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EPA study bolsters keeping 2025 U.S. fuel economy targets

John Lippert, Jeff Plungis and Jennifer A. Dlouhy, (c) 2016, Bloomberg (c) 2016, Bloomberg

A highly anticipated report by U.S. regulators buttresses calls for staying the course on fuel economy targets that automakers say are unworkable and want eased.

Based on current trends, the average car would get between 50 and 52.6 miles per gallon by 2025, falling short of the original projection of 54.5, according to the draft technical assessment released Monday by the [U.S. Environmental Protection Agency](#), the National Highway Transportation Safety Administration and the California Air Resources Board.

However, the report said automakers can draw on an array of technologies to satisfy the target and it will cost less than expected.

"The draft report supports that the administration's fuel economy program can continue to incentivize innovation and reduce fuel consumption while also ensuring that consumers can continue to choose the vehicles they want to drive," National Highway Traffic Safety Administrator Mark Rosekind said in a news release.

The document lays the foundation for next year's "midterm review" of the standards, which are set to become progressively tougher by 2025 and will be especially challenging for the big pickups on which Detroit automakers depend. Although President Barack Obama's successor will have significant discretion over the requirements, the technical document provides a hint into the EPA's thinking about how achievable the standards are and suggests regulators could adopt a stay-the-course approach during next year's evaluation.

Battle lines formed quickly around the government's assessment, which was based on real-world tests and hundreds of thousands of computer simulations of vehicles using a wide variety of technologies.

"Given changes in the market landscape, it will be a daunting challenge to meet the very aggressive requirements of the 2022-2025 federal fuel economy and greenhouse gas rule," said Wade Newton, a spokesman for the Alliance of Automobile Manufacturers, a Washington, D.C.-based lobbying group for major automakers including General Motors, Ford, Fiat Chrysler Automobiles [Toyota](#), and Volkswagen. "Absent a vigorous commitment to focus on marketplace realities, excessive regulatory costs could impact both consumers and the employees who produce these vehicles."

The assessment triggers a 60-day public comment period, with the technical report and the feedback guiding regulators as they make decisions next year on the final fuel economy and carbon dioxide emission requirements for 2022-2025.

The document estimates that automakers will spend about \$1,100 per vehicle for new technologies required to meet the targets, such as 10-speed transmissions -- close to the government's \$1,070-per-vehicle projection four years ago.

"The industry has excelled in complying during the first three years of the program," said William Becker, executive director of the National Association of Clean Air Agencies. "The lead time that the rule provides is a technological eternity. The 2022-2025 standards are entirely feasible."

The standards are among the most concrete steps the U.S. has taken to slash greenhouse gas emissions tied to climate change, as pledged in Paris last December. To limit the growth in global temperatures during this century to 2 degrees Celsius, regulators are also levying stiff penalties against Volkswagen and other automakers that manipulate test results.

The 2017 review, which Obama accepted in 2011 to win automaker support for the ambitious targets, could have a major impact on how the industry allocates its research and development budgets in coming years. In 2015, automakers spent \$109.5 billion on R&D, second only to the computing and health-care industries, according to PricewaterhouseCoopers.

Regulators used the assessment to reiterate their view that automakers can meet fuel-economy goals primarily by equipping a higher percentage of gasoline engines with gasoline-saving features like direct-injection and turbo-charging, and by making vehicles lighter.

The report projects that the 2022-2025 standards will be met mostly with improved conventional gasoline engines and "modest levels" of hybrid sales and "very low levels" of full electric sales. "A wider range of technologies exist for manufacturers to use" to meet the standards, "and at costs that are similar or lower than those projected in the 2012 rule."

The document shows slight differences between EPA, which is estimating lower costs of at least \$894 and NHTSA, which projects at least \$1,245.

Although the draft analysis focuses on model years 2022-2025, it concludes manufacturers exceeded the standards for each of the first three years of the program, and in 2014 outperformed

the standards by 1.4 miles per gallon, according to an EPA news release describing the document.

In 2012, the EPA and NHTSA projected that the new standards would lower tailpipe emissions of carbon dioxide by 35 percent by 2025, to 163 grams per mile. But on Monday, the agencies said that if U.S. gasoline prices remain low, tailpipe CO2 emissions may only fall by 29 percent, to 178 grams per mile. The smaller improvement means that preventing the release of each gram of carbon dioxide would be more expensive.

"Today's report shows that gas-saving technology may even be cheaper than the government projected in 2012, and that additional cost-effective technologies have come on line since then," said Dan Becker, director of the Safe Climate Campaign.

In private meetings starting last year, automakers have been pleading not just for more time to meet the targets, but also for an expanded list of credits for eco-friendly technologies like efficient air conditioners, people familiar with the situation have said.

The Association of Global Automakers, whose members include Toyota and Honda, responded that the midterm review presents "a critical reality check."

"Automakers are committed to the goals of the national greenhouse gas program, and continue to offer more fuel-efficient vehicle choices than ever before," the group said in an e-mailed statement. "Yet, market conditions today are very different from when the standards were developed five years ago."

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