

**STATEMENT**  
**OF**  
***THE ALLIANCE OF AUTOMOBILE MANUFACTURERS***

**BEFORE THE:**  
**FINANCE COMMITTEE**

**JULY 10, 2001**

**PRESENTED BY:**  
**Josephine S. Cooper**  
**President & CEO**

Mr. Chairman,

Thank you for the opportunity to testify before your Committee regarding energy policy issues. My name is Josephine S. Cooper and I am President and CEO of the Alliance of Automobile Manufacturers, a trade association of 13 car and light-truck manufacturers. Our member companies include BMW of North America, Inc., DaimlerChrysler Corporation, Fiat, Ford Motor Company, General Motors Corporation, Isuzu Motors of America, Mazda, Mitsubishi, Nissan North America, Porsche, Toyota Motor North America, Volkswagen of America, and Volvo.

Alliance member companies have more than 620,000 employees in the United States, with more than 250 manufacturing facilities in 35 states. Overall, a recent University of Michigan study found that the entire automobile industry creates more than 6.6 million direct and spin-off jobs in all 50 states and produces almost \$243 billion in payroll compensation annually.

The Alliance supports efforts to create an effective energy policy based on broad, market-oriented principles. Policies that promote research development and deployment of advanced technologies and provide customer based incentives to accelerate demand of these advanced technologies set the foundation. This focus on bringing advanced technologies to market leverages the intense competition of the automobile manufacturers worldwide. Incentives will help consumers overcome the initial cost barriers of advanced technologies during early market introduction and increase demand, bringing more energy efficient vehicles into the marketplace.

This year, there has been increased attention on vehicles and their fuel economy levels with particular discussion of the Corporate Average Fuel Economy (CAFE) program. Rather than simply engage in an exercise updating a 26 year-old program with all of its flaws, Congress needs to consider new approaches for the 21<sup>st</sup> century. The Alliance and its 13 member companies believe that the best approach for improved fuel efficiency is to aggressively promote the development of advanced technologies – through cooperative, public/private research programs and competitive development – and incentives to help pull the technologies into the marketplace as rapidly as possible. We know that advanced technologies with the potential for major fuel economy gains are possible. As a nation, we need to get these technologies on the road as soon as possible in an effort to reach the national energy goals as fast and as efficiently as we can.

The Alliance is pleased that Vice President Cheney's National Energy Policy report recommends and supports a tax credit for advanced technology vehicles (ATVs). Specifically, it proposes a tax credit for consumers who purchase a new hybrid or fuel cell vehicle between 2002 and 2007. In addition, the report supported the broader use of alternative fuel and alternative vehicles. This is consistent with the Alliance's position of supporting enactment of tax credits for consumers to help offset the initial higher costs of advanced technology and alternative fuel vehicles until more advancements and greater volumes make them less expensive to produce and purchase.

In reviewing Senate legislation that has been crafted to spur the sale of advanced technology fuel-efficient vehicles, the Alliance is in general agreement with S. 760 introduced by Senator Hatch and others. Automakers would like to see some minor, technical changes made to the hybrid-electric vehicle section of the bill and would also support the inclusion of tax credits for advanced lean burn technology. The Alliance believes that the overall concepts and provisions found in S. 760 are the right approach and would benefit American consumers.

The bill would ensure that advanced technology is used to improve fuel economy. Performance incentives tied to improved fuel economy are incorporated into the legislation in order for a vehicle to be eligible for the tax credits. These performance incentives are added to a base credit that is provided for introducing the technologies into the marketplace.

Specifically, S. 760 has a number of important provisions addressing various types of advanced technologies. These include:

#### Fuel Cell Vehicles

The most promising long-term technology offers breakthrough fuel economy improvements, zero emissions and a shift away from petroleum-based fuels. A \$4,000 base credit is included along with performance based fuel economy incentives of up to an additional \$4,000. The credit is available for 10 years to accelerate introduction – extremely low volume production is expected to begin in the 2005-2007 timeframe.

#### Hybrid Vehicles

Electronics that integrate electric drive with an internal combustion engine offer near term improvements in fuel economy. A credit of up to \$1,000 for the amount of electric drive power is included along with up to \$3,000 depending upon fuel economy performance. The credit is available for 6 years to accelerate consumer demand as these vehicles become available in the market and set the stage for sustainable growth. To be eligible for the credit, hybrid vehicles must meet or beat the average emission level for light duty vehicles.

#### Dedicated Alternative Fuel Vehicles

Vehicles capable of running solely on alternative fuels, such as natural gas, LPG, and LNG, promote energy diversity and significant emission reductions. A base credit of up to \$2,500 is included with an additional \$1,500 for vehicles certified to "Super Ultra Low Emission" standards (SULEV).

#### Battery Electric Vehicles

Vehicles that utilize stored energy from "plug-in" rechargeable batteries offer zero emissions. A base credit of \$4,000 is included (similar to the fuel cell -- both have full electric drive systems) and an incremental \$2,000 is available for vehicles with extended range or payload capabilities.

