OBAMA SETS FUEL ECONOMY TARGET OF 54.5 MPG

White House: Rule backed by automakers representing 90% of vehicles sold

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President Barack Obama, speaking today in front of industry executives. From left: Honda of America Executive Vice President John Mendel, Volvo North America CEO Doug Speck, Ford CEO Alan Mulally and GM CEO Dan Akerson. *Photo credit: REUTERS/Jason Reed*

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WASHINGTON -- President Obama, flanked by the chiefs of U.S. and import-brand automakers, today proposed doubling corporate average fuel economy standards to 54.5 mpg by 2025.

The targets, if finalized next July as expected, would continue the pace at which mileage standards were raised by the Obama administration from 2012-16. The current standard requires a corporate average of 35.5 mpg by 2016, up from 27.3 mpg for 2011 models.

The latest targets represent one of the biggest hikes in fuel-efficiency goals since the government created fuel-efficiency standards in the 1970s to reduce dependence on foreign oil.

The Obama plan -- endorsed by leading auto manufacturers, California state regulators, the UAW, environmentalists and consumer advocates -- would require a 5 percent annual improvement in the fuel economy of passenger cars from 2017-25.

Mileage standards for light trucks would increase 3.5 percent a year from 2017-21, with a 5 percent yearly increase tentatively planned for the remainder of the period.

The new goals for light trucks represent a victory for Detroit automakers, which rely on a heavier mix of large pickup and SUV models for sales and profits.

The administration, bowing to the industry's requests, also agreed to a mid-course review of the standards starting in 2018 to consider their impact on manufacturers' costs, technology and sales.

The White House said the proposal was backed by automakers that account for more than 90 percent of all vehicles sold in the United States.

Ford Motor Co.'s Alan Mulally, General Motors' Dan Akerson and Chrysler Group's Sergio Marchionne were joined by UAW President Bob King at the event. Leaders from BMW, Honda, Hyundai, Jaguar/Land Rover, Kia, Mazda, Mitsubishi, Nissan, Toyota and Volvo also attended.

Savings

"This agreement on fuel standards represents the single most important step we've taken as a nation to reduce our dependence on foreign oil," Obama said.

"These outstanding companies are committing to do a lot more," he said. "By 2025, the average fuel economy of their vehicles will almost double to 55 mpg. This is an incredible commitment that they've made.... They wouldn't be doing it if they didn't think it was good for business and good for America."

The administration said the requirements will save U.S. households $1.7 trillion in fuel costs and result in an average fuel savings of over $8,000 per vehicle by 2025.

The proposal will cut U.S. oil consumption by 12 billion barrels. By 2025, oil consumption would be reduced by 2.2 million barrels a day - or as much as half of the oil imported daily from OPEC, the White House estimates.

The standards will also curb carbon pollution by cutting more than 6 billion metric tons of greenhouse gas over the life of the program. The White House says that is more than the amount of carbon dioxide emitted by the United States last year.

The White House, under pressure from California and environmental groups, originally proposed a fuel economy target of more than 62 mpg by 2025.

The rule "was weakened by auto-industry lobbying," Dan Becker, head of the Washington-based Safe Climate Campaign, told Bloomberg News.

The 54.5 mpg target will translate into a 62 mpg requirement for passenger cars and a 44 mpg target for light trucks by 2025, according to documents issued by the White House Friday.

CAFE requirements are not the same as the fuel economy ratings on a vehicle's sticker price issued by the Environmental Protection Agency. EPA fuel economy ratings are adjusted down by more than 20 percent to represent estimated mileage in real-world driving conditions.

For example, the 2011 Hyundai Elantra with automatic transmission has an EPA rating of 29 mpg in the city, 40 mpg on the highway and a combined 33 mpg rating. The same 2011 Elantra has a CAFE value of 37.7 mpg in the city, 56.5 mpg on the highway and a 44.4 mpg combined CAFE rating.

A path forward

In the past, Detroit and other automakers have vigorously opposed tougher fuel economy rules, claiming consumers would not pay higher prices for the technology required to meet higher standards. They also claimed safety would be compromised.

But the 2009 government-led bailout of GM and Chrysler -- as well as the emergence and growing consumer acceptance of hybrids, electric vehicles, and other technology -- left automakers little choice but to back the plan.

