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Cheap gas spurs SUV sales, putting U.S. climate goals at risk

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WASHINGTON/DETROIT, Dec 16 (Reuters) - Surging demand for trucks and SUVs fueled by cheap gasoline threatens to hold back improvements in U.S. fuel economy and greenhouse gas emissions, a government report released on Wednesday shows.

The disconnect between consumer demand for larger, less efficient vehicles and the Obama administration's climate goals sets up a potential clash between automakers and federal regulators.

The report from the Environmental Protection Agency said fleet-wide U.S. fuel efficiency was flat at 24.3 miles (39 km) per gallon in the 2014 model year compared with the prior year.

Fleetwide fuel efficiency is supposed to edge up to 24.7 mpg in the 2015 model year - or about 1.6 percent - but even that modest increase is "particularly uncertain given market conditions, including lower gasoline prices," the EPA said.

Under federal targets, automakers must boost fuel efficiency an average of 5 percent for cars annually between 2017 and 2025 and between 3.5 and 5 percent for larger vehicles.

The auto industry is still "on track to achieve significant greenhouse gas reductions" through new technology and innovation, said Christopher Grundler, director of the EPA's Office of Air Quality and Transportation.

But consumers have been responding to signals from gas pumps, where a combination of relatively low taxes and oil unleashed by hydraulic fracturing have pushed U.S. gasoline prices to an average of just over \$2 a gallon - the lowest level in six years.

Efficiency is still up 26 percent over the last decade, according to the EPA. But nearly 59 percent of U.S. vehicle sales this year have been larger vehicles, up from 54 percent last year, according to industry consultant Autodata Corp.

Wednesday's report showed trucks and SUVs are becoming more efficient - hitting an all-time high of 20.4 mpg - but those gains are largely being offset by the shift from cars to trucks. Car fuel efficiency remained unchanged in 2014 at 27.9 mpg.

Mazda Motor Corp led all automakers with the most fuel efficient vehicle fleet averaging 29.4 mpg in 2014, followed by Fuji Heavy Industries Ltd's Subaru unit, Hyundai Motor Corp and Honda Motor Co, according to the EPA.

Detroit automakers General Motors Co, Ford Motor Co and Fiat Chrysler Automobiles NV, which produce a larger share of trucks and SUVs than foreign rivals, rank lowest in fuel efficiency among major automakers. They average less than 23 mpg.

Automotive fuel efficiency rules are a cornerstone of President Barack Obama's climate policy. The administration has said better fuel efficiency will cut 6 billion metric tons of greenhouse gases over the lifetime of the vehicles sold between 2012 and 2025. That is more than the total amount of carbon dioxide emitted by the U.S. economy in 2010, the administration has said.

But automakers argue that the consumer shift away from cars will make it harder to hit the U.S. fleet average fuel economy target of 54.5 miles (87.7 km) per gallon in 2025.

Meeting current efficiency rules will cost the auto industry as much as \$157.3 billion between 2017 and 2025, according to Obama administration estimates. The Alliance of Automobile Manufacturers - the trade association representing major automakers - has been raising concerns about the rules.

"Keeping up this pace of increasing fuel economy will be challenging, especially since our compliance is based on sales, not what we put on showroom floors," the industry group said on Wednesday.

The group wants automakers to get greenhouse emissions credits for adding safety technologies that can help avert crashes.

The landmark agreement announced in France over the weekend, to transform the world's fossil fuel-driven economy in a bid to arrest global warming, could make any cut in current fuel efficiency targets difficult for the U.S. government to accept. But federal regulators are due to conduct a midterm review of the feasibility of the targets by April 2018.

Environmentalists, who say automakers are not doing enough to cut emissions, hope the government will hold fast to the 2025 target.

"The auto industry is exploiting the (fuel efficiency) program's loopholes to boost gas-guzzler production and thwart the rules. It is making more SUVs and other light trucks than cars because

trucks have weaker standards than cars," said Daniel Becker, director of the Safe Climate Campaign.

(Writing by David Sherpardson; Editing by Joseph White and Tom Brown)

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