Fighting Over Fuel

SAM ROSS-BROWN JUNE 20, 2016

The auto industry, already under fire following a string of safety recalls, has successfully lobbied for multiple loopholes in federal emissions standards, and is now battling with regulators to weaken the administration's signature fuel economy plan.

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AP Photo/Seth Perlman, File

A motorist puts fuel in his car's gas tank at a service station in Springfield, Illinois.

Five years ago, the Obama administration announced an ambitious fuel economy plan mandating that automakers attain an average of 54.5 miles per gallon by 2025. Designed to eliminate 6 million metric tons of greenhouse gases over 13 years—more than the nation's entire annual carbon footprint—the program represented the administration's most ambitious effort to combat climate change.

But the plan may fall far short of its goals, critics say, largely because automakers have successfully lobbied for multiple, industry-friendly loopholes and giveaways that significantly undermine the fuel efficiency targets. And now, carmakers are asking for even more. As part of a federally-mandated review halfway through the 13-year program's implementation, federal officials and automakers are locked in tense, closed-door negotiations over how tough emissions rules will be.

The players in the room include all of the auto industry's heavyweights, including Ford, Fiat Chrysler, and Toyota. For many of them, it has not been a great year. Following a **record year** of auto recalls in 2015, federal regulators expanded a massive recall of faulty Takata airbags that was already under way to include **upwards of 60 million additional vehicles** manufactured by 17 different car companies. The latest airbags recall, moreover, came on the heels of the **high-profile scandal** involving Volkswagen's use of specially-designed software to cheat on EPA emissions tests.

Now, as the review kicks off this month, the carmakers have thrown themselves into a lobbying campaign aimed at making sure the administration's final fuel economy plan is as lenient as possible. They argue that record-low oil prices, technological barriers, and persistent consumer demand for large cars and trucks call for more-relaxed standards.

"Low consumer interest in high-mileage vehicles presents a serious challenge to these ambitious fuel economy and greenhouse gas targets," says Wade Newton, a spokesman for the Alliance of Automobile Manufacturers, the industry's top lobbying group. "I think many agree that a review is needed to ensure that consumer and market realities are properly taken into account."

But environmental experts say carmakers have met CAFE targets despite low gas prices in recent years, and should have no trouble doing so in the future relying mostly on conventional technology. At a time of unprecedented global action on climate change, environmental advocates say diluting the emissions standards now could deal a serious blow to the momentum to reduce carbon pollution.

"Automakers have been very vocal about weakening the standards, but they're going to have a tough case to make," says Dave Cooke, a senior vehicle analyst with the Union of Concerned Scientists' Clean Vehicles Program. "We think the evidence is very clearly against them, and they know that as well."

It's not the first time the auto industry has gone to the mat to push back against fuel efficiency mandates, first launched in the 1970s as the Corporate Average Fuel Economy, or CAFE, standards. Amid a recession and soaring fuel prices triggered by the 1973 oil embargo, regulators were anxious to reduce American dependence on foreign oil. The

CAFE program promised to double average fuel economy in the U.S. within a decade.

But almost from their inception, the CAFE rules were under assault from an industry bent on protecting itself from too much regulation. Critics say the standards are riddled with loopholes that hold trucks and SUVs to a lower fuel economy standard than cars; overstate ethanol's impact on emissions, and allow less-innovative companies to purchase and trade the CAFE credits that measure automakers' compliance with the rules.

"What the auto industry has done is demanded that the standards be riddled with loopholes," says Dan Becker, director of the Safe Climate Campaign, an environmental watchdog. "This is an industry that has always fought fuel economy standards."

At issue in the current negotiations are the Obama administration's updated CAFE regulations, which call on automakers to achieve a fleet-wide average of 54.5 miles per gallon by 2025. Along with the administration's Clean Power Plan, which aims to cut energy sector emissions by nearly one-third within 25 years, the CAFE rules represent the Obama administration's signature action on climate change. In addition to combatting climate change, the administration argues that the new standards "**represent the single most important step** we've ever taken to reduce our dependence on foreign oil."

But the administration's plan is more impressive on paper than in reality, environmentalists say. The official standard is 54.5 miles per gallon. But the multiple exceptions and carve-outs demanded by the carmakers make the actual standard is closer to 37 miles per gallon. Now, carmakers are asking for permission to count safety innovations toward their fuel economy, arguing that reducing car accidents can lower overall emissions. Yet environmental experts say these technologies' impact on emissions is unknowable at best.

When the administration announced the new CAFE standards five years ago, car sales and average miles driven **had dropped significantly** for the first time in three decades. At the same time, soaring gas prices had boosted consumer demand for smaller, more fuel efficient vehicles, while SUVs and light trucks had **plunged**. Average fuel economy had begun climbing rapidly.