"This proposed rule presents a path forward that greatly improves fuel economy while preserving customer choice and future industry growth," GM said in a statement that was largely shared by other automakers.

Ford said it supported the new rule, in principle, because it protected jobs, will provide customers with a full range of affordable vehicle choices, and benefits the environment.

"This agreement provides the regulatory certainty we need to design and build fuel-efficient vehicles during the next 14 years," Mulally said in a statement.

VW dissents

Volkswagen AG said today it would not endorse the proposal because it places an unfair burden on makers of passenger cars, while allowing special flexibility for manufacturers of heavier light trucks. Mercedes-Benz expressed similar concerns.

"The largest trucks carry almost no burden for the 2017-2020 timeframe, and are granted numerous ways to mathematically meet targets in the outlying years without significant real-world gains," VW said in a statement. "The proposal encourages manufacturers and customers to shift toward larger, less efficient vehicles, defeating the goal of reduced greenhouse gas emissions."

VW also opposes the deal because it does not encourage wider use of diesel engines, which represent more than 20 percent of the automaker's growing U.S. sales.

"If one-third of the vehicles on the road today were clean diesel, the US would save 1.4 million barrels of oil a day," VW said in a statement.

White House officials said today the proposal is designed to encourage the introduction of new alternative-fuel technologies and that diesel engines are already established in the market.

Other automakers, while backing the overall deal, also expressed reservations about portions of the plan.

"The proposed fuel economy standards for 2017-2025 are extremely challenging – especially for smaller companies and those that primarily sell passenger cars, such as Mazda – but we are committed to meeting them," Jim O'Sullivan, CEO of Mazda North American Operations, said in a statement.