### Alternative Fuel Incentives

Alternative fuels such as natural gas, LNG, LPG, hydrogen, B100 (biomass) and methanol are primarily used in alternative fueled vehicles and fuel cell vehicles. To encourage the installation of distribution points to support these vehicle applications, a credit of \$0.50 for every gallon of gas equivalent is provided to the retail distributor. This credit is available for 6 years and will support the distribution of these fuels as vehicle volume grows and may be passed on to the consumer by the retail outlet. Note that ethanol is not included in these provisions due to the existing ethanol credit.

### Alternative Fuel Infrastructure

Complementary to the credit for the fuel itself, the existing \$100,000 tax deduction for infrastructure is extended for 10 years and a credit for actual costs up to \$30,000 for the installation cost of alternative fuel sites available to the public is included. One of the key hurdles to overcome in commercializing alternative fuel vehicles is the lack of fueling infrastructure. For nearly a century, infrastructure has focused primarily on gasoline and diesel products. These infrastructure and fuel incentives will help the distributors overcome the costs to establish the alternative fuel outlets and support distributors during initial lower sales volumes as the number of alternative fuel vehicles increases.

Automobile manufacturers believe that CAFE, however well-intended, has not achieved its desired goals and has had a number of unintended consequences. Meeting CAFE standards is not something that manufacturers can do by themselves. Because the standards are a sales-weighted fleet average, the ultimate outcome depends on what the consumer purchases. If not enough customers purchase the higher fuel economy models of a given manufacturer, then the fleet average for that automaker may not achieve the CAFE standard. Since manufacturers have widely varying fleet mixes and product offerings, the CAFE program has had widely disparate impacts on automakers and has afforded some manufacturers with significant competitive advantages at times.

Increasing CAFE standards will only exacerbate these problems. Higher standards may result in vehicles that are less attractive to customers in terms of meeting their needs for work and family. If consumer demand is not aligned with manufacturers production, there is the potential for significant negative impact on employment throughout the industry. Ultimately, any fuel savings that result will come at high cost to consumers, manufacturers and the economy. In short, automakers need to produce vehicles that appeal to customers. CAFE acts as a market intrusion that over time will create distortions and unintended adverse consequences.

Recent sales figures support this position. The top ten most fuel-efficient vehicles account for less than 2% of total sales. The ultimate goal for any business is to provide products consumers want to buy. Increasing CAFE standards will require automakers to produce less of the products that American consumers are actually purchasing today and more of the products that are in lower demand.

Fuel economy standards only address the supply side of the equation. The Alliance believes, however, that Congress does not need to set new standards or change the structure of the program as the law requires the Department of Transportation (DOT) to promulgate new light truck standards (pickups, SUVs, minivans and vans) at the maximum level taking into consideration certain criteria. Automakers will be working with the DOT to ensure appropriate standards are set.

In the industry, CAFE regulations affect each Alliance member differently. Manufacturers whose fleets are comprised primarily of larger, lower fuel economy vehicles are more constrained in their product planning by CAFE standards than manufacturers with fleets comprised mainly of smaller, higher fuel economy vehicles. As each manufacturer attempts to design, produce and sell vehicles in their target markets, CAFE operates, for some manufacturers, as a roadblock to supplying their vehicles to the market.

The domestic/non-domestic passenger car fleet distinction is another important matter. While originally designed to keep small car production in the U.S. and protect American jobs, this distinction has inhibited some manufacturers from increasing the procurement of U.S. parts and materials. The domestic/non-domestic distinction has had widely disparate impacts on automakers. The requirement for separate fleets serves as a clear example of CAFE's market distorting effects, which then have a negative impact on the U.S. economy.

Another consequence of CAFE has been the downsizing of the passenger car fleet. Weight and size reductions remain one of the prime means of achieving improved fuel efficiency. The basic laws of physics dictate that smaller, lighter vehicles fare worse in accidents than larger, heavier vehicles, all things being equal.

To reiterate, a better way to improve vehicle and fleet fuel economy, and one that is more in tune with consumer preferences, is to encourage the development and purchase of advanced technology vehicles (ATVs). Consumers are in the driver's seat and most independent surveys show that Americans place a high priority on performance, safety, space and other issues with fuel economy ranking much lower even with today's gas prices. ATVs hold great promise for increases in fuel efficiency without sacrificing the other vehicle attributes consumers desire. Just as important, the technology is transparent to the customer.

Member companies of the Alliance have invested billions of dollars in research and development of more fuel-efficient vehicles. Automobile companies around the globe have dedicated substantial resources to bringing cutting-edge technologies – electric, fuel cell, and hybrid electric vehicles as well as alternative fuel vehicles and powertrain improvements – to the marketplace. These investments will play a huge role in meeting our nation's energy and environmental goals.

