



Consumer Federation of America

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**TESTIMONY OF DR. MARK COOPER
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on the

“THE AMERICAN ENERGY INITIATIVE”

Energy and Commerce Committee

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Mr. Chairman and members of the Committee,

Today the United States has a better opportunity than we have had in decades to change the trajectory of our country’s gasoline consumption, lower consumer expenditures, reduce our dependence on Mid-East oil and enhance national security by dramatically increasing the fuel economy of the vehicle fleet.

- The need is urgent, as high gasoline prices are pummeling household budgets, especially those of the middle class.
- Public support for much higher fuel economy standard – 60 miles per gallon by 2025 – is at an all time high.
- The economics of putting more fuel savings technology into automobiles and light trucks have never been better more favorable to consumers.
- The opportunity to put more fuel savings technology into automobiles and light trucks have never been greater, so much so that Toyota and General Motors executives have declared publicly that they can meet a 60 mpg standard by 2025.
- And because of the foresight of the Congress, over a dozen states, and the Obama administration, policy makers have a better set of tools to respond to the challenge of our oil addiction than ever.

Now is the moment to achieve what every President since the first oil embargo has declared as a national goal, but failed to accomplish, reducing dependence on mid-East imports. The most important thing that we can do for consumers in the short term is to make a long term commitment to reduce our gasoline consumption by improving the fuel economy of our vehicles. Quick fixes will simply delay the day of reckoning and make it more painful when it comes.

In my testimony today I will briefly review each of these points and summarize the detailed analyses that support them, which I have submitted for the record.

RISING HOUSEHOLD EXPENDITURES

The Energy Information Administration (EIA) recently projected an average gasoline price for 2011 of \$3.56 per gallon. If the EIA is correct then:

- U.S. gasoline prices will be higher this year than ever measured in either current (nominal) or inflation-adjusted (real) dollars.
- U.S. household expenditures on gasoline will be higher than ever, likely to exceed \$2800.
- For low and middle-income households gasoline will be the single largest expense in their cost of driving, exceeding the cost of owning a vehicle.

Regardless of the precise percentages, the rise in gasoline costs is changing the way people think about vehicle purchases. Our earlier analysis shows that after the first price spike in the early 2000s, people began to shift their buying patterns. Indeed, U.S. auto makers did not react quickly to this shift, which was a factor in the demise of two of the big three U.S. automakers. The two automakers that went bankrupt in the recession of 2008-2009 had among the lowest average fuel economy of the major firms that produce a full line of vehicles for the U.S. market.

PUBLIC CONCERN ABOUT GASOLINE AND SUPPORT FOR FUEL ECONOMY STANDARDS

Driven by high and volatile prices and expenditures, we find that concern about gasoline prices is higher than in any of the previous 11 surveys we have conducted since 2005.

- In responses to a national random-sample public opinion poll conducted from March 3-6, 90% of respondents said they are concerned about gasoline prices, 79% said they are greatly concerned.
- In contrast to the 79% greatly concerned about prices today, great concern in past surveys has been in the range of 47% to 74%. The increase from the last survey of more than 20 percentage points is the largest we have observed.

It is not only price that concerns the survey respondents. Respondents are also concerned about Mid-East oil dependence.

- Eighty nine percent of respondents (89%) are concerned about Mid-East oil dependence. Here, too, this is the highest level of concern ever registered in our surveys. In fact, the jump in concern about Mid-East dependence is even larger than the increase in concern about price.
- The percentage that is greatly concerned, 74%, is much higher than in the past, when the greatly concerned percentage never exceeded 60.

This high level of concern is reflected in another important attitude about cars: support for higher fuel economy standards.

- Sixty-three (63) percent say they support a fuel economy standard of 60 miles per gallon, which is a level twice as high as the current standard.

- The 63% who support a 60 mpg standard is up four percentage points from this time last year.

We find that middle-income respondents express greater concern and greater support for a high standard.

- Middle income respondents (income between \$25,000 and \$75,000) have very high levels of concern about price (83%) compared to other households (74%).
- Middle-income respondents express more support for a 60 mpg standard (70%) than other households (60%).
- The higher levels of concern and support in the middle class compared to other groups are a shift from the past.

CONSUMER ECONOMICS OF A 60-MPG STANDARD FOR 2025

As a consumer group we always begin our policy analysis with a consumer pocketbook view. The average consumer finances an auto purchase with a five-year auto loan.

We analyze three points in time from the consumer pocketbook point of view – cash flow in the first year, the net consumer position at the end of the loan life and the net position when the vehicle is retired (set at ten years). Given that we use annual averages, the first year is the equivalent to the immediate impact on cash flow. The five-year point is the end of the loan, which means that at that point, investing in more fuel efficient technology would no longer claim any household resources. The end of vehicle life is the point at which the total value of high fuel economy has been extracted from the vehicle.

