



Consumer Federation of America

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THE CONSUMER, INDUSTRY AND NATIONAL BENEFITS OF THE 2017-2025 AUTO STANDARDS

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SAE Government Industry Conference

January 26, 2012

If you have paid any attention to the NHTSA and EPA hearings on the proposed auto standards for 2017-2025, you are likely to be impressed by the remarkable consensus in support of the standards.

- Public witnesses say and consumer advocates present survey and behavioral evidence that consumers want and will pay for more fuel efficient vehicles.
- Automakers and auto workers say they can and will manufacture those vehicles.
- National security experts and environmentalists say the nation will benefit from the standards.

The only stakeholder that does not seem “to get” it is the National Automotive Dealers Association. Here are a dozen reasons why supporters of the proposed standards are right and the NADA is wrong to oppose them.

Consumers need and want more fuel efficient vehicles

1. Over the past decade, gasoline prices have gyrated wildly around a strong upward trend.
 - Gasoline prices set a record high in 2011 averaging \$3.53 per gallon and this week’s prices are a record for the month of January.
 - Household gasoline expenditures set a record last year, reaching an average of over \$2850 per year.
2. Rising gasoline prices have changed the structure of the cost of driving, as estimated by the Consumer Expenditure Survey.
 - Ten years ago, the average 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, the cost of gasoline will equal or exceed the cost of owning the vehicle for the first time.

Consumers want more fuel efficient vehicles and support higher standards

3. Given the burden on household budgets and the continuing problem of oil vulnerability, it is not surprising to find that 75 percent or more of respondents to our 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 as a good way to do so.
 - In fact, almost two-thirds of the respondents support a 60 mile per gallon standard with a payback period of 3-5 years and think it will be good for automakers.
4. Consumers don’t just say they want more fuel efficient vehicles, they have shown they are willing

to buy them. Looking at the total light duty markets (cars and light trucks) between 2004, the year when the worst price increases began, and 2011, the market shares of:

- cars increased from 48% to 59% of all vehicles,
- 4-cylinder engines increased from 28% to 48%, and
- sales of small and mid-sized SUVs increased by more than one-third to almost 21% of all vehicles sold, while large SUVs dropped by 70% to less than 2% of vehicles sold.
- Looking at cars only, hybrids increased from less than 1% of cars sold to more than 6%, but small cars remained constant at 47% of all cars sold.

5. The proposed fuel economy standards will provide consumers significant relief.

- For the typical consumer, who purchases a new auto that complies with the 2025 standard with a five year auto loan, the 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 the end of the auto loan, the consumer will have saved an average of about \$800.
- By the tenth year, the vehicle will have generated an average of over \$3,000 in savings, which means resale value of the vehicle is also likely to be much higher.

The nation benefits from higher fuel economy

6. The Consumer Federation of America estimates that total national benefits are close to \$600 billion, with consumer savings are nearly \$500 billion. The indirect national benefits include progress on major national public policy goals, such as

- reducing oil consumption and imports by almost 4 billion barrels and cutting the balance of payments deficit by \$370 billion,
- which will produce a major boost to domestic economic growth by driving down the price of oil by \$0.25 per gallon, lowering vulnerability to oil price shocks, and reducing the need for national security expenditures.

The standards are consumer and auto industry-friendly

7. The new approach to setting standards 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 proposed standard is consistent with the rate of improvement that the auto industry achieved in the first decade of the fuel economy standard setting program and the cost estimates are consistent with the results of independent analyses of technology costs made over the past decade.
- 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.

8. The proposed rule recognizes the need to keep the standards in touch with reality by offering flexibility and incentives for new technologies, and includes a mid-term review.

9. The Auto Industry has strong incentives to comply with the program because globalization of the auto industry means it is no longer possible to be a successful automaker without being able to

compete globally.

- The proposed standard brings U.S. standards up to international levels.
- The proposed standard reduces the supply-side risk of introducing new fuel savings technologies and triggers competition around fuel economy.

10. Automakers know they can sell quality. According to statistics compiled by the Bureau of Labor Statistics, which is responsible for the Producer Price Index,

- over the past fifteen years, automakers have added three times as much value (and cost) with optional improvements in quality than mandatory (safety and environmental) improvements.
- The overall increase in MSRP tends to track closely to the increase in real disposable income, but quality improvements account for less than half of the increase in the MSRP in the past 15 years.
- The cost increases that the long-term standards will require over the next 15 years are well below the cost of quality improvement over the past 15 years.
- Unlike most other quality additions, fuel economy improvements deliver pocketbook savings to consumers.

11. In today's market, fuel economy is a major determinant of vehicle quality that the market can easily absorb.

- Automakers adjust MSRP and discounts and auto financing adapts in response to much larger changes in affordability than the fuel economy standards, which are spread evenly over fifteen years.
- Moreover, when the costs of driving go down, vehicle ownership becomes more affordable, and, bankers should realize that, the probability the loan will be paid off goes up.

12. These facts contradict most of what the auto dealers give as reasons for their opposition to the standards. But NADA has trotted out an economic justice argument, claiming that vulnerable groups will be priced out of the new car market. The facts don't support this claim either, because lower income households make up a very small part of the new auto market.

- Households with income below \$20,000 made up approximately 22 percent of all households in 2010, but they accounted for only 2 percent of the money spent on new vehicles in 2010.
- Gasoline expenditures are a much bigger problem for these households. In 2010 households with incomes below \$20,000 spent 7.3 times as much on gasoline as the spent on new car payments,
- In the near term, because the standards will accelerate the turnover of the vehicle fleet and the supply of used vehicles, driving down prices. People should buy the vehicles that deliver the lowest total cost of driving and eventually the more fuel efficient vehicles will reach the used car market, which will be good for low-income consumers.

The future of the auto industry lies in developing and delivering more fuel efficient vehicles. The future of the American economy lies in using energy much more efficiently. The proposed standards will help to ensure that the U.S. auto industry and the U.S. economy successfully negotiate the transition. The hearing record, which you all should read, makes it clear that these fuel economy standards are the most important energy policy in a quarter of century and they deserve the remarkable national consensus support they have received from the public, consumer advocates, automakers, labor, national security advocates, and environmentalists.