



# Consumer Federation of America

**Statement of  
Jack Gillis, Director of Public Affairs  
Consumer Federation of America  
Author, *The Car Book*  
Before the  
U.S. Environmental Protection Agency  
on the  
Reconsideration of the Final Determination of the Mid-term Evaluation  
of Greenhouse Gas Emissions Standards for Model Years 2022-2025 Light-duty Vehicles  
Public Hearing, Washington DC  
September 6, 2017**

My name is Jack Gillis. I am the Director of Public Affairs for the Consumer Federation of America (CFA)<sup>1</sup> and author of *The Car Book*. The Consumer Federation of America appreciates the opportunity to provide the Environmental Protection Agency (EPA) with our views on the Final Determination of the Mid-term Evaluation by the EPA and the California Air Resources Board (CARB) which support the standards adopted in National Program for model-years 2022-2025.

Throughout its 50 years of existence, CFA has been a vigorous and continuous participant in the process of setting regulations to improve the efficiency of energy-using consumer durables and lower the cost of energy borne by consumers.<sup>2</sup> Transportation fuels, the source of energy most directly affected by EPA as well as DOT regulations, are a major household expenditure, representing over 3 percent of total expenditures, one of the 6 largest subcategories listed in the consumer expenditure survey. Factoring in indirect expenditures on fuels consumed by commercial fleets,<sup>3</sup> which consumers pay for in the price of goods and services, would push transportation fuel consumption above 5%, making it the third or fourth largest household expenditure.<sup>4</sup>

We believe the Final Determination by EPA and CARB was correct legally, analytically and empirically. It is faithful to and effectively harmonized the statutory obligations of the three agencies that collaborated in the National Program and embodied a fine example of American federalism at its best.

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<sup>1</sup> The Consumer Federation of America is an association of more than 250 nonprofit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.

<sup>2</sup> The CFA website (<http://consumerfed.org/issues/energy/>) provides links to 140 pieces of testimony and reports published in the past ten years dealing with the efficiency of energy-using consumer durables divided roughly equally between appliances and vehicles.

<sup>3</sup> Mark Cooper, *Paying the Freight*, Consumer Federation of America, attached to CFA Comments *Re: Department of Transportation Notice of Intent to Prepare an Environmental Impact Statement for New Medium- and Heavy-duty Vehicle Fuel Economy Standards*— August 8, 2014

<sup>4</sup> <https://www.bls.gov/cex/22016/midyear/quintile.pdf>. Adding appliance efficiency standards, which are governed by a structure of legal authority and administrative rules similar to that affecting appliances doubles the level of household expenditures and makes regulatory reform one of the largest consumer pocketbook issues for the Trump or any administration.

The analytic framework did exactly what twenty-years of executive branch guidance on rulemaking directed agencies to do.

The empirical basis for the standards is overwhelming. They deliver massive benefits to consumers and the nation. Hundreds of billions of dollars are split between pocketbook savings (50%), macroeconomic growth stimulus (30%) and environmental, health and other public benefits (20%).

Over the next month, there will be opportunities to make our case before both federal agencies considering future standards, so today I will briefly outline the conclusion we have reached based on our analyses filed in the proceedings that led to the National Program<sup>5</sup> and several more recent analyses we have conducted which reinforce those early conclusions.<sup>6</sup> To put our conclusion simply and clearly – the final determination of the EPA was administratively sound and reached the correct conclusion. Reconsideration is not necessary. The direct implication of that conclusion is that a freeze or rollback of the standards for MY 2021-2025 are not economically justified and contrary to law and administrative practice.

## FINDINGS

The congressionally mandated goal of the law governing the Corporate Average Fuel Economy Program is maximum feasible fuel economy standards as embodied in the Energy Policy and Conservation Act of 1975 (EPCA). That goal was reaffirmed and strengthened less than ten years ago in the Energy Independence and Security Act (EISA). The guidance offered by executive orders and OMB circulars for the past twenty years have emphasized maximum net benefits. The principles and methods were described in detail by the Bush Administration.

While these clear goals are balanced by other concerns, such as technical feasibility and economic practicability, the extensive evidence in the record shows that the standards in place are quite moderate, well within the bounds of feasibility. Thus, based on the extensive record established at the agencies since EISA reformed and rebooted the CAFE program, these comments show that there is no justification to roll back the 2021 fuel economy or carbon emission standards for light duty vehicles, or modify the 2022-2025 standards. The current standards comply with the laws setting goals and faithfully implement the controlling executive branch guidance.