We assume a five-year auto loan at seven percent interest, which is high by today's standard (but it is the average rate for auto loans over the past twenty years). We add the cost of technologies to increase efficiency to the total cost of the loan. We use the EIA projection of gasoline prices in 2025 at the starting point for the analysis (\$3.50/gallon), which is likely to be too low. We use the 3% discount rate. Thus, the actual real world benefits consumers are would enjoy are likely to substantially larger.

We find that for both cars and trucks in the 60-mpg standard scenario

- the savings on gasoline expenditures are higher than the increase in the auto loan payment, from the first month. That is, consumers will benefit from a positive cash flow from the date of purchase of the vehicle.
- By the end of the auto loan payment, the consumer will have saved almost \$2,000 in the case of cars and over \$2,000 in the case of trucks.
- By the 10th year, car owners are ahead \$6,000 and truck owners are head \$8,000.

The consumer pocketbook benefits of a 60-mpg standard represent a large gain in consumer welfare. They constitute the vast majority of the overall benefits of the standard and ensure that the standards pass a national cost-benefit test with flying colors. Simply put, a 60-mepg standard makes consumers and the nation better off.

TECHNOLOGY OF A 60-MPG STANDARD FOR 2025

Our confidence that consumers will realize benefits of this magnitude, if not greater, is reinforced by the advance of technology and the explosion of competition for greater fuel economy.

The increase in competition in the electric vehicles product space is striking. There are now or will soon be

- four different approaches to electric powertrains (hybrid, plug-in, hybrid plug-in, and extended range EVs)
- offered across the full range of vehicles driven by American consumers (compact, mid-size family sedans, large cars, SUVs, Pickups),
- by half a dozen mass market oriented automakers including Toyota, GM, Nissan, Ford, Honda, Mitsubishi, as well as new entrants and niche market oriented producers like Tesla, Fisher, and Coda.

This much activity is a sure sign that a great deal of progress has been made and, with competition breaking out in a new product space, the current crop of vehicles is only the beginning.

These electric vehicles will have to compete with rapidly improving internal combustion engines powered by gasoline, which will continue to be the primary energy source consumed in the vehicle markets. Gasoline powered vehicles are already rivaling the mileage of some hybrids, with lots of room for even greater technological improvement in

- engine combustion efficiency, transmissions, vehicle body design, rolling resistance and materials.

Thus, consumers can expect lots of choices and declining prices as these technologies penetrate the market.

THE TOOLS TO REDUCE GASOLINE CONSUMPTION

The prospects for a fundamental change in the trajectory of U.S. gasoline consumption are better today than they have ever been, and not only because gas prices are so high. Consider:

In 2007, Congress passed the Energy Independence and Security Act (EISA), breathing life back into the Corporate Average Fuel Economy Standards (CAFE) program administered by the National Highway Traffic Safety Administration (NHTSA) in two ways:

- By setting different standards for cars and trucks (based on the attributes of the vehicle) the standards are technology-neutral and precompetitive. The approach ensures that consumers have the full range of choice of vehicle they have always enjoyed, while automakers the incentive to compete on fuel economy for specific vehicle types.
- By establishing a minimum target for 2020 of 35 miles-per-gallon, the legislation ensured that progress would be made after decades of stagnation.

Fifteen states and the District of Columbia, representing almost one third of the U.S. population, adopted the Clean Cars program that has

- stimulated the development of electric vehicles and
- pushed the Federal standard to greater improvement in fuel economy.

The Administration accelerated the rate of progress substantially and improved the institutional framework for future standard setting in several ways:

- Coordinated action by federal and state agencies to come out with new rules.
- Adopted a standard of 35 miles-per-gallon by 2016.
- Published an economic and technical analysis by EPA and NHTSA that shows a fleet-wide 62 mpg standard is a technologically achievable and economically beneficial target for 2025, and both Toyota and General Motors have said they can achieve the standard.
- Proposed a long-term view for the first time ever. Setting a high standard for the next fifteen years (after 2016), as the Administration has suggested, is an important advance. It fosters and supports a long-term perspective for automakers and the public. It reduces the marketplace risk of investing in new technologies and gives the automakers time to re-orient their thinking and retool their plants. It gives the automakers the time and incentive to educate the public about fuel economy.

Ever since the first Arab oil embargo of 1973, it has been clear that the U.S. must reduce its consumption of oil for economic, national security, and environmental reasons. Seven Presidents have talked about this urgent need. Indeed, the need is so compelling that even President Bush, an oil man from Texas, declared that we must end our oil addiction in his 2006 State of the Union address. An urgent need, public support, positive economics, advancing technology, and improved public policy tools add up to the best chance we have had in decades to change the trajectory of U.S. gasoline consumption, lowering consumption, households spending on gasoline and our dependence on Mid-East oil. A dramatic increase in fuel economy must be at the heart of any “American Energy Initiative.”