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Testimony of John Bozzella

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Summary

- Global Automakers' members are manufacturing cars and trucks that are more fuel efficient and cleaner than ever before, and improvements continue. Automakers have introduced numerous improvements in conventional vehicles, as well as remarkable advancements in alternatives to traditional gasoline vehicles, such as plug-in hybrid-electric, battery electric, and hydrogen fuel cell-electric vehicles.

- In 2009, the Environmental Protection Agency (EPA), the National Highway Traffic Safety Administration (NHTSA) and the California Air Resources Board (CARB) established standards under "One National Program" (ONP) to align the different regulatory schemes governing fuel economy and greenhouse gas (GHG) emissions. The ONP includes a "Midterm Evaluation" to assess the assumptions made in 2012 and reexamine the path towards 2025.

- Efforts to harmonize under ONP must continue. Federal and state fuel economy and GHG emissions standards must be further aligned to minimize differences and costs while maximizing environmental and energy benefits.

- There are steps the regulators can take to improve harmonization, but there are underlying differences in the statutes that only legislation can address. Global Automakers supports Congressional action to provide greater certainty and consistency between the federal programs.

- Global Automakers believes that the industry and the global market are moving towards electrification, but significant market challenges remain. The federal government must consider whether we have the right tools to support electrification.

- Global Automakers strongly believes that we need to work together to eliminate inconsistencies in the national program to foster innovation and help reach our shared policy goals.

Testimony

Chairman Latta, Chairman Shimkus, Ranking Member Schakowsky, and Ranking Member Tonko, on behalf of the Association of Global Automakers (Global Automakers), I want to thank you for the opportunity to testify before your Subcommittees today. Global Automakers represents the U.S. operations of international automobile manufacturers that design, build, and sell cars and light trucks here in the United States. Our member companies have invested $59 billion in U.S. based facilities, and directly employ more than 100,000 Americans. They produce 40% of the vehicles manufactured in this country and sell nearly half of all new vehicles purchased annually in our country.

Our members are manufacturing cars and trucks that are more fuel efficient and cleaner than ever. Specifically, automakers have improved engine and transmission efficiency, reduced vehicle weight, improved aerodynamic designs, and applied innovative fuel saving technologies that provide real world benefits, such as start-stop systems that reduce idling, and more efficient cooling and lighting systems. Since 2011, overall fuel economy of the U.S. light-duty fleet has improved from 28.1 mpg to 32.5 mpg, an increase of over 15%. Our members are also making remarkable progress in vehicle electrification, such as plug-in electric vehicles, which get energy from the grid, and hydrogen fuel cell-electric vehicles, which generate energy onboard by converting hydrogen to electricity. Currently, automakers offer 35 models of electric-drive vehicles in nearly all segments and a variety of price-points.

It is clear that the automobile fleet is undergoing a transformational shift, not only in the area of vehicle powertrains, but also in vehicle automation; however, underlying questions remain: How fast will this shift occur? What role will policy and regulations play in supporting this shift? How

do we continue to encourage smart investment and ongoing innovation, which are critical to a healthy and vibrant U.S. economy?

The auto industry is a critical part of the U.S. economy, supporting over 7 million jobs in all 50 states, and a workable regulatory program addressing Corporate Average Fuel Economy (CAFE) and light-duty vehicle greenhouse gas (GHG) emissions is central to the health of this industry. That is why I appreciate the subcommittees' interest in these matters and their consideration of how to improve harmonization between fuel economy and GHG emission regulations.

The Importance of One National Program

Global Automakers supports the "One National Program" (ONP) – a program designed to solve an untenable situation of multiple regulatory programs aimed at the same goals. The ONP was created to align these regulatory schemes to ensure they operate in the most efficient, streamlined manner and support innovation and strategic investment decisions.

Fuel economy was first regulated solely by the National Highway Traffic Safety Administration (NHTSA) through the CAFE program under the Energy Policy and Conservation Act. In the early 2000's, the California Air Resources Board (CARB) took action to regulate motor vehicle GHG emissions—a metric closely related to fuel economy—and CARB's action led the way for 12 other states to also adopt their own GHG programs. After the Supreme Court's 2007 decision in *Massachusetts v. EPA,* the Environmental Protection Agency (EPA) moved to regulate GHG emissions from vehicles under the Clean Air Act. This resulted in multiple agencies across 15 jurisdictions using different tools to regulate similar aspects of the vehicle.

