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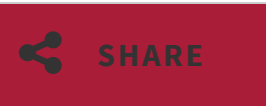
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TONS OF CREDITS

## AS OBAMA'S CO2 REGULATIONS GET TOUGH, AUTOMAKERS -- ESPECIALLY JAPANESE -- HAVE ALREADY EARNED A BIG CUSHION

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Gabe Nelson  



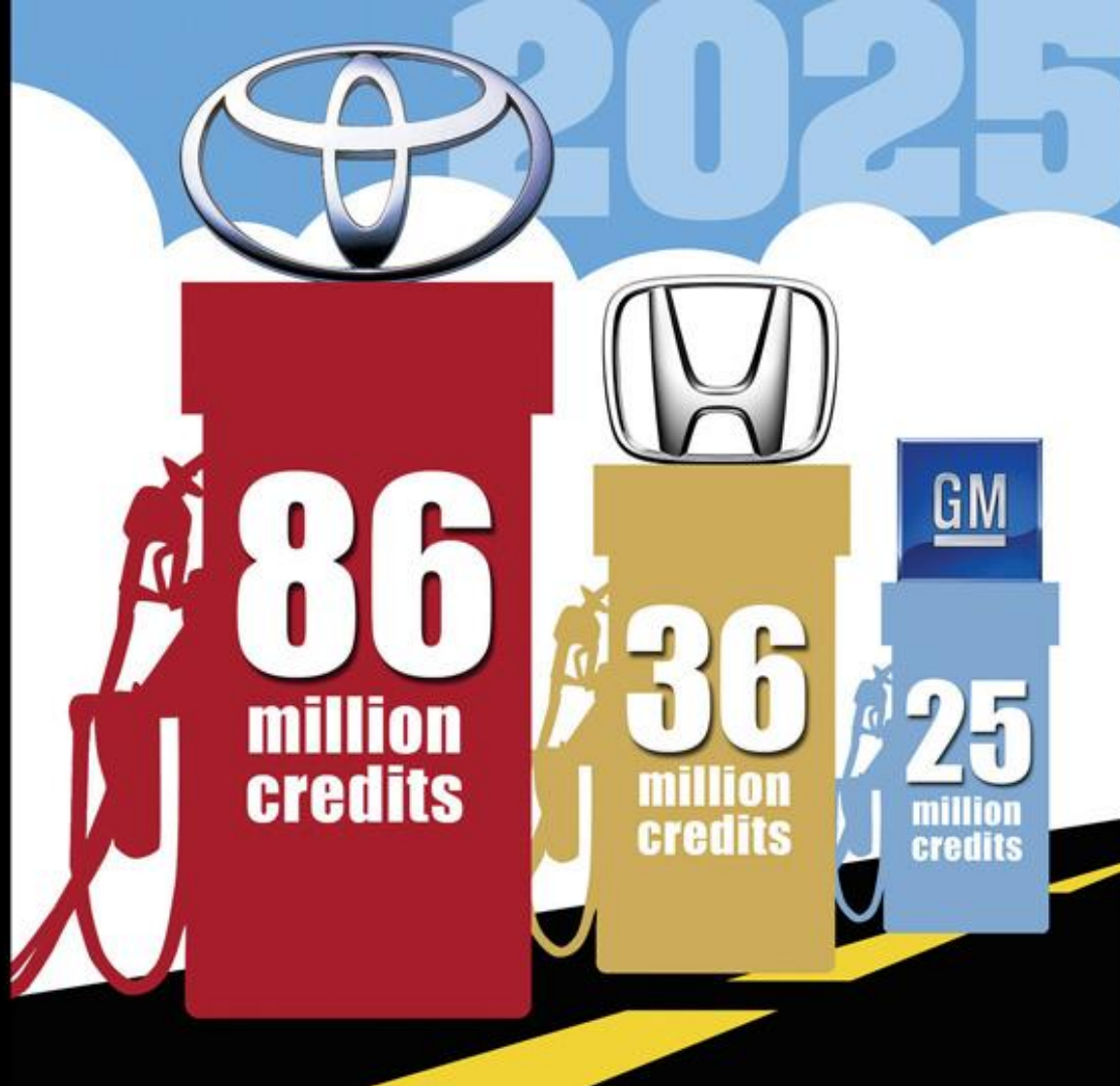
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As automakers ratchet down the fuel consumption of their cars to meet tougher federal standards, the top Japanese automakers already have an enormous head start from credits they earned since the 2009 model year.

Because they outperformed old fuel economy standards before new requirements were phased in, Toyota, Honda and Nissan have a huge cushion that will help them meet increasingly tight standards.

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Last month the EPA quietly **posted a report** that shows these three companies have so many credits that their current fleets, unchanged, could meet EPA requirements through the 2016 model year, said David Friedman, a senior engineer at the Union of Concerned Scientists.

The companies are highly unlikely to do that, Friedman said, because they need to meet much stricter standards from 2017 to 2025 and because fuel economy has become a crucial selling point.

But these companies still have enough credits "that they could slow down near-term investments in clean cars," he said.

When the new standards started to phase in for the 2012 model year, Toyota held 86 million EPA credits. Each credit represents one more metric ton of carbon dioxide that its vehicles could emit over their lifetimes than the Obama administration's new program nominally allows.

The credits give Toyota more options for meeting new EPA limits on tailpipe emissions, which will get 3 to 5 percent stricter each year in tandem with new corporate average fuel economy standards that ramp up to a nominal 54.5 mpg in the 2025 model year.

Toyota, the dominant player in hybrids, and other automakers have kept mum on plans for these credits, which can be used until the 2021 model year, except for the credits from 2009, which last only five years.

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Tom Stricker, vice president of technical and regulatory affairs at Toyota Motor North America, acknowledged that the credits are a "valuable tool for future compliance."

Automakers may sell their excess credits to competitors that fall short. And while there are some limitations on using credits to build gas-guzzlers, automakers with credits would have more leeway to build more powerful vehicles with lower mpg than competitors that are feeling the crunch of CAFE.

"It will give a company like Toyota an opportunity to promote performance a little more aggressively than we will be able to," said an executive who plans CAFE compliance for another major automaker. "They will have the ability to not ratchet down the performance of their mainstream products as much. Do we wish we had more? Yes. Do we wish they had less? Sure."

## **Lots of pickups**

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Dan Becker, director of the Safe Climate Campaign and a longtime proponent of stricter fuel economy standards, says Toyota's credits are "worth a hell of a lot of pickup trucks if they decide to sell more pickup trucks."

But another executive who plans CAFE compliance for a non-Japanese automaker said it would be foolish to spend credits rather than develop and sell more efficient products.

"You could only do that for so long, and then you'd be in more trouble for the future, because the regulations are only getting more stringent -- and at an increasing rate," the executive said.

The credits were a key concession made by the Obama administration to get car companies on board with tougher fuel economy rules.

They were part of a plan to start regulating carbon dioxide in the wake of a 2007 Supreme Court ruling that allowed the EPA to decide whether greenhouse gases are a pollutant that harms human health and welfare.

President Obama wanted to deal with global warming, so his administration created the program to limit tailpipe emissions rather than merely setting CAFE standards to limit fuel consumption.

Automakers asked to be allowed to earn credits to help meet the tighter requirement. And those credits, formally handed out by the EPA last month, gave the three Japanese automakers a large lead over their competitors.

### **Japanese companies lead**

So by the start of the 2012 model year, the auto industry already held credits worth 209 million metric tons of CO<sub>2</sub>. That does not include Hyundai and Kia, which are under investigation for overstating the fuel economy numbers of dozens of models from the 2011 through 2013 model years.

Honda earned 36 million credits from the early credit program, and Nissan 18 million. Among the Detroit 3, only General Motors (25 million) had more than Nissan. Ford Motor Co. (15 million) and Chrysler Group (8 million) lost some of their credits during the 2011 model year.

Daimler AG, which routinely has paid fines to the National Highway Traffic Safety Administration in the past for falling short of CAFE standards, earned just 378,272 credits during the three-year period. The company was also one of the few automakers to oppose the Obama administration's fuel economy deal.

### **'We've earned these credits'**

U.S. and import-brand automakers lobbied the Obama administration heavily for credits before the new program even began.

The three largest Japanese automakers -- long among the leaders in fuel economy -- earned more than 60 percent of all credits.

"We feel we've earned these credits, just like we've earned them in the long-standing fuel economy program," said Toyota's Stricker.

Phil Gott, a senior director at IHS Automotive who specializes in CAFE issues, said the credits reward the Japanese companies fairly for making early investments in more efficient cars.

"It's giving credit where credit is due," Gott said. "If someone has been more efficient over the years, then why challenge them to the same extent as someone who hasn't?"

The credits from the EPA were given by using CAFE performance to calculate automakers' greenhouse gas emissions.

The agency used the old CAFE formula rather than the new one, which sets an individual fuel economy standard

for every automaker to reflect that some companies sell more large trucks and others sell more small cars.

The new standards are based on "footprint," meaning that every car gets a customized fuel economy and emissions target based on its size and every automaker gets a customized fuel economy and emissions target based on its vehicle mix.

Automakers can get more credits for the 2012 model year and beyond, but those credits become harder to obtain every year as the standards grow stricter.

The EPA is not predicting how companies will use their early credits.

In the March report, the agency said, "One could create any number of hypothetical scenarios that show these credits being used in a variety of ways."

But the EPA said it does not expect any automaker to use the early credits to avoid improving efficiency or introducing technologies. That would invite enforcement actions, the agency warned.

"We continue to believe that most manufacturers will be taking a long-term view of the increasingly stringent standards in the future and will use their accumulated credits judiciously to plan a smooth pathway to the low emissions required through the 2025 model year," the March report said. "We do not expect manufacturers to use these credits injudiciously."

### Going up

Average CAFÉ rules, cars and trucks\*

<b>MY</b>	<b>MPG</b>
2011	27.3 mpg
2012	29.7 mpg
2013	30.5 mpg
<b>2016</b>	<b>34.1 mpg</b>



Automakers' CAFÉ numbers vary based on "footprint" of vehicle fleet, EPA's CO2 standards mirror CAFÉ.

Source: NHTSA

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