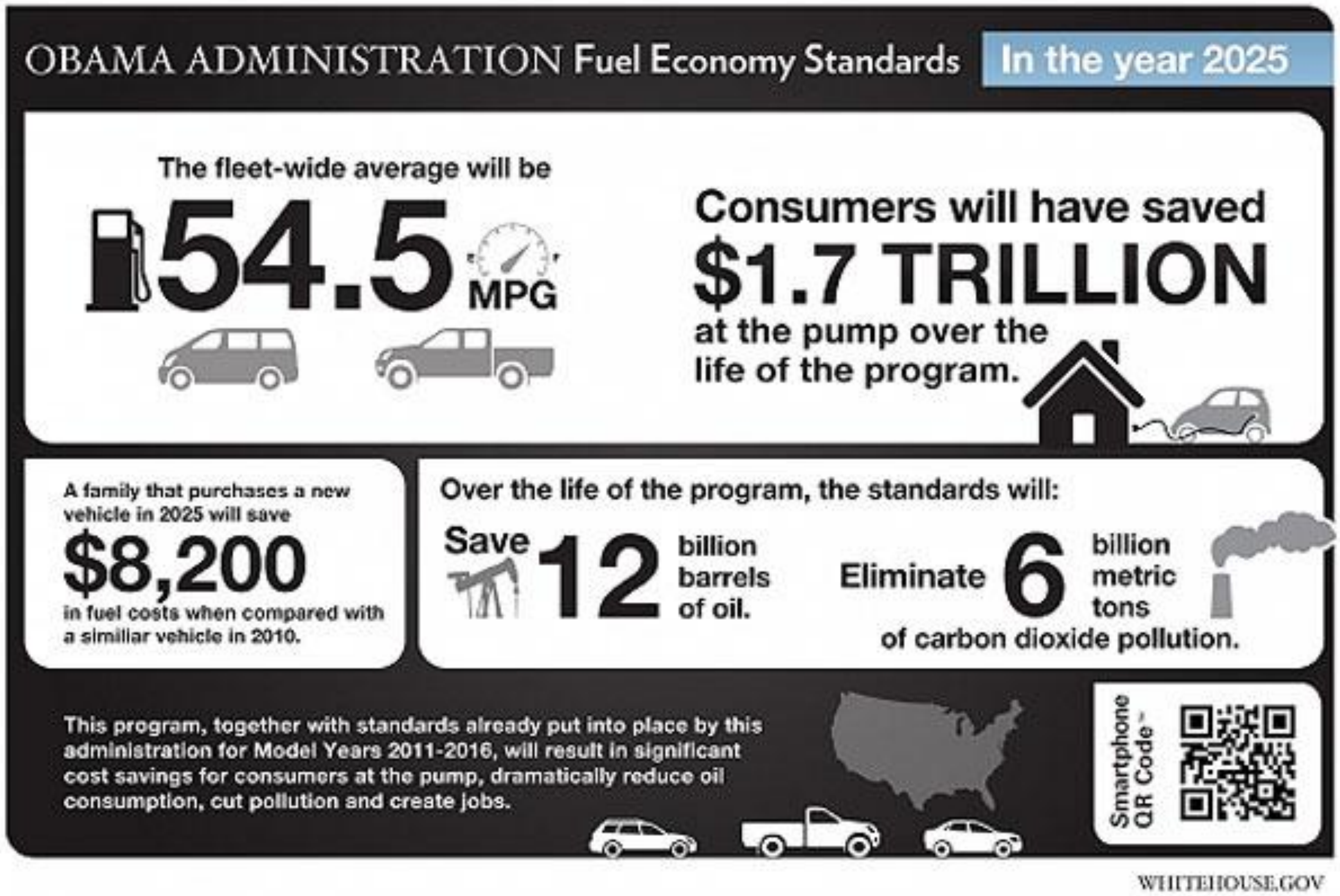

Photo credit: Whitehouse.gov

California support

The California Air Resources Board's decision to back the proposed standards also played a key role in winning industry support for the deal.

In the past, California has pursued its own emissions and fuel economy regulations that were often more stringent than federal standards. The state's rules have been largely opposed and sometimes challenged in court by automakers.

The Detroit News reported that the talks with automakers, California officials and the White House went past 1 a.m. today. Automakers used the last-minute discussions to seek assurances that California will abide by the results of the mid-term review that will ensure that the 2022-2025 rules can be met, the paper said.

Automakers sought the opportunity to sue if California attempts to enact its own tougher rules in case the federal government opts to lower the requirements in the final years, the News said.

It wasn't immediately clear how conflicts stemming from the mid-term review will be handled.

But Stanley Young, a spokesman for California's Air Resources Board, said today the agency was supporting the deal.

“It doesn’t affect our ability or our authority to set separate standards, but in this case, we’re standing with the federal agencies as partners and we feel that the current standards are sufficiently stringent for us to adopt them as our own," Young said.

Praise for White House

Many automakers today praised the Obama administration for crafting a new deal that sets a single national standard for fuel economy improvements.

In a prepared statement, Nissan endorsed the "one national program."

Scott Becker, senior vice president of administration and finance for Nissan Americas, said the deal "supports long-term planning and technology development."

John Mendel, head of sales for American Honda, said the automaker appreciated "the state of California's decision to harmonize its regulations with federal initiatives."

Chrysler said it supported "in principle" the proposed new fuel economy rules.

"We remain committed to the goal of a single, national, and coordinated program that will reduce greenhouse gas emissions, and enhance our country's energy security," Chrysler said in a statement.

Automakers are expected to meet the new rules by adopting more light-weight materials, wider use of alternative powertrains such as gasoline and diesel-electric hybrids and batteries, and the adoption of other technology.

"There is still a great deal of uncertainty as to how the market will respond and what vehicle technologies consumers will embrace, which is why we are rolling out and testing a range of alternative fuel options," James Lentz, head of Toyota Motor Sales, said in a statement.

Credits and incentives

As part of the rules announced today, the administration said it was considering a number of incentive programs to encourage early adoption and introduction of advanced, 'game-changing' technologies.

They include incentives for electric vehicles, plug-in hybrid electric vehicles, and fuel cells vehicles; incentives for advanced technology systems for large pickups, such as hybrid powertrains; and credits for technologies that reduce carbon dioxide emissions and fuel economy improvements that are not captured by the standards' test procedures.

The Environmental Protection Agency also plans to propose credits for improvements in air conditioning systems to encourage greater efficiency and use of alternative refrigerants that lower global warming.

The EPA will also weigh new credits for vehicles powered by compressed natural gas, and allow automakers to bank and trade credits, including a one-time, carry-forward of unused credits from the 2010-2016 model years through the 2021 model year, the White House said.

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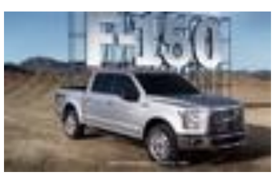

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