

Testimony of
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Before the
U.S. Environmental Protection Agency
and
National Highway Traffic Safety Administration
Joint Public Hearing on the Revisions and Additions to
Motor Vehicle Fuel Economy Label
Docket No. EPA-HQ-OAR-2009-0865/NHTSA-2010-0087
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My name is Jack Gillis. I am Director of Public Affairs for the Consumer Federation of America and author of *The Car Book*. *The Car Book* was originally developed during the Carter administration as a way to communicate simple, straightforward information to consumers about NHTSA's crash test program. At NHTSA I was responsible for developing the consumer information associated with NHTSA's various safety and vehicle information programs. This testimony is presented on behalf of the Consumer Federation of America and its nearly 300 member organizations. We appreciate the U.S. EPA and NHTSA holding today's public hearing. CFA strongly supports the adoption of Motor Vehicle Fuel Economy Label Option 1 with the letter grade.

Regulation by Information

Few programs in the history of the government have done more to improve product safety and the public health of America than the widespread publication of the crash test rating program. Access to the crash test results has enabled the American consumer to vote with their dollars for better performing, safer vehicles.

Prior to this program, when consumers were not able to make purchase decisions based on crash test performance, manufacturers had no incentive to improve their vehicles.

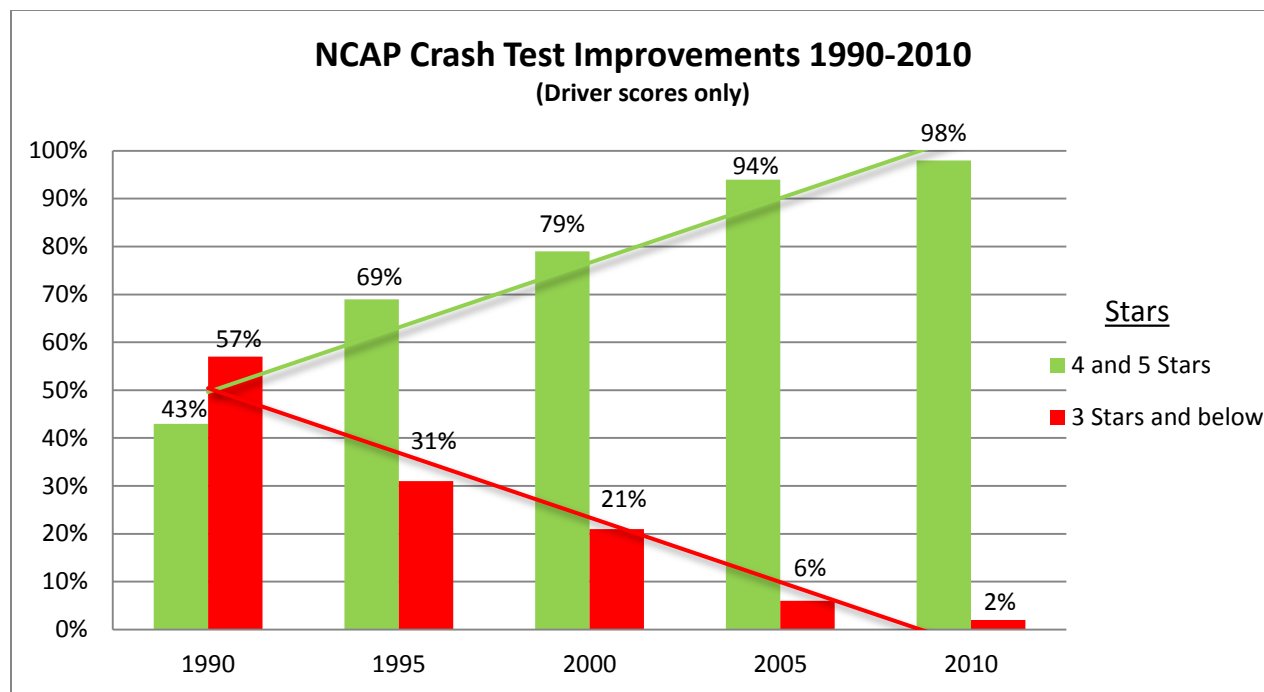
Now, today's vehicles are safer than ever before. Like the simple pass/fail crash test ratings, the new Motor Vehicle Fuel Economy Labels (Option 1) with the letter grade will be equally powerful change-makers.

