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DEPT. OF TRANSPORTATION
DOCKETS

Docket Section, Room PL-401
National Highway Traffic Safety Administration (NHTSA)
400 Seventh Street, SW
Washington, DC 20590

Re: Request for Comments; National Academy of Sciences Study and Future Fuel Economy Improvements, Model Years 2005-2010

Ladies and Gentlemen:

The National Automobile Dealers Association (NADA) represents 20,000 franchised automobile and truck dealers who sell new and used motor vehicles and engage in service, repair and parts sales. Together they employ in excess of 1,000,000 people nationwide, yet more than 60% are small businesses as defined by the Small Business Administration.

Earlier this year, NHTSA requested comment on an array of issues associated with Corporate Average Fuel Economy (CAFE) standards, particularly for light trucks. 67 Fed. Reg. 5767, et seq. (February 7, 2002); 67 Fed. Reg. 19536, et seq. (April 22, 2002). Since passage of the Energy Policy and Conservation Act in December 1975, NADA has supported energy conservation and the notion of continuous fuel economy improvements. At the same time, NADA recognizes that light truck CAFE standards cannot exceed the maximum feasible level manufacturers are able to achieve in any model year (MY).

When determining a maximum feasible CAFE level, NHTSA must consider:

1. technological feasibility;
2. economic practicability;
3. the effect of other Federal motor vehicle standards on fuel economy; and
4. the need of the nation to conserve energy.

Note that these criteria do not include "environmental impacts" such as global warming. Thus, until given specific statutory authority to do so, it would be inappropriate for NHTSA to consider environmental concerns when establishing light truck CAFE standards.

Of these four criteria, economic practicability drives the CAFE equation. As long as new vehicle purchasers continue to demand larger and more powerful vehicles, potential CAFE increases risk imposing undue economic consequences for manufacturers and dealers alike, and thus may not be economically practical. New vehicle purchase decision surveys conducted by J.D. Power, The Dohring Company, Newsweek and others confirm that fuel

economy is just not on the average consumer's radar screen. This is not for lack of information since, in addition to the fuel economy label and DOE/EPA's fuel economy guide, excellent comparative fuel economy information is available from both of these agencies and from groups such as the American Council for an Energy Efficient Economy. Consumers simply crave capability, convenience, performance, utility, and durability.

NHTSA is not yet proposing a specific standard or range of standards for MY 2005-10. Instead, the Agency is seeking factual information upon which to base specific proposals. Clearly, several important factors which have governed feasible light truck CAFE in the past will continue to do so in the future. These include:

- The consumer demand-driven trend towards larger and more powerful trucks.
- The relative stability of relatively low fuel prices.
- The importance of light truck capability, performance, utility, and durability.
- The potential economic impacts of CAFE standards on franchised dealerships.

As in the past, consumer demand will be the principal driver behind maximum feasible light truck CAFE levels. Between 1975 and 1985, average new motor vehicle fuel economy improvements were dramatic. Much of that increase would have occurred even without CAFE standards for market-based reasons, particularly between 1978 and 1983 when fuel prices rose from well below $1.00/gallon to almost where they are today (unadjusted for inflation). When fuel prices fell between the early and mid-1980's, consumers began demanding larger and more powerful vehicles (a trend which continues to this day), and average new vehicle fuel economy numbers began to level off.

Careful consideration must be given to product mix projections when determining the economic practicability of any future light truck CAFE standards. General Motors, Ford and Daimler/Chrysler historically have marketed a full range of light trucks subject to the vagaries of consumer demand. Now, firms such as Toyota and Nissan also are pushing toward a broader range of truck products and toward more powerful engines. Other limited line manufacturers (e.g., Range Rover) are likely to continue to market light trucks with fuel economies ranging low on the industry-wide spectrum.

II. FUEL PRICE AND AVAILABILITY

Fuel prices continue to trend well below projections made by the Departments of Energy and Transportation in 1970s and 1980s ($2.00-$2.50/gallon for 1989-90 vs. $1.00-$1.50 today, some 12 years later). After taking inflation into account, fuel prices are cheap in real terms. In addition to encouraging 15+ years of consumer demand for larger and more

powerful vehicles, low fuel prices (and arguably the CAFE standards themselves) have resulted in a significant increase in average vehicle-miles-traveled (VMTs). Undoubtedly, these relatively low and stable fuel prices also have helped to foster the demand for larger, more powerful, and less fuel-efficient light trucks.

Of course, it is difficult to predict with certainty what fuel prices will be anytime in the future, let alone for MYs 2005-10. Petroleum imports are likely to increase overall and to remain subject to potential supply disruptions and price spikes. The potential for other politically influenced fuel price increases (e.g., new low sulfur mandates, new taxes) should be taken into account along with their commensurate impact on truck demand. At the same time, to the extent that new technology and alternate-fueled light trucks are introduced in the MY 2005-10 time frame, they will help to reduce the demand for foreign produced petroleum-based fuels and to increase price competition in the fuels marketplace.

While fuel prices clearly have fluctuated since 1996, today's prices are below where they were in 1996. See, e.g., Attachment II. Moreover, according to the EPA report Light-Duty Automotive Technology and Fuel Economy Trends for 1975 Through 2001, consumers continue to demand larger and more powerful light trucks. See, EPA420-R-01-008, September 2001. On balance, while fuel prices are likely to increase during the MY 2005-10 time period, they are unlikely to do so to such a degree as to result in a reversal of the continuing consumer shift toward larger, more powerful, and less fuel-efficient trucks.

III. CONSