutely confident that more fuel-efficient vehicles will be safe vehicles. And history supports this contention. In the last 10 years as fuel economy has improved, fatalities have dropped. Why? Because of the constantly improving lifesaving equipment and physical dynamics being added to today’s vehicles. And there are even more safety technologies on the horizon. Those that use the safety argument to prevent consumer access to more fuel-efficient cars should be ashamed of themselves. Manufacturers today are fully capable of producing vehicles that are both safe and fuel-efficient. Tomorrow, that ability will be even better.



Source: Fatality data - Fatality Analysis Reporting Systems (FARS); Corporate Average Fuel Economy (CAFE) data - NHTSA

THESE NEW STANDARDS ARE NEEDED, ACHIEVABLE AND WILL HAVE A PROFOUND IMPACT ON CONSUMERS AND THE NATION.

By far the single largest consumer benefit of the new standards is the nearly immediate financial savings. Reducing the amount of gasoline we buy significantly decreases the cost of driving. The typical consumer, purchasing a car complying with the 2025 standard with a five year auto loan, will experience immediate and substantial savings.

- Higher fuel economy standards lower the cost of driving from the first month because the reduction in gasoline expenditures is greater than the increase in the monthly payment to cover the cost of fuel saving technology.

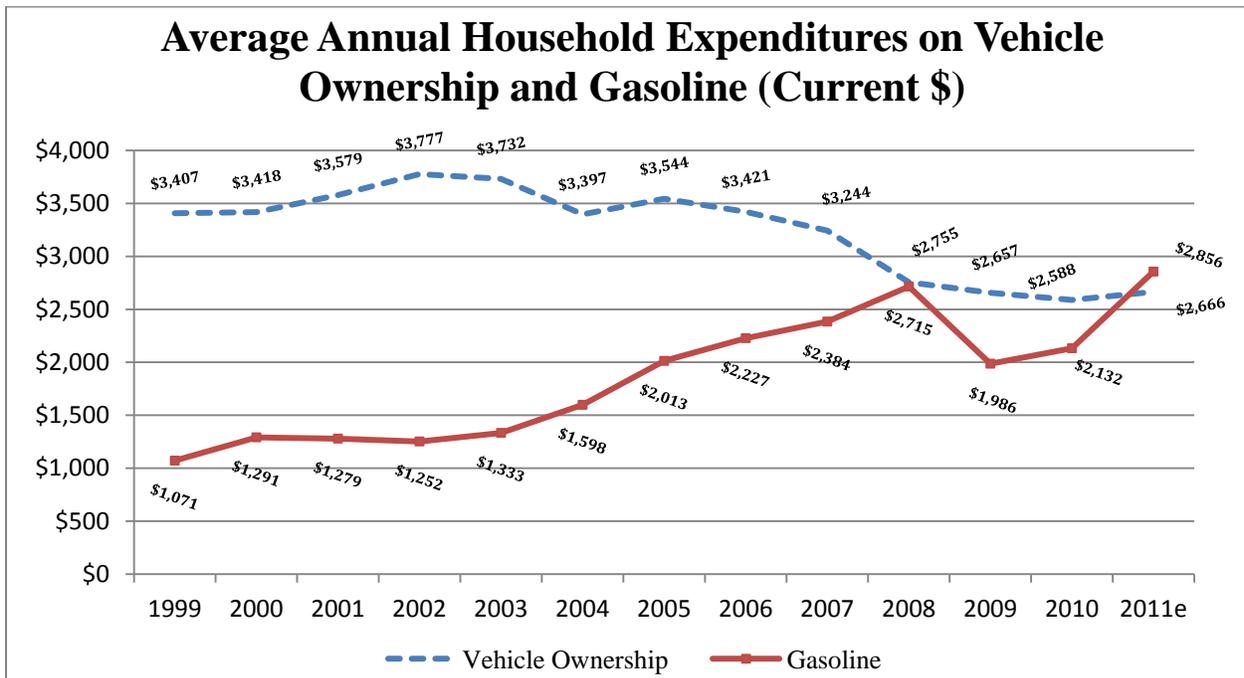
**Statement of Jack Gillis, Consumer Federation of America before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025—San Francisco, California
January 24, 2012**

- At the end of the auto loan, the consumer will have saved an average of \$800 by purchasing a new car that meets the standard.
- By the tenth year, the vehicle will have generated an average of over \$3,000 in savings.
- Not only will these savings provide an on-going benefit, but the resale value of the vehicle is likely to be much higher.

The standard will ease the burden that gasoline prices place on household budgets.

Over the past decade, gasoline prices have gyrated wildly around a strong upward trend that had an extraordinarily damaging financial impact on consumers.

- Gasoline prices set a record high in 2011, averaging \$3.53 per gallon. This week’s prices are a record for January.
- Last year household gasoline expenditures set a record, reaching an average of over \$2,850 per year.
- In 2011, gasoline expenditures were 40 percent higher than expenditures on home energy (electricity, natural gas, and heating oil); ten years ago, they were 13% lower.
- Ten years ago, the cost of owning a vehicle was the largest single component of the cost of driving, about three times as high as the cost of gasoline. In 2011, for the first time, the cost of gasoline will equal or exceed the cost of owning the vehicle.



Source: Bureau of Labor Statistics, Consumer Expenditure Survey, 2010.

**Statement of Jack Gillis, Consumer Federation of America before Joint NHTSA-EPA Hearings on Fuel Economy Standards for 2017-2025—San Francisco, California
January 24, 2012**

Strong concern about gasoline prices is behind consumer support for higher fuel economy standards. 75 percent or more of respondents to CFA’s public opinion polls:

- are concerned about gasoline prices and dependence on Mid-East oil;
- think it is important to reduce oil consumption; and
- support higher fuel economy standards.

The standard will benefit America as a whole with over \$600 billion in national savings.

- It will reduce oil imports by almost 4 billion barrels over the full life of all vehicles covered by the 2017-2025 standards which will lower the balance of payments deficit by \$370 billion.
- By driving down the price of oil by \$0.25 per gallon, it will produce a major boost to domestic economic growth valued at \$31.5 billion.
- It will lower America’s vulnerability to oil price shocks (valued at \$21.5 billion).
- By bringing U.S. standards up to international levels, it will make U.S. produced vehicles more attractive in other markets.
- By reducing the need for national security expenditures, the country will save \$21.5 billion.

These benefits are almost 3.4 times the costs. In fact, the proposed standards are so clearly in the public interest that the benefits of the proposed rule far exceed the cost in every scenario considered by NHTSA and EPA, no matter how extreme the assumptions.

AMERICA WANTS THESE NEW STANDARDS

Because the standards are beneficial, moderate and achievable, they have been supported by all who have a stake in the industry (except the car dealers), including:

- virtually all auto makers who sell vehicles in the U.S.;
- the labor unions that represent the workers who make the vehicles; and,
- consumers (as shown in survey research and buyer behavior), the people who buy and drive the vehicles.

From the consumer, economic, security and environmental point-of-view, implementing the proposed standards are a “win-win-win-win” proposition and we urge the U.S. Environmental Protection Agency and the National Highway Traffic Safety Administration to adopt them.