Automakers Agree to 54.5 MPG Fuel-Economy Rule, Obama Says

Angela Greiling Keane
July 29, 2011 — 2:53 PM EDT

Doug Speck, president and CEO of Volvo Cars North America, left, Alan Mulally, president and CEO of Ford Motor, center, and Dan Akerson, CEO of General Motors, listen during President Barack Obama's announcement. Photo: Andrew Harrer/Bloomberg

Automakers agreed to double the fuel economy of the vehicles they sell in the U.S. to a fleetwide average of 54.5 miles per gallon by 2025, President Barack Obama said.

The White House negotiated the proposal, which will take effect in 2017, with automakers including General Motors Co., Ford Motor Co. and Toyota Motor Corp. The administration proposed a 56.2 mpg requirement last month, up from a fleetwide average of 27 mpg today for cars and light trucks.

"This agreement on fuel standards represents the single most important step we've ever taken to reduce our dependence on foreign oil," Obama said today at an event in Washington with auto executives.

Obama is seeking to limit the amount of fuel used by U.S. vehicles as part of a pledge to reduce oil imports by a third by 2025. The agreement with automakers, which also curbs greenhouse-gas emissions, comes as his administration negotiates with Congress on raising the U.S. debt ceiling to avoid default.

Obama used the event to promote his energy priorities and to highlight some of the issues being weighed in the standoff over raising the federal debt ceiling.

The agreement on higher standards "is only possible because we made investments in technology," Obama said. A "sensible and balanced approach" is needed to make sure the U.S. is able to sustain economic growth in the future, he said.

National Debt

In the wrangling over the nation's debt, Obama has argued that relying solely on cutting spending will sap research and education budgets. He also said the administration's talks with automakers should serve as an example for Congress because they provided benefits for all parties.

"These standards are going to be a win for consumers, for these companies, for our economy, for our security and for our planet," he said.

Ford, GM, Chrysler Group LLC, Bayerische Motoren Werke AG, Honda Motor Co., Hyundai Motor Co., Jaguar Land Rover, Kia Motors Corp., Mazda Motor Corp., Mitsubishi Motors Corp., Nissan Motor Co., Toyota and Volvo Cars, which represent 90 percent of vehicles sold in the U.S., agreed to support the proposal, according to a statement from the White House.

Trucks, Cars

Some Japanese and European companies that manufacture mainly cars instead of trucks complained during the talks that the rule favors GM, Ford and Chrysler, because the fuel-economy standards for light trucks will increase more slowly than for cars, said people familiar with the talks.

Volkswagen AG didn't sign the agreement to support the Obama administration's proposal, the Wolfsburg, Germany-based carmaker said in an e-mailed statement. The "positive impact" of so-called clean diesel, used by the company's mid-size Passat TDI, which can get 43 mpg on the highway and travel almost 800 miles on a tank of fuel, doesn't receive consideration in the proposal, Volkswagen said.

"The proposal encourages manufacturers and customers to shift toward larger, less-efficient vehicles, defeating the goal of reduced greenhouse-gas emissions," Tony Cervone, a Volkswagen spokesman, said in an e-mailed statement. "We are committed to the ongoing negotiations with the White House on reaching maximum achievable fuel economy and/or greenhouse-gas reduction standards."

Daimler AG, the Stuttgart, Germany-based maker of Mercedes-Benz vehicles, also hasn't agreed to support the proposal.

U.S. Vs. Europe

"The construct of the law is one that meets the needs of the American market for the next 15 years in the same way that the Europeans set their standards regardless of how Americans view the EU standard for fuel efficiency," Representative Ed Markey, a Massachusetts Democrat, said in an interview. Markey helped write the law requiring more frequent fuel-economy increases.

While vehicle prices will increase, it's too early to tell by how much, said Jim Lentz, head of Toyota's U.S. sales unit. The "million-dollar question" is what type of technologies will sell best, Lentz said in an interview.

The proposed rule requires annual fuel-economy increases of 5 percent for cars. Light trucks like pickups and sport-utility vehicles can raise fuel economy at 3.5 percent for the first five years the rule will be in effect. Then, unless regulators decide differently in a midterm review, trucks also would have to boost fuel economy by 5 percent a year.

By 2025, U.S. fuel-economy standards will save a total of 12 billion barrels of oil and reduce oil consumption by 2.2 million barrels a day, about half of the oil the country imports from OPEC a day, the Environmental Protection Agency said in a statement.

Fuel Savings

The rules will also save consumers more than $8,000 a vehicle, on average, in fuel costs, the EPA said.

U.S. Representative Hansen Clarke, a Michigan Democrat, said automakers can meet the overall standard because of the allowance for light trucks to improve fuel economy more slowly during the first five years of the rule. Making smaller, more fuel-efficient cars may help U.S. automakers compete with Asian competitors.

"This standard will also help promote more U.S. manufacturing jobs like in the city of Detroit by allowing the fuel-economy standards for cars to rise faster than those standards for light trucks and SUVs," Clarke said in an interview. Clarke said his father immigrated to the U.S. from India to work at a Ford foundry.

A separate rule issued in 2009 takes effect next year, and requires automakers to increase average fuel economy to 35.5 mpg by 2016.

Changes to the 2017 to 2025 proposal can be made before the first draft is published by Sept. 30. The final rule will be published next year.

Clean Air

The EPA and National Highway Traffic Safety Administration will issue the rule. The state of California, which has the authority to regulate greenhouse-gas emissions from vehicles, helped write the regulation to ensure one national standard.

Under the 1970 Clean Air Act, California can opt out of national rules to establish more stringent requirements to clean its air, particularly in the Los Angeles area. U.S. states can choose to accept a federal standard or California's.

"Auto companies are accepting these numbers and they are not suing," Mary Nichols, head of California's Air Resources Board, which sets state rules for automakers, told reporters on a conference call today. "That is a big deal."

Carmaker Lobbying

Environmental groups including the New York-based Natural Resources Defense Council had asked the administration to raise fleetwide fuel economy to 62 mpg. The rule "was weakened by auto-industry lobbying," Dan Becker, head of the Washington-based Safe Climate Campaign, said in an interview.

Automakers had initially argued that the technologies may not be in place in time to allow them to meet the standards within the administration's timeframe. The proposed rule provides the "right balance," said Sue Cischke, Ford's vice president of environmental and safety engineering.

"It gives us certainty for the next 14 years that we can invest in technologies," Cischke said in an interview.