TESTIMONY BY

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BEFORE THE

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

AND THE

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

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Good morning. On behalf of NADA and as a member of its Board of Directors, I thank NHTSA and EPA for hosting today's hearing on the proposed light-duty vehicle fuel economy and greenhouse gas (GHG) standards for model years (MYs) 2017-2025. NADA represents approximately 16,000 franchised automobile and truck dealers who sell new and used motor vehicles, and who engage in service, repair and parts sales. Together they employ upwards of 1,000,000 people nationwide. By way of introduction, I am also president of the Willis Automotive Group of Smyrna, DE, where we sell Chevrolet, Buick and Ford automobiles.

Today I will make three main points:

1. NADA supports one workable national fuel economy program.

2. Fuel economy performance often is not a high customer priority

3. Any "pay-back" of up-front costs depends on real behavioral and market changes.

I. NADA Supports One Workable National Fuel Economy Program

As we've said before and will say again, NADA supports a single national program governing light-duty vehicle fuel economy and GHG emissions. This is what Congress enacted in the Energy Independence and Security Act (EISA), which called for a fleet-wide, combined light-duty fuel economy average of at least 35 miles per gallon by 2020. For MYs 2021 through 2030, EISA instructs that the average light-duty fleet fuel economy be the maximum feasible.

From the perspective of new vehicle customers and dealers, the most important element of "maximum feasibility" is "economic practicability." For example, I believe that my manufacturers, General Motors Corporation and the Ford Motor Company, now have or can develop the engineering and manufacturing expertise necessary to comply. But at what cost? Prospective purchasers must be willing and able to buy the vehicles manufacturers produce. In other words, just because vehicles can be built, doesn't mean they will be bought.

In 2011, sales of new vehicles were 12.7 million, a far cry from the 17-plus million high water mark of the mid-2000s, but much better than the 10.4 million sold in 2009. Dealers embrace the pivotal role we are playing to help lead our nation back to the road of recovery, but we are wary of anything that might depress sales and turn back the gains being made. The fact that more than 2,000 dealerships and 100,000 dealership jobs were lost or driven from the marketplace due to the recession and the two OEM bankruptcies remains fresh in our minds.

Simply put, to avoid undermining economic progress, any new fuel economy mandates must be economically practical, *i.e.,* affordable *up-front* to real consumers in real showrooms.

II. <u>Fuel Economy Performance Often Is Not A High Customer Priority</u>

The proposal indicates that by 2025, the average price of new light-duty cars and trucks will increase by some $3,200 over what I sell them for today, for a total projected cost of $210 billion…perhaps the most expensive rules ever issued by the federal government. As NADA has testified previously, those costs could be significantly higher. In any event, dealers are concerned about the impact these of costs on the ability of our customers to buy new vehicles.

When prospective purchasers come to my new vehicle showrooms they rarely, if ever, engage in up-front fuel economy "pay-back" analyses. First and foremost, they are looking for vehicles that meet their needs and that they can afford. And, as NADA has testified previously, over 90 percent intend to borrow from a lender or to lease from a lessor. These are the facts. It doesn't matter what consumers say they might like or be willing to do in response to a poll or survey. What matters is what they actually do in the showroom based on their needs and what they can afford.

Now, I'd love to sell everyone who walks in the door a new Chevy, Buick, or Ford as they are by far the best vehicles we've ever offered. But I can't always meet everyone's needs or price point. Thankfully, I also sell used cars and trucks and run a fantastic service operation. In fact, one of my locations does nothing but used vehicle sales and service, and I have many competitors offering the same array of customer options. The fact that these options exist means that any mandate which would force the production of new vehicles consumers don't want or can't afford will only serve to retard rather than accelerate fuel economy improvements.

Next month, NADA intends to release a detailed analysis of the proposal's impact on sales, especially with respect to certain sensitive market segments. This report will also contain an analysis of *the real-world role fuel economy plays in customer decision making, and of the willingness and ability of prospective new vehicle purchasers to pay higher prices for vehicles offering improved fuel economy performance.*

III. <u>Any Pay-Back of Up-Front Costs Depends on Real Behavioral Changes</u>

Proponents of the MY 2017-2025 proposal assert that higher up-front costs will "pay-back" for purchasers in the form of fuel cost savings. Of course, whether and to what extent any "pay-back" occurs depends on several variables, including the number of miles driven and fuel prices. However, even assuming satisfactory "pay-backs" are achievable, changes in marketplace and buying behavior will be required for the proposal to work.

First, we must address the issue of credit availability. As noted earlier, over 90% of new vehicle deliveries are financed, by credit sales or leases, and in many (if not most) of those transactions customers use all of the credit for which they qualify. So, if lenders won't finance the additional "up-front" costs of higher fuel economy performance, any "pay-back" won't matter. Why? *Because the transaction won't occur!* Importantly, the several financing sources NADA has talked to indicate that they are no position to underwrite credit on the basis of anticipated "pay-backs."

But even for consumers who are not credit-constrained, other behavioral changes are necessary. For example, indifference to fuel economy performance must be overcome. Dealers will fall over themselves to assist prospective purchasers to make rational decisions on whether to pay up for vehicles by showing, where possible, how they can achieve a decent “pay-back” on their investment. But to do so, we need consumers who focus on fuel economy, even when fuel prices are stable. I for one can foresee advertising fuel efficiency and fuel economy even more aggressively than I do now. And NADA, for its part, can redouble the outreach it’s doing today, in conjunction with EPA and otherwise, to teach customers and dealership staff how to read and understand fuel economy labels, to use www.fueleconomy.gov, and to operate vehicles as efficiently as possible; www.greendrivingusa.com.

However, these outreach efforts alone will not allow many willing and able customers to determine if their prospective purchases will “pay-back.” To make, understand, and act on “pay-back” calculations, prospective purchasers need real-life, vehicle-specific data. But this type of information is not readily available. For example, neither Monroney labels nor vehicle invoices currently have line items showing the up-front marginal costs imposed by fuel economy mandates. Presently, there is no definitive source of information to empower consumers to compare up-front fuel economy acquisition costs with ongoing fuel economy operational savings. Such information would enable dealers to assist and encourage prospective purchasers to make vehicle-specific “pay-back” analyses or multi-vehicle “pay-back” comparisons. We do this kind of thing all the time, such as when we demonstrate the potential benefits of investing in extended service contracts. And absent better information, I can tell you what will happen: up-front prices will dominate the decision-making process.

Bottom line: consistent with the Consumer Information section of the Energy Policy and Conservation Act, we urge NHTSA and EPA to explore in this rulemaking how to provide prospective purchasers with the all of the information necessary to conduct transparent “pay-back” analyses.

Thank you again for the opportunity to testify. If you have questions, I’ll do my best to answer them or will have NADA staff get back to you.