The laws governing agency action which require maximum energy savings and greenhouse gas reductions, executive orders and OMB circulars that still guide agency actions advocate maximum net benefits to society. The laws and guidance recognize that there are economic, technological and social balancing factors that should be considered in setting standards. The Administrative Procedure Act requires that agency actions are not arbitrary and

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<sup>5</sup> Comments of the Consumer Federation of America, Proposed Rulemaking to Establish Emission Standards and Corporate Average Fuel Economy Standards Environmental Protection Agency Light-Duty Vehicle Greenhouse Gas) 40 CFR Parts 86 and 600; Department of Transportation 49 CFR Parts 531,633, 537, et al., November 27, 2009; Comments of Consumer Groups: Docket Nos. EPA-HQ-OAR-2010-0799; FRL-9495-2, NHTSA-2010-0131, February 13, 2012.

<sup>6</sup> Mark Cooper, 2017, *Pocketbook Savings, Macroeconomic Growth and Other Public Benefits of Energy Efficiency Appliance Standards: Benefit-Cost Analysis of Four Decades of Rules Shows they have Delivered Trillions of Dollars of Economic Value to Consumer and the Nation*; Jack Gillis and Richard Eckman, *An Analysis of Consumer Savings and Automaker Progress on the Road to 2025 CAFE Standards*, attached to Comments of the Consumer Federation of America, in the Matter of Transportation Infrastructure: Notice of Review of Policy, Guidance and Regulation, Before the Department of Transportation Docket No. OST-2017-0057, July 24, 2017.

capricious, do not lack justification or run counter to critical evidence in the record, particularly when the agency is reconsidering prior action. A freeze or rollback in the standards would be contrary to current law and practice.

A review of the economic analysis on which the standards proposed in the National Program were based shows that the standards adopted by the National Program took the balancing factors into account and proposed standards that fell far short of either maximum feasible or maximum net benefit levels. An empirical discussion of the benefit cost analysis shows:

- The National Program standards have a benefit cost ratio greater than 6-to 1, and
- a breakeven cost of gasoline of \$0.75 per gallon, which means that as long as gasoline stays above \$0.75 per gallon, the standards are justified.

Thus, the record and current economic conditions suggest that, if the agencies want to change the levels, they should be raised, not lowered.

Rolling back the 2021 standards and freezing the 2022-2025 standards would:

- Rob consumers of net savings of over \$4,500 per household,
- Prevent a reduction in operating costs of \$150 billion,
- Undermine \$150 billion of macroeconomic growth, and
- Forego over \$50 billion in environmental, health and other benefits.
- The total of \$350 billion of benefits foregone would yield automaker savings only \$50 billion.

Many aspects of the proposed standards from the producer point of view. The empirical evidence shows that the standards are readily achievable for a variety of reasons.

- Consistent with the long history of fuel economy standards, automakers' efforts to implement the standards show that the cost of compliance has been below the NHTSA/EPA projections and far below inflated industry estimates.
- The standards are well within the technological frontier of the industry as analyzed not only by NHTSA/EPA, but also MIT and the National Academy of Sciences.
- The rate of improvement is consistent with historical periods where standards were implemented.
- The standards are consistent with (or slightly below) other advanced industrial nations.
- Fuel economy pays for itself in a market where it has taken on much greater importance to consumers. As a result, fuel economy sells.
- With a gradual, but steady approach, developing new models to meet the standards and consumer needs has been evident in the marketplace and automakers have been complying with the standards.

According to a recent national survey<sup>7</sup> commissioned CFA, increasing federal fuel economy standards for cars and light duty trucks, to 42 MPG by 2025, is supported by 79 percent of Americans (68 percent of Republicans), and opposed by only 18 percent.

One reason for the widespread support of higher standards is that a large majority (79%) of those intending to purchase a motor vehicle, think that the vehicle's fuel economy is important. In part, this concern reflects the genuine belief that gas prices will rise in the future, as evidenced by the unprecedented flooding in Houston. When asked to predict the price of gasoline in five years, the average price given by all respondents was \$3.90. Today's average price is \$2.64, up 37 cents in just the last month.

CFA's analysis clearly indicates that the car companies are fully capable of meeting the CAFE standards and they are able to do so with great savings for consumers. Rolling back the standards at this point would not only hurt America's already financially beleaguered consumers, but they would hamper vehicle sales and put U.S. car companies at a distinct competitive disadvantage to the Asian car companies who will meet the standards.

### **Fuel Efficiency Doesn't Cost More—It Saves Money and Sells Vehicles**

Congress and the Administration are receiving pressure from the car companies to roll back the nation's fuel economy standards which they, the unions, consumer groups and environmental organizations agreed to in 2012. They say it costs too much to comply and increased costs won't be accepted by consumers and sales will drop. Nothing could be further from the truth.

When CFA looked<sup>8</sup> at actual fuel efficiency and increases in MPGs among newly introduced vehicles, improvements in MPGs more than pay for themselves. Among the "all-new" 2017 vehicles<sup>9</sup> – the one's which manufacturers have had a chance to make fuel economy improvements we found:

- 27% (21) of the "all-new" vehicles introduced in 2017 actually cost less than their 2011 version and got 1-10 MPG better fuel economy.
- When calculating 5 years of fuel costs (using lower than current gas prices), nearly half of these 2017 vehicles cost less to buy and fuel than their 2011 counterparts.
- 58 of the 79 vehicles increased in price, however;
  - 15% (12 of 79) had fuel savings that offset the entire price increase;

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<sup>7</sup> The survey was conducted for CFA by ORC International, which interviewed a representative sample of 1,008 American adults by landline or phone on July 13-16. The margin of error for the survey is plus or minus three percentage points.

