

CAFE Plus: Getting ahead of the curve

Fuel economy policies should harness consumer demand

Phil Brady

The winds of climate change are blowing hard in the halls of Congress these days (and even in the Supreme Court), with the focus shifting from documenting the problem to coming up with potential solutions. The record number of hearings (25 so far) and legislative bills (50 and counting) in both the House and Senate provides a timely opportunity for the automobile industry to offer constructive proposals.

Appropriately, many of the global warming proposals envision a comprehensive national energy policy, rather than one that focuses just on the transportation sector. Former Vice President Gore's recent Congressional testimony expressly acknowledged that the auto industry, by itself, cannot solve global warming. Therefore, in the effort to reduce the nation's dependence on foreign oil and to address climate change, all segments of the economy must contribute their fair share. Having said that, it's also apparent that the auto industry has an important role to play.

One thing is certain: Since the American economy is consumer-driven, harnessing consumer demand is essential for any plan to be effective. After all, it's not just about technology. Nor is it just about mandated results. It's also about what consumers will buy to meet their wants and needs, both personal and business. If government mandates miss the mark, consumers and businesses will hold on to their

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older and less efficient vehicles longer.

As this national debate evolves, policy makers need to remember that automobiles remain a necessity of modern life. Automobiles give individual Americans the freedom to live, work and travel where they want. Equally important, a strong automotive industry – both manufacturing and retailing – is essential to the nation's economic health. Within that context, what should be done?

A better approach

Policy makers should focus on the 250 million vehicles in the existing fleet. Why? Because it's important to ensure that the cars and trucks already on the road today are being operated as efficiently as possible. Policies to achieve this objective should include initiatives to ease traffic congestion and a national consumer education campaign that would highlight how driving habits and vehicle and tire maintenance can increase fuel economy.

But the next generation of vehicles also needs to be addressed. And the place to start is reform of the Corporate Average Fuel Economy (CAFE) program. The current single fleet-wide standard for passenger cars pushes manufacturers to build smaller vehicles that

can be less safe and often not what the public wants to buy.

There is a better approach. Congress should adopt the recommendation of the National Highway Traffic Safety Administration (NHTSA) to grant the agency the authority to replace the current passenger car standard with a rule that improves fuel economy for all vehicles in the mix. Last year, NHTSA adopted just such an innovative method for light trucks. The light truck standard establishes a mandatory CAFE performance curve with fuel economy targets that vary by vehicle size. Using an attribute-based curve for passenger cars, as suggested by NHTSA, would offer similar increases in fuel economy without compromising safety or swimming upstream against consumer demand.

CAFE plus incentives

But the proposal here is that Congress also consider directly linking fuel economy policy goals with the power of consumer choice. How? By creating what could be called CAFE Plus Incentive Curves for passenger cars and light trucks. Using the same methodology that it employs in setting the CAFE mandate curves, NHTSA would establish incentive curves with fuel economy targets for individual

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models that would be well above those on the mandate curves. When a new car or truck meets one of these “beyond-compliance” targets, the federal government would give customers who buy that vehicle a meaningful tax credit. Under this plan, government funds would be spent only if vehicles that meet these higher fuel economy objectives are actually produced and sold.

Tax incentives work, as demonstrated by the success of the gas-electric hybrid credit. Incentives, however, should not be limited to hybrids or any other specific design. Government should not be in the business of picking technology winners and losers. The best technological solutions are market-driven. The proposed CAFE Plus Incentive Curves have the advantage of being both technology-neutral and market-driven. By responding to the needs of the buying public, this approach would encourage fuel economy gains well beyond the mandated levels. After all, the consumer will ultimately decide the success or failure of a reformed CAFE program. And it's in no one's interest for dealer lots to end up full of cars and trucks that no one wants. ■