Yet despite impressive gains since 2007, average fuel efficiency has been **stuck** at around 25.3 miles per gallon for more than two years. Automakers say this lack of progress is due do recovering consumer demand and low fuel prices. This Memorial Day, the price of gas hit an **11-year low**, while sales of trucks and SUVs (Ford F-150s in particular) once again far outpaced those of more fuel-efficient competitors. At the same time, Americans are **driving more miles** than in any year since 2007.

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"It's important to remember that automakers are not evaluated based on whether the products they offer consumers meet the government targets," says the Newton, of the Auto Alliance. "Rather, automakers are evaluated based on the products consumers choose to buy."

With consumer demand for more efficient vehicles down, carmakers argue that they would have trouble reaching the steeper CAFE targets that the administration has requested. When their negotiations with regulators began late last year, automakers **declared** that reaching the CAFE goals would require much larger investments in electric and hybrid technology than they had previously thought.

But environmental experts say the program is already overly generous to automakers, and that the 54.5 mpg mandate is not nearly as steep as it seems. What's more, research by the National Academy of Sciences **suggests** that the industry should have no trouble meeting the 2025 goal, thanks largely to advances in existing conventional technology.

Under current rules, automakers receive credits for things like producing cars that can run on ethanol, or that use environmentally-friendly refrigerants in their air conditioning systems. These credits, in turn, can be factored into a company's fuel economy measurements—whether or not they actually lower fuel efficiency. What this means is that the EPA's much-touted mandate of reaching 54.5 miles per gallon is actually closer to 37 miles per gallon, once CAFE credits are accounted for.

This practice of "adjusting" fuel economy is largely an auto industry innovation, says Becker. In many cases, CAFE credits overestimate the impact that certain technologies will have on a car's fuel economy. One of the more controversial examples is the so-called flex-fuel vehicle credit, which offers automakers generous offsets for producing ethanol-compatible or electric cars—whether or not those technologies actually reduce emissions.

While using ethanol can lower a car's emissions compared with conventional gas, it's not nearly as available to drivers as carmakers assume. Although some 17.4 million American cars can be powered by ethanol, the alternative fuel is available at fewer than 2 percent of gas stations nationwide. Similarly, many electric cars also rely on fossil fuels when charging—but the CAFE credit for electric vehicles allows an automaker to count those vehicles' emissions as zero.

"Automakers get more credit for making an electric car than the difference between electric car and internal combustion engine," says Becker.

An even more problematic provision within CAFE allows automakers to hold larger cars and trucks to a lower efficiency standard than smaller vehicle models. For instance, this year's CAFE regulations mandate that a 2016 Ford Focus achieve a fuel economy of 40.8 miles per gallon. Yet the much larger Chevy Silverado pickup must reach **just 24.7 miles per gallon**.

"It's an incentive to make more trucks," says Becker. "Automakers are not in violation of the law because the rules allow them to not reduce fuel economy."

While low gas prices have played a part in boosting truck sales, automakers are undoubtedly swayed by the higher profit margins these models generate. According to a study by Kantar Media, the lion's share of American automakers' marketing budgets in 2014 went to selling SUVs and light trucks. No surprise, then, that trucks like the Ford F-150, Chevy Silverado, and Ram pickup **continue to outsell** more efficient models by large margins.

Indeed, even as truck sales increase and gas prices remain stagnant, automakers have had no trouble meeting CAFE standards in recent years. According to the EPA, automakers actually **over-complied** with CAFE rules in 2014 (the last year data are available) for the third year in a row. This is not hard to do, critics argue, because the current standards are so lenient that carmakers can meet them without actually doing much to increase their fuel economy.

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The same goes for automakers' claims that technological barriers will keep the program's goals out of reach, industry critics say. In December, a National Academy of Scien[illegible]e, which included Hwang, **found** that automakers could reach 54.5 mil[illegible]ostly through advances in existing technology like turbocharging a[illegible]ics. "Technology moves forward faster than even regulations predict; we expect to see automakers continue to outperform," explains Hwang.

Despite this, environmental advocates expect a contentious fight during the rule's highly unusual midterm review, which some argue is itself an industry giveaway. "Automakers demanded [the review]," says Becker. "Early on they referred to it as the 'off-ramp.'" Becker adds that he knows of "no other rule that has a reopener provision."


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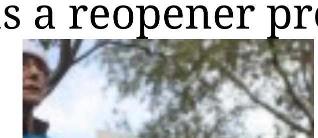
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solar in Florida.

As last year's historic Paris climate agreement **moves** ... fication and enforcement, the administration's CAFE standards m... een held up as among the most ambitious and far-reaching actions on the t... ule's future, and its actual effectiveness, remains to be seen.

"Weakening of standards would send the wrong signal to the world on America's willingness to do its part to curb dangerous carbon pollution, precisely at a time when almost 200 countries have committed to take action," says Hwang.

The critical question, he adds, is how far regulators go to enforce the rules. "If you stick by your standards, the auto industry will innovate and meet them," Hwang says. "We don't have to cave."