CFA Consumer Federation of America
1620 I Street, N.W., Suite 200 * Washington, DC 20006

Consumers Union

May 7, 2007

Dear Senator:

The Consumer Federation of America (CFA) and Consumers Union (CU) are writing to urge the Senate Commerce Committee to report a substantial and rigorous increase in Corporate Average Fuel Economy (CAFE) standards. Increasing the fuel efficiency of the vehicle fleet is the single most important thing Congress can do to end our nation's dangerous addiction to oil, lower consumers' gasoline bills, protect our economy from oil shocks, reduce our dependence on hostile and unstable regimes, and cut emission of gases that cause global warming.[1] New vehicles in the United States have been stuck at about 25 miles per gallon for a decade.[2] A substantial increase in fuel efficiency standards is long overdue.

This is an important step forward. By setting the goal at 35 miles per gallon by 2019 and continuing increases of 4 percent per year thereafter, the Staff Working Draft has chosen the correct overall goals. If the bill is fully and rigorously implemented, it would reduce U.S. imports by 1.7 million barrels per day (over 10 percent) by 2019, lower consumers' gasoline bills by almost $70 billion a year, and cut the emission of global warming pollution by 500 billion tons per year.

However, the draft also includes significant loopholes that could lead to actual reductions in gasoline consumption that are far below what is intended. The draft allows the National Highway Traffic Safety Administration (NHTSA) to lower the standards in a manner that could undermine the gains in efficiency the nation so desperately needs.

Based on analyses prepared by CFA,[3] we urge you to keep the overall goals of the draft, but impose a rigorous approach that would:

- **make 35 miles per gallon in ten years mandatory, with no exceptions, and**
- **allow NHTSA to review longer term fuel efficiency standards, but require that the agency use only rigorous economic assumptions for that analysis.**

A standard of 35 miles per gallon is economically justified and technologically feasible. Our economic analysis shows that from the consumer point of view, achieving 35 miles per gallon should pay for itself. The increase in out-of-pocket consumer costs associated with buying the more fuel-efficient cars mandated by the new standard would be more than offset by the decrease in gasoline expenditures. A 2002 study by the National Research Council shows that increasing the fuel efficiency of the vehicle fleet to 35 miles per gallon can be accomplished with "off-the-shelf" technologies.

The current Staff Working Draft allows NHTSA to lower the goals, starting within five years. Unfortunately, NHTSA's track record in setting fuel efficiency standards suggests that

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[1] http://www.consumerfed.org/pdfs/Energy_Blueprint.pdf

[2] http://www.consumerfed.org/pdfs/Stuck_in_Neutral.pdf

[3] www.consumerfed.org/pdfs/50_by_2030.pdf

this loophole could undermine the entire bill. Given the facts cited above, we fail to see the rationale for allowing NHTSA to lower the standard for the first ten years. Once 35 miles per gallon is achieved, it makes sense to review the longer term goals, but the cost benefit and feasibility analyses contained in the Staff Working Draft leaves loopholes here as well.

The Staff Working Draft requires NHTSA to factor in the security, economic, and environmental impacts (externalities) of gasoline consumption, but NHTSA's track record in accurately assessing the cost of these factors is troublesome. In their most recent analysis of increasing fuel efficiency, NHTSA estimated a cost of only $.10 per gallon for externalities. Such a low number is simply irresponsible.

- **CFA conducted an analysis that determined the social cost of gasoline consumption beyond the pump price should conservatively be estimated in the range of $1 to $2.**

The cost benefit analysis must also be based on realistic estimates of the price of gasoline. The Energy Information Administration (EIA) has underestimated the price of gasoline and other petroleum products since the gasoline price spiral began. By adopting these low price estimates, NHTSA systematically underestimates the value of fuel efficiency and therefore sets standards that are far too low. When it evaluated the light truck standard last year, it used a price of gasoline that was, on average, about 35 cents below what consumers were paying. EIA's current projection for gasoline prices in 2020 is over 20 percent below today's prices in real terms.

- **We believe that any cost-benefit analysis should be based on either the average price for the most recent year, or the EIA projection, whichever is higher. This will ensure that the analysis is closely tied to the actual cost of fuel for consumers.**

Even with the cost of gasoline severely undervalued, the NHTSA model demonstrates that increasing the average fuel efficiency of the vehicle fleet to 35 miles per gallon is in the national interest. It is clear that:

- The goal of 35 miles per gallon should be mandatory, and
- NHTSA needs a more explicit direction in how to conduct any review of the longer-term goals that Congress sets in this legislation.

Thus, all three changes we recommend to the Staff Working Draft are needed to ensure that the laudable goal of increasing fuel efficiency is achieved in a socially responsible manner: **(1) make the 35 miles per gallon in ten years mandatory; (2) require NHTSA to use an externalities value of $1 to $2 in its future cost-benefit analysis, and (3) require NHTSA to consider the EIA price projections, or the previous 12 month average price, whichever is higher.** We look forward to working with the Committee and the Congress to implement this long overdue change in CAFE standards.

Sincerely,

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