TESTIMONY BY

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BEFORE THE

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

AND THE

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

SAN FRANCISCO, CA

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Good morning. On behalf of the National Automobile Dealers Association and as a member of NADA's Board of Directors, I thank NHTSA and EPA for holding today's hearing. In addition to being an NADA director, I am President of McConnell Honda & Acura of Montgomery, Alabama. My dealership employs 70 people, whose livelihoods depend on cars and trucks remaining affordable for the average American.

I. The Administration's Final And Proposed Regulations Will Increase Average Vehicle Prices By At Least $3,200

Totaling the Administration's final and proposed fuel economy mandates results in an average vehicle cost increase of at least $3,200, a substantial amount that every new car buyer will have to pay up-front.[1] Moreover, as Don Chalmers explained last week, NADA believes that the actual total increase could be even higher. Thus, the customers who come into my showroom in 2025 will face vehicles that, as a result of these rulemakings, are dramatically more expensive than they are today.

II. You Cannot Save Money on Fuel If You Cannot Afford a New Vehicle

Now, some tout that the cost of the proposal is essentially free because of fuel savings. But before any fuel savings can be realized, customers must have the ability to buy. For over 90% of Americans, the purchase of new vehicles is contingent on getting approved for a loan or lease. If they don't qualify, they can't buy, and if they can't buy, they can't save.

As someone who works every day to secure financing for my customers, I am unaware of any banker who will fund auto loans based on promises of "fuel savings." Loan qualification is based mainly on the income of a customer and on vehicle price. What's clear is that the proposal will make it harder for many consumers to obtain financing, eliminating their ability to realize any fuel savings.

Specifically, NADA is preparing an analysis that conservatively estimates that about seven million licensed drivers will be priced out of the new car market entirely when this proposal is fully implemented. But this consequence is not limited to those motorists who can only afford the most inexpensive vehicles. For example, our study also estimates that over seven million licensed drivers would no longer qualify for financing to buy the lowest cost vehicle, such as the Dodge Journey, which accommodates more than five people or more than two child passenger safety seats. This could be devastating for large families or families with small children. And the burden of this rule will not be spread evenly. California, as the most populous state, will see 662,000 of its citizens no longer able to qualify for a new car loan. In Tennessee, five percent of its licensed drivers will be shut out of the new car market.

Moreover, the U.S. Energy Information Administration (EIA) finds that the proposal will regulate out of existence the most affordable cars on the market today. Adjusting for inflation, EIA claims that in 2025 there will no longer be new vehicles on the market costing $15,000 or

[1] According to NHTSA, its model year 2011 fuel economy rule increased average vehicle prices by $91. 74 Fed.Reg. 14413 (March 30, 2009). For the model year 2012-2016 rule, average prices will rise by $948. 75 Fed. Reg. 25515 (May 7, 2010). For this proposal, average vehicle prices will rise by $2,200. 76 Fed. Reg. 74972 (December 1, 2011). Together, these total $3,239 in increased costs.

less.[2] These are the vehicles I sell to college students and working families. *How can a rule that eliminates the most affordable new cars on the market be pro-consumer?*

Affordability is especially a concern for new-technology vehicles. For example, even during years with gasoline price spikes, hybrids have never achieved more than 3% of sales. Yet the proposal expects auto dealers to sell five times as many hybrids and electrics as they do today.[3] I am happy to sell customers hybrids; but I can't force them to buy one if they are unaffordable. For example, there are vehicles in the marketplace that start at about $16,000 but have hybrid versions that cost over $8,000 more. Surely, all customers would prefer the increased fuel economy of a hybrid, if it were free. But for an extra $8,000, and with gasoline at $3.50 a gallon, most customers either cannot afford or justify the additional cost.

III. <u>The Proposal Would Result in The Most Expensive Auto Rule Ever</u>

The total cost of the Administration's three fuel economy rules is approximately $210 billion. To put figure into perspective, that is more than twice the amount of total government aid to the auto industry in 2009 and 2010. The $157 billion proposal[4] itself is by far the most costly auto regulation ever, and comes on the heels of 2010's record-setting $51 billion fuel economy rule.[5] And, of course, these costs will primarily be borne by consumers.

IV. <u>The Proposal is Three Years Early</u>

No fuel economy proposal has ever been finalized this far in advance, largely in recognition of critical hard-to-forecast factors such as future fuel prices and consumer preferences. By waiting two to three years, we will know better what the auto market can bear in 2017.[6] Apparently, one reason why the proposal is some three years early is because California regulators threatened to implement[7] what EPA Administrator Lisa Jackson has called a "patchwork of state standards."[8] NADA strongly believes that the public policies issues and goals involved in this rulemaking are national in scope and that California regulators should not be dictating national policy or setting fuel economy standards.

V. <u>Conclusion</u>

We all want better fuel economy, but it is not free. By adding $3,200, if not more, to the average cost of a car, over seven million Americans will be priced out of the market, fleet turnover will be reduced,[9] and public policy benefits will be delayed.

America's auto dealers support continuous improvements in fuel economy. Instead of fighting the consumer, NADA urges the Administration to act in a manner that will leverage

[2] U.S. Energy Information Administration, "*Annual Energy Outlook 2011*," pg. 27 (April 2011).
[3] 76 Fed. Reg 74860 (Dec. 1, 2011)
[4] 76 Fed. Reg 74888 (Dec. 1, 2011)
[5] 75 Fed. Reg 25348 (May 7, 2010)
[6] Fuel economy standards for model year 2017 and later are not actually due until April 1, 2015.
[7] Juliet Eilperin, "*New Vehicle Rules to Curb Greenhouse Gas Emissions Spark Debate*," Washington Post, (July 4, 2011).
[8] EPA Administrator Lisa P. Jackson, Remarks at the National Press Club, as prepared (March 8, 2010).
[9] The current fleet is already a record 10.8 years old. See David Shepardson, "*Average age of cars, trucks hits 10.8 years, sets records,"* The Detroit News (January 18, 2011).

consumer demand, thereby maximizing fleet turnover and ensuring maximum feasible fuel economy increases.