It's important to remember that the publication of simple crash test results survived a long history of attacks by the car companies. In fact, for many years the car companies spent tremendous effort and resources attacking the crash test information program, claiming that it was inaccurate, ineffective and misleading. Thankfully, due to its strong support by safety advocates and its popularity with the America public, the program has survived and grown. Now it's time to learn a lesson from this powerful change-maker and use the free market to dramatically improve vehicle fuel efficiency.

The best evidence of the success of simply presented crash test information? These very carmakers who fought the program are now stepping forward and promoting the fact that their vehicles do well. And they are doing so because the continued presence of this information in the market forced them to make the improvements necessary to make those claims. NHTSA files are filled with documents in which the car companies laid out every possible argument for killing the program only to embrace this once defiled consumer information in virtually all of their advertising. In fact, when it came to airbags, which would dramatically improve a car's published crash test rating, Lee Iacocca once said, "We'll put airbags in cars over my dead body." He later famously said in full page ads, "You can teach an old dog new tricks."

The Power of Regulation by Information

That is the power of what I call *regulation by information*. While car makers were adamantly opposed to giving consumer easily understandable and comparable information on crash tests, doing so forced them to dramatically improve their vehicles' overall performance. In fact, in 1990, less than half of the tested vehicles had 4 or 5 star driver ratings. Overtime, thanks to consumer information in the market, that percentage increased to 98% with the 2010 vehicles. The following table shows how the percent of vehicles getting 4-5 stars increased from 1990 to 2010.



Source: Consumer Federation of America analysis of crash test performance 1990-2010, September 15, 2010 press release "2010 Models Don't Make the Fuel Economy Grade"

Now the Environmental Protection Agency and the National Highway Traffic Safety Administration are on the verge of introducing a program that will bring about profound improvements in fuel economy. If implemented, the Motor Vehicle Fuel Economy Label (Option 1) with the letter grade will ensure that Americans will be empowered with meaningful and useful consumer information. This simple, easy-to-understand fuel economy grading system, represents a giant step forward in

our efforts to improve vehicle fuel efficiency and reduce our dependence on foreign oil.

Alliance of Automobile Manufacturers CEO David McCurdy, who represents Toyota, GM, Ford, and eight other automakers, said the “proposed letter grade falls short because it is imbued with school-yard memories of passing and failing.”¹

That’s precisely the point. We all understand the difference between an “A” and a “D” and that’s what scares Mr. McCurdy and the car makers. And they’re afraid for good reason. Not only will this information empower car buyers, but we took a look at how last year’s vehicles would have fared under the proposed grading system and less than 1% would get “A”s. On the other hand, over 40% get “C”s and “D”s.

The following table shows how the 2010 models would be graded.

EPA Fuel Economy Grades for 2010 Vehicles					
Proposed EPA Grade	Combined Low (mpg)	Combined High (mpg)	# of 2010 Vehicles	Percent Of Vehicles	Grade Total
A+	117	above	0	0.0%	A 0.5%
A	59	116	1	0.1%	
A-	40	58	4	0.4%	
B+	30	39	40	3.6%	B 56.9%
B	24	29	218	19.8%	
B-	20	23	369	33.5%	
C+	18	19	183	16.6%	C 39.4%
C	16	17	137	12.4%	
C-	14	15	114	10.4%	
D+	13	13	16	1.5%	D 3.2%
D	12	below	19	1.7%	
Total			1101	100%	

Source: Consumer Federation of America analysis of crash test performance 1990-2010, September 15, 2010 press release “2010 Models Don’t Make the Fuel Economy Grade”

¹ Mitchell, Josh. “U.S. Wants Report Card for Cars.” *The Wall Street Journal* 30 August 2010. <http://online.wsj.com/article/SB10001424052748703369704575461602043868916.html>

History Repeating Itself

The auto companies' opposition to the proposed fuel economy grades is a poignant reminder of their opposition to crash test ratings. Ironically, as the car dealers and auto industry fight against giving consumers powerful comparative fuel economy information, they are fearful that the very 'free market' that they often tout will force them to make similar improvements in the fuel efficiency of their vehicles, as happened with the crash test information.

"Grades" are Powerful Motivators

We all understand and respond to "grades." We see grading scales in supermarkets on meats and eggs. New York City and Los Angeles have adopted letter grading systems for the cleanliness of restaurants and food vendors. In Los Angeles, hospital admissions for food related illnesses dropped by 13 percent, whereas they rose 3.2 percent in the rest of the state.²

Providing letter grades and dollar values to describe a vehicle's fuel consumption will have a huge impact on consumer behavior. While we may not fully understand the economic impact of a 26 mpg vehicle versus a 16 mpg vehicle when shopping for a new car, we certainly understand the difference between a "B" and a "C" grade. In addition, as the vast majority of Americans scrimp and save from paycheck to paycheck, knowing that one vehicle will SAVE close to \$2,000 on fuel costs over the average vehicle and another will COST more than \$3,000 over the average vehicle will no doubt have a huge impact on our purchase behavior. This is exactly why the car makers are so afraid of these grades.

² Field, Anne. "Consumer Feast on Restaurant Ratings." Stanford GSB News October 2005.
http://www.gsb.stanford.edu/news/research/stratman_consumerinfo.shtml

Car Makers Don't Like Being at the Bottom of the List

There is another reason why this new labeling system will have a powerful impact on the way car companies make their vehicles. Not only will car buyers be able to vote for the better performing vehicles with their hard earned dollars, but the embarrassment factor for those "D" and "C" performers will, surely, motivate an effort to get off the 'bottom of the list.' Avoiding the 'bottom of the list' syndrome is a powerful free-market incentive for product improvement and these new labels will set the stage for that improvement.

Objections of the Car Makers

We'd like to respond to what appear to be the main objections of the car companies to this powerful change-maker.

The Alliance of Auto Manufacturers said that the letter grade "obfuscates the information consumers most need and rely on in purchase decisions. This letter grade format indirectly focuses attention on a single attribute (CO2) while ignoring other consumer needs like towing capacity, safety, comfort, cost and reliability."³ They said, "Consumers will confuse the letter grade with overall vehicle quality or even safety."³

This is absurd and embarrassing. They are totally denigrating the ability of their own customers to properly use a fuel economy grade. It would be as if I said that the "A" "B" and "C" restaurant ratings in Los Angeles would obfuscate the ability of an auto executive to decipher the ambiance, menu prices, and type of food offered by a restaurant because it had a letter grade for cleanliness.

³ Shepardson, David. "Automakers oppose letter grades for new cars." *The Detroit News* 14 October 2010. <http://www.detnews.com/article/20101014/AUTO01/10140451/1361/Automakers-oppose-letter-grades-for-new-cars#ixzz12uVBF19C>

The Alliance also said, "Manufacturers cannot possibly develop the systems to collect and manage the new information required, redesign the ... label, develop new software to implement the new label requirements, validate the software and label designs, and work with suppliers to procure labels in the time-frame being considered."³

Let me remind you, these are the same companies who said they couldn't put airbags in cars, child safe windows were impossible, and the crash test program was too complicated for customers to understand.

GM said, "It oversimplifies things. If somebody's buying a car for \$20, \$30, \$40, \$50,000 — it's a big deal" if they get a grade less than "A."³

That's precisely why the grades are so important, because whatever the price of the car, fuel economy is a "big deal" for today's consumers. These new grades will ensure that they get a good deal.

Conclusion

It is our hope that the U.S. Environmental Protection Agency and National Highway and Traffic Safety Administration will take a giant step forward in the country's efforts to improve vehicle fuel efficiency and reduce our dependence on foreign oil by providing consumers with this thoughtful, simple and easily comparable method of presenting fuel economy to the American car buyer. The crash test rating system has proven that 'regulation by information' works; it's now time for EPA and NHTSA to take the next step and provide more straightforward presentation of vehicle fuel efficiency. By truly enabling consumers to make an informed purchase, these new grades will be a powerful change-maker. Not only will they enable consumers to raise the bar for all automakers, but they will,

ironically, protect U.S. carmakers by forcing them to be competitive with their foreign counterparts.

“Regulation by information” works. These new grade labels will provide the next generation of car buyers with a fuel economy grading system that has the potential to create profound changes in the U.S. auto market. These grades will save consumers billions of dollars, reduce our dangerous dependency on foreign oil, and dramatically reduce the impact of tomorrow’s vehicles on our precious environment.

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.

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