<sup>8</sup> Jack Gillis and Richard Eckman, An Analysis of Consumer Savings and Automaker Progress on the Road to 2025 CAFE Standards, July 24, 2017.

<sup>9</sup> Only about 10% of each model year represents these "all-new" vehicles.

- 52% (41 of 79) had fuel savings that offset the increased cost of fuel economy technology;
- 6% (5 of 79) were more expensive in 2017 but their fuel economy stayed the same or decreased from 2011.

### **Benefits Far Outweigh the Costs**

Looking at the cost/benefit average for these 79 “all-new” models—the added cost of fuel economy averaged \$320 per vehicle but will save the buyer an average of \$946 over the next 5 years, putting \$626 back into consumer pocketbooks.

### **Consumers are Buying the More Fuel Efficient Vehicles**

Comparing the sales figures for 2016 SUVs and light duty trucks with the 2011 models, those that increased the fuel efficiency by over 10% sold nearly 20% more vehicles than those with a less than 10% increase in fuel efficiency.

### **Car Companies on Track to Comply**

Auto manufacturers are making good progress in complying with the law:

- 70 percent of the “all-new” 2017 vehicles had a CAFE-compliant trim, compared to 41 percent of the “all-new” 2015 vehicles.
- A record breaking 6 vehicles are compliant all the way to MY 2025.
- In looking at all of the 2017 models, “gas guzzlers” getting below 14 MPG are a miniscule 0.4% in 2017, down from 8.5% in 2011.
- A record 78% of the “all-new” light duty trucks had a CAFE compliant trim for 2017. Percentage-wise, trucks beat cars for CAFE compliance in 2017.
- 15 of the 17 manufacturers improved their CAFE compliance rate from 2015 to 2017.

The reason that the reboot of CAFE signed into law by President Bush and implemented through the National Program has worked so well, is that it is a perfect example of “command-but-not control” regulation that has been evolving under executive orders and OMB guidance written by Republican and Democratic presidents over almost four decades. It has been extremely successful because it implements the changes enacted in EISA in a manner that harnesses market forces to yield consumer pocketbook savings, macroeconomic growth and other public benefits. The CAFE standards set by the National Program are long-term, product neutral, technology-neutral, responsive to industry needs, responsive to consumer needs, and procompetitive.

The substantial empirical record before the agencies supports continuing the National Program at the levels established in the 2012 final rule. If anything, the evidence suggests a strengthening, not weakening of the standards. A rollback and freeze are illegal and uneconomic,

likely costing the nation \$500 billion dollars. The damage done to the process of standard setting would double the losses.

The proposed standards recognize the need to keep in touch with reality in several important ways. The standards do not require dramatic shifts in power train technologies or reductions in weight and offer flexibility and incentives for new technologies. The setting of a coordinated national standard that lays out a steady rate of increase over a long time period gives consumers and the industry certainty and time to adapt to change.

The approach to setting standards which has been undertaken is consumer-friendly and facilitates automaker compliance. The attribute-based approach ensures that the standards do not require radical changes in the types or size of vehicles consumers drive; so, the full range of choices will be available to consumers.

- The original standards were responsible, and did not seek to push fuel economy/pollution reduction to the limit of technology. The original goals were “inframarginal” with respect to the capabilities of the industry.
- They remain inframarginal, with many combinations of technologies available to comply.
- While the biggest potential game changer in terms of compliance – electric vehicles – are not necessary to meet the standards, the evidence continues to grow that they could play a much larger part in the vehicle fleet.

As our historical analysis showed, the industry has responded as market theory and past experience predicts, a process that is observable at both the macro and micro levels.

- The industry has found lower cost ways of complying with the standards than originally thought.
- The mix of technologies likely to be chosen has shifted due to different speeds of development in knowledge and cost.
- One of the most popular approaches to meeting the standards, the Atkinson-2 engine, was not even considered in the initial analysis and would never have been applied widely, but for the standards.
- There is no evidence that the costs of compliance are disrupting the auto market in any way and consumers are having no difficulty in finding the vehicles that they prefer at prices that are affordable.

In closing, the Consumer Federation of America, based on its own analyses and findings as well as the extensive record which has already been established, urges the EPA to move forward with the Final Determination of the Mid-Term Evaluation that has already been issued by the agency. The standards comply with the law and executive orders and OMB guidances in a balanced manner; the auto industry has demonstrated it has the capability to meet the 2022-2025 standards; consumers and our economy will benefit. If anything, the standards should be strengthened.

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