This circumstance raised concerns that automakers might have to manufacture different versions of vehicles to meet various requirements throughout the country. This risked forcing companies to manage multiple regulatory obligations and created much uncertainty. Further, it risked necessitating companies to divert valuable resources away from investing in the next generation of fuel-savings and safety innovations that would benefit consumers.

Eight years ago, the auto industry, federal government, and State of California established the ONP to harmonize CAFE and GHG standards for light-duty vehicles. The ONP provides substantial year-over-year reductions in petroleum consumption across the nation for all light-duty vehicles and, at the same time, reduces unnecessary regulatory duplication. It has resulted in more fuel-efficient cars and trucks, in every vehicle segment, while still allowing consumers to purchase a wide range of vehicles to meet their individual needs.

Recognizing the nationwide benefits produced by the federal program, California issued regulations accepting compliance with the EPA GHG emission standards as compliance with its GHG program promulgated by CARB. Thus, the "One National Program" became the guiding principle all stakeholders agreed to in order to achieve the common goal of reducing petroleum consumption and emissions while streamlining regulatory compliance.

The Importance of a Robust Midterm Evaluation

In 2012, EPA and NHTSA promulgated standards for model years (MY) 2017 through 2025. California once again agreed to accept compliance with the federal standards as compliance with its own program, recognizing that greater fuel savings and GHG reductions would be achieved

through a national program. Industry supported the second phase of regulation for the ONP, because it promised a pathway of certainty and consistency. In addition, because the 2012 rule established standards over a decade into the future (which is well in advance of product planning and development cycles), and because NHTSA was statutorily prohibited from finalizing CAFE standards beyond MY2021, ONP includes a "Midterm Evaluation" to reexamine the MY2022 through 2025 standards. The reasoning behind this was to ensure that assumptions used by the agencies during the 2012 rulemaking remained valid and, if not, to update the analysis and revise the regulations accordingly. This Midterm Evaluation was, and remains, key to the success of the ONP.

The Midterm Evaluation is ongoing and entails an assessment of a broad range of issues, such as the agencies' assumptions concerning the effectiveness and market penetration of various technologies, as well as changes in consumer preferences and market conditions, such as fuel prices. The result of this review will be a decision as to whether the standards for MY 2022-2025 should be adjusted, and at a minimum, a NHTSA regulation to codify standards through 2025.

In addition, the ONP standards need to provide sufficient regulatory flexibility to manage product investments, while securing long-term environmental benefits and fuel savings for customers. As EPA, NHTSA, and CARB continue through the Midterm Evaluation process and into the future, harmonization is of critical importance. Through the Midterm Evaluation, regulators should reduce inefficiencies and inconsistencies in the system that create regulatory drag and discourage innovation.

Harmonization Reduces Drag and Encourages Innovation

The promise of harmonization under the ONP—*i.e.,* to have federal and state programs that allow compliance with a single set of vehicles—was well-intentioned, but has not yet been fully realized. Accordingly, determining how to further the goal of harmonization should be at the forefront of the Midterm Evaluation.

Today's programs administered by EPA, NHTSA and CARB remain different in many significant ways, and the extent to which the standards can be further harmonized is an important question not only for the regulators, but also for Congress. Unfortunately, the current scheme creates friction and drag in the system that slows innovation and results in unnecessary additional compliance costs ultimately borne by consumers with no additional environmental or energy benefits. In fact, the current standards result in a scenario in which a manufacturer could comply with one standard, but not the other. A truly harmonized program should not allow for such anomalies. A lack of harmonization results in a less efficient compliance pathway for improving fuel economy and reducing GHG emissions.

A real challenge posed by the two federal programs is that they operate under separate statutory authorities that were developed to achieve different goals – in one case reducing petroleum consumption under the Energy Policy and Conservation Act, and in the other case reducing GHG emissions under the Clean Air Act. Due to differences in the underlying statutory frameworks, the two programs do not equally recognize the societal benefits of the technological strides the automakers are making. Despite statutory differences, which we would encourage Congress to work to resolve, there is more that can be done by the agencies to align the two federal programs.

First and foremost, there are regulatory changes that should be made that can dramatically improve harmonization. In June 2016, Global Automakers and the Auto Alliance jointly submitted a petition for rulemaking to EPA and NHTSA requesting a variety of regulatory changes, permissible within the statutory constructs of each agency. The primary differences outlined in the petition relate to the banking, accruing and application of credits, and process improvements that will promote additional innovative technologies with real fuel-saving benefits. This package of suggested regulatory amendments can easily be made to resolve some of the inconsistencies between the two federal programs, with little to no impact on the programmatic targets. Global Automakers has asked that EPA and NHTSA act quickly to improve alignment within the ONP.

