

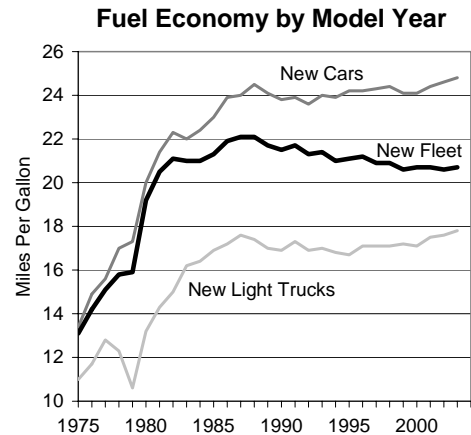
Increasing Vehicle Fuel Efficiency

Today, more than two-thirds of the oil consumed in the U.S. is used for transportation, mostly for cars and light trucks, and most of that oil is imported, often from politically volatile regions of the world. Increasing fuel efficiency would lower pressure on oil prices and enhance our national security.

Increasing fuel efficiency also would help curb pollution from refining oil and from vehicle tail pipes, a major factor in smog, acid rain, exposure to toxic chemicals and carcinogens, and global warming. The transportation sector accounts for the majority of CO and NO_x air pollution in the US, and it is responsible for approximately one-third of U.S. greenhouse gas emissions.

Corporate Average Fuel Economy (CAFE) standards passed by Congress in 1975 led to a 70 percent increase in America's gas mileage over the subsequent decade. However, CAFE standards have remained static for almost two decades due to political gridlock. The current standard of 27.5 miles per gallon for automobiles first applied in 1985, and the 21 mpg standard for light trucks is only 0.5 mpg above the 1987 standard (but is now set to rise to 22.2 mpg by 2007).

Furthermore, real on-road fuel economies are much lower than those numbers would suggest—the average fuel economy of cars and light trucks is only around 20 mpg. And as the sales of SUVs have exploded, *average vehicle fuel economy has actually declined since 1988*. Meanwhile, the number of vehicle miles traveled each year in the US is growing at more than twice the rate of the population.



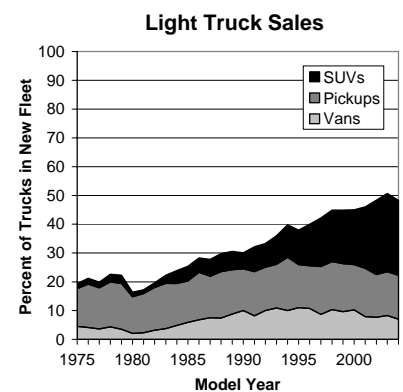
Source: Environmental Protection Agency, Light-Duty Automotive Technology and Fuel Economy Trends: 1975 Through 2004, April 2004.

CAFE Reforms

Even without the political will to raise CAFE standard numbers, several reforms are needed to close major loopholes and bring actual fuel economies closer to current standards.

“Truth-in-testing” Loophole: By law, CAFE is based on the fuel economy tests that were used for model year 1975. EPA recognized that those tests are inaccurate, and in 1984 started reducing reported fuel economies by about 15%. Because driving patterns have changed, real gas mileage is likely 20-25% below CAFE numbers. Testing procedures for CAFE need to be updated to reflect increased congestion, higher speed limits, use of air conditioning, more powerful vehicles, and other changes.

“SUV” Loophole: When light trucks were given a lower standard, pickup trucks and vans were used primarily for businesses and farming, and represented only about 20% of vehicles sold. Today, about half of all light-duty vehicles sold in America qualify as “light trucks” for CAFE. Most of those are SUVs and minivans, most are



Source: Environmental Protection Agency, Light-Duty Automotive Technology and Fuel Economy Trends: 1975 Through 2004, April 2004.

used as passenger or family vehicles, and they average roughly 40% more fuel for each mile driven than the average passenger car. SUVs and minivans should be reclassified as what they are: passenger vehicles.

“Hummer” Loophole: CAFE standards only apply to vehicles under 8,500 pounds (gross vehicle weight). In fact, EPA does not even test or report the fuel economy of larger vehicles, yet their mileage is generally much lower. Manufacturers are selling more and more of these super-large SUVs and pickup trucks, such as GM Hummers and Ford Excursions. CAFE standards should cover these heavier vehicles.

“Dual Fuel” Loophole: Automakers that produce vehicles that can run either on gasoline or on an alternative fuel, usually ethanol, can claim CAFE credit as if the vehicles ran on the alternative fuel one-half of the time. Unfortunately, dual fueled vehicles today run on gasoline 99% of the time. With only 188 ethanol fueling stations in 27 states, the infrastructure does not exist to supply these vehicles with ethanol. This credit has allowed manufacturers to put more gas guzzlers on the road, and thus increases gasoline use. It should be modified to require actual use of the alternative fuel.

Vehicle Fuel Use “Feebate”

A new, innovative approach to improve the efficiency of cars and light trucks is a national “feebate” system. Such a system would impose a national security surcharge, or “fee” on inefficient vehicles, and then use the funds collected to provide a “rebate” to fuel efficient vehicles.

How would a national feebate work? In one approach, a fee or rebate would apply to manufacturers of all new light-duty passenger vehicles—including SUVs and minivans. The amount would be based on 25 cents per gallon of gasoline estimated to be used over the lifetime of the vehicle. The fee or rebate would then be determined relative to a mid-point fuel economy. This dividing line between fees and rebates would be set each year such that the total fees would just pay for all the rebates, so there would be no net revenue or cost to the government.

An example may make this clearer—for a 27.5 mpg car, 25 cents/gallon * 160,000 miles / 27.5 mpg = \$1455; if the dividing line were at 24 mpg, or \$1667, the 27.5 mpg car would receive a \$212 rebate.

A feebate would create an incentive for manufacturers to use fuel-efficient technologies in the vehicles they produce, and hence should increase the availability of efficient vehicles, as well as creating an incentive for consumers to purchase more efficient vehicles. As fuel economies increased, the mid-point fuel economy would be ratcheted up, creating an incentive for continual improvement, but never out of line with the existing market.

Tax Incentives

An existing \$2000 tax deduction for hybrid vehicles phases out next year. Senator Orrin Hatch (R-UT) recently reintroduced the CLEAR Act (S. 971), which includes larger tax credits that will help consumers offset the higher costs of advanced technology vehicles (including hybrid gas-electric, alternative fuel, battery electric, and fuel cell vehicles) as well as support the use of alternative fuels.

For more information please contact Alliance policy staff at (202) 857-0666 or policyinfo@ase.org.

The Alliance to Save Energy is a coalition of prominent business, government, environmental and consumer leaders who promote the efficient use of energy worldwide to benefit consumers, the environment, the economy, and national security.

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