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Carmakers Back Strict New Rules for Gas Mileage

By BILL VLASIC JULY 28, 2011

DETROIT — Four years ago, the American auto industry was so opposed to higher fuel economy standards that executives of Detroit camped out in Washington in an unsuccessful bid to undercut them.

On Friday, when President Obama announced even stricter standards — in fact, the largest increase in mileage requirements since the government began regulating consumption of gasoline by cars in the 1970s — the chief executives of Detroit's Big Three were in Washington again.

But this time they were standing in solidarity with the president, who was also surrounded by some of Detroit's highest-tech — and most fuel-efficient — new vehicles.

While the American carmakers, as well as their Asian rivals, once argued against even minimal increases in government fuel rules, they are acquiescing without protest to an increase to 54.5 miles per gallon by 2025, from the current 27 miles per gallon.

The new standards are seen by the Obama administration as critical to reducing oil consumption and cutting consumer expenses at the pump, and the White House made it clear to Detroit executives that the changes were coming and they needed to cooperate.

It is an extraordinary shift in the relationship between the companies and Washington. But a lot has happened in the last four years, notably the $80 billion federal bailout of General Motors, Chrysler and scores of their suppliers, which removed any itch for a politically charged battle from the carmakers.

And the auto companies have gotten a lot better at building popular small cars that are fuel efficient — thanks to gas-electric hybrids and advances in battery technology — and consumers are responding. Six of the 10 best-selling vehicles in America are small or midsize cars, and one of the most popular pickup models on the market is a Ford F-Series with a high-mileage, six-cylinder engine.

Still, the industry's meek acceptance of what are considered extremely challenging fuel-economy goals is a marked retreat from years past, when the companies argued that consumers would not be willing to pay for the technology needed to meet higher mileage requirements.

"The auto companies' level of vitriol and rhetoric has changed," said Dan Becker, director of the Safe Climate Campaign, a group that works to mitigate global warming. "We welcome all epiphanies."

The new mind-set in Detroit has been helped by some give and take on the government's side. G.M., Ford and Chrysler pressed for less onerous mileage goals for their profitable pickup trucks and got them. And the administration agreed to revisit the new requirements halfway through their course, with the possibility of adjusting them.

In the end, though, Detroit was faced with an undeniable political reality: there was no graceful way to say no to an administration that just two years ago came to its aid financially.

"This was no time to fight these regulations," said one Detroit executive, who spoke on condition of anonymity because of the nature of the closed-door negotiations. "And you're starting to see these fundamental shifts in the market that play a huge role in this," the executive said in advance of Friday's announcement.

Environmental groups find themselves in the unusual position of lauding the automakers for making fuel economy a priority in virtually all their newest products, from the tiniest subcompact to the heaviest pickup.

“These proposed standards can be met using well-known technologies such as better engines, lower-cost hybrids and electric cars,” said Roland Hwang, transportation program director at the Natural Resources Defense Council.

The proposal introduced by the president calls for a 5 percent annual increase in fuel economy for cars from 2017 to 2025. The gains are more modest for the light-truck category, which includes sport utility vehicles — 3.5 percent a year through 2021, and then 5 percent annually in the next four years. The standards announced four years ago run through 2016, requiring a corporate average of 36 miles per gallon by then.

Over all, the new standards will require a 54.5 miles per gallon corporate average for 2025. That standard will be made more easily achievable by credits that automakers can earn by producing battery-powered vehicles, hybrids and alternative-fuel models. Details of how the credits will work have not yet been made public, but the intention is to encourage the development of cars with far lower emissions.

Initially, the White House floated a much more aggressive target of 62 miles per gallon by 2025. It reduced that twice before agreeing on the final number.

A crucial negotiator for the administration was Ron Bloom, one of the senior members of the president’s automotive task force that shepherded G.M. and Chrysler through taxpayer-financed bankruptcy reorganizations in 2009.

Detroit executives said Mr. Bloom’s relationships with the companies and his understanding of their current and future products were critical factors in bringing all the sides together. The parties included environmental and public health groups as well as the California Air Resources Board, which has historically set standards more aggressive than the federal ones.

“The really big part of this is the midpoint review,” said David Cole, chairman emeritus of the Center for Automotive Research, an auto industry research group in Ann Arbor, Mich. “By then everybody will have a better understanding of the cost of the technology, particularly the batteries.”

The automakers are confident that they can achieve incremental goals each year, but the real test will be if costs can be lowered enough so consumers will want to buy more electric and hybrid models.

"The standards are going to be quite stringent and a challenge," said Scott Becker, a senior vice president in the United States for the Japanese automaker Nissan. "But given the range of technologies that we either have currently or are developing, we will be in a position to meet them."

Support for the new standards by the Detroit and Asian carmakers will allow the administration to formally set forth the plan by the end of September, which will then be followed by a public comment period.

The White House has said the regulations will save drivers money at the pump in addition to reducing emissions. In the past, Detroit might have challenged the thesis, or forecast a negative impact on job growth. This time, the automakers' trade group proposed radio ads that would have raised concerns about job losses, but the proposal was squelched by some of the companies, notably G.M. and Chrysler.

Instead, the automakers decided to sign on to the goal of 54.5 miles per gallon — and wait and see if it can be achieved down the road.

"These targets are far out there, but the economics need to work," said Mr. Cole. "This is also the most aggressive environmental administration the industry has seen for a long time, and the companies have to get through this with them."

Nick Bunkley contributed reporting.

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