Another area where the agencies can strive for better alignment is in their technical approaches to the rulemaking. The agencies use separate models to assess their respective standards and answer the same questions about the efficacy of fuel economy technologies and their costs. EPA and NHTSA should work together to address inconsistencies between their models, use the same baseline data and inputs, generate new data from vehicle testing and tear downs, and integrate these results into aligned models. Alternatively, if further harmonization and integration of modeling are not possible, then the agencies could consider adjustments to the regulatory targets to align these programs. These regulatory updates can be easily incorporated into the current agency actions to further alignment between the two federal programs.

Even if NHTSA and EPA were to act on the industry's harmonization petition, significant differences between the CAFE and GHG programs would remain due to statutory differences.

Only legislative changes can narrow or eliminate these differences. Global Automakers supports Congressional action to provide greater certainty and consistency between the federal programs.

Zero Emission Vehicle Mandate Impacts on Harmonization

In addition to its GHG emissions program, California has a separate zero emission vehicle (ZEV) mandate, which has been followed by nine other states, primarily in the Northeast.[1] The ZEV program hinders harmonization and detracts from ONP because it establishes sales requirements for specific technologies—which include battery-electric, plug-in hybrid-electric, and fuel cell-electric vehicles—in the states through 2025. Above and beyond these regulatory steps, California and seven of the other ZEV states signed the ZEV "Memorandum of Understanding," under which these states committed to building a ZEV market to support 3.3 million cumulative ZEV sales by 2025.

While automakers are committed to increasing the electrification of the vehicle fleet, the ZEV mandate greatly impacts the ONP. For instance, compliance with the ZEV mandate imposes costs on manufacturers that are in addition to the costs imposed by the fuel economy and GHG emissions standards under the ONP. This cost is on the order of $24 billion dollars across the 10 ZEV states.[2]

[1] The states that have adopted the California ZEV mandate are Connecticut, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island and Vermont. For more information, please visit http://www.drivingzev.com/.

[2] California Environmental Protection Agency Air Resource Board, Staff Report http://www.arb.ca.gov/regact/2012/zev2012/zevisor.pdf.

Manufacturers are also offering consumers massive incentives—in some instances as high as tens of thousands of dollars—to get them to buy electric-drive vehicles. The reality is that consumers are not embracing these technologies at the desired or projected rates, especially in states that are not investing sufficiently in the charging and hydrogen infrastructure needed to support the vehicles. Vehicle registration data indicates that electric vehicles, as a percentage of all new automobiles registered, represented under one percent (0.7%) of the nation's market in 2016.[3]

Importantly, the ZEV program produces no incremental nationwide GHG emission benefits despite the high burden placed on vehicle manufacturers. Current CAFE and GHG emissions standards already specify each manufacturer's total fleet-wide emissions, and therefore, in a system that averages together all vehicles in a manufacturer's fleet, the fleet-wide emissions standards act as a cap when combined with an overall compliance fleet strategy.

Despite these concerns, Global Automakers believes that the industry and the global market are moving towards electrification, but questions remain - do we have the right models at the federal and state levels to encourage and support an electric-drive future? How quickly can this shift occur? Are the GHG and CAFE regulations in step with the proper investments needed to fund this shift?

These questions suggest, in the context of the Midterm Evaluation, policymakers should consider how federal and state policy can support U.S. leadership in innovation and investment in the

[3] IHS Global Vehicle Registration Data, Calendar Year 2016.

electric-drive technologies needed to meet our long-term petroleum consumption and environmental goals.

Conclusion

Global Automakers appreciates the Subcommittees' thorough attention to the issues of fuel economy and GHG regulations. Congressional oversight of these topics is appropriate and helpful given the significant impact on the industry, our customers, and your constituents for years to come.

Global Automakers strongly believes that we need to work together to eliminate inconsistencies in the national program to foster innovation and help reach our shared policy goals. We need to continue collaboration to develop certainty and consistency in our policies for the nation, and think more broadly about fuel use and emissions today and into the future.

Global Automakers is not asking *whether* we should reduce carbon produced by transportation, but rather *how* best to do it through the appropriate, harmonized regulatory framework; innovative policies that prepare the industry for the cleanest and safest technologies; and in a way that ensures consumers maintain the ability to purchase the vehicles they need to get them to their destinations.

Thank you again for the opportunity to testify before the Subcommittees.