These advanced technology vehicles are more expensive than their gasoline counterparts during early market introduction. As I mentioned earlier, the Alliance is supportive of Congressional legislation that would provide for personal and business end-user tax incentives for the purchase of advanced technology and alternative fuel vehicles. Make no mistake: across the board, tax credits **will not** completely cover the incremental costs of new advanced

technology. However, it will make consumers more comfortable with accepting the technology and begin to change purchasing behavior. In short, tax credits will help bridge the gap towards winning broad acceptance among the public leading to greater volume and sales figures throughout the entire vehicle fleet. This type of incentive will help “jump start” market penetration and support broad energy efficiency and diversity goals.

Enabling consumers to make more effective fuel-efficient choices rather than mandating government standards makes more sense to achieve the desired outcome. After all, the industry already spends a significant amount on compliance with government regulations while investing large sums in capital improvements and competitive designs.

Some of the discussion today has centered on the vehicles of the automobile manufacturers. But it is important not to forget about a vital component for any vehicle – the fuel upon which it operates. As automakers looking at the competing regulatory challenges for our products -- fuel efficiency, safety and emissions -- and attempting to move forward with advanced technologies, we must have the best possible and cleanest fuels. EPA has begun to address gasoline quality but it needs to get even cleaner. This is important because gasoline will remain the prevalent fuel for years to come and may eventually be used for fuel cell technology.

Beyond gasoline, the auto industry is working with a variety of suppliers of alternative fuels. In fact, the industry already offers more than 25 vehicles powered by alternative fuels. More than 1 million of these vehicles are on the road today and more are coming. Today, we find vehicles that use:

- Natural gas, which reduces carbon monoxide emissions by 65 to 90 percent;
- Ethanol, which produces fewer organic and toxic emissions than gasoline with the longer term potential to substantially reduce greenhouse gases;
- Liquefied petroleum gas (propane), the most prevalent of the alternative fuels, which saves about 60% VOC emissions; and
- For the future, hydrogen, which has the potential to emit nearly zero pollutants.

The Alliance has submitted comments to the DOT in support of an extension of the dual fuel vehicle incentives through 2008. Current law provides CAFE credits – up to 1.2 mpg – for manufacturers that produce vehicles with dual fuel capability. These vehicles can operate on either gasoline or domestically produced alternative and renewable fuels, such as ethanol. However, the dual fuel credits end in model year 2004 unless extended via rulemaking by the National Highway Traffic Safety Administration. The Alliance believes an extension is important so that these vehicles continue to be produced in high volume to help encourage the expansion of the refueling infrastructure and giving consumers an alternative to gasoline.

In addition to alternative fuels, companies are constantly evaluating fuel-efficient technologies used in other countries to see if they can be made to comply with regulatory requirements in the United States. One such technology is diesel engines, using lean-burn technology, which have gained wide acceptance in Europe and other countries. Automakers have been developing a new generation of highly fuel-efficient clean diesel vehicles – using turbocharged direct injection engines – as a way to significantly increase fuel economy and

reduce greenhouse gas emissions. However, their use in the U.S. must be enabled by significantly cleaner diesel fuel.

Earlier this year, EPA promulgated its heavy-duty diesel rule that the Alliance supports, as far as it goes. The rule reduces the amount of sulfur in the fuel. Low sulfur diesel fuel is necessary to enable the new clean diesel technology to be used in future cars and light trucks. Providing cleaner fuels, including lowering sulfur levels in gasoline **and** diesel fuel, will provide emission benefits in existing on-road vehicles. Sulfur contaminates emissions control equipment, such as catalytic converters. Efforts to reduce sulfur content will provide environmental benefits and allow vehicles to operate more efficiently. Unless there are assurances that fuels will be available, companies will not invest in new clean diesel technologies.

As you can tell, the automobile companies – from the top executives to the lab engineers – are constantly competing for the next breakthrough innovation. If I can leave one message with the Committee today, it is to stress that **all manufacturers** have advanced technology programs to improve vehicle fuel efficiency, lower emissions and increase motor vehicle safety. These are not “pie in the sky” concepts on a drawing board. In fact, many companies have advanced technology vehicles in the marketplace right now or have announced production plans for the near future. That’s why now is the perfect time for the enactment of tax credits to help spur consumers to purchase these new vehicles which years of research and development have made possible.

Higher CAFE standards, with all of the disparate impacts inherent in that program, would divert limited resources from these ongoing efforts and distort the market for our products. Competition will drive improvements and success in the area of increasing vehicle fuel economy. This powerful market force should be allowed to work where it can and should be enhanced with incentives where they are needed to “prime the pump.”

We would urge that public policy decisions focus on the steps that will achieve real improvements in fuel consumption and benefits our environment. We believe that advanced technology vehicles and appropriate tax policy are a better way to increase fuel efficiency than the policy of CAFE that effectively limits consumer choice, adversely affects safety and affordability and creates “winners and losers” within the auto community.

Thank you for the opportunity to testify before the Committee today. I would be happy to answer any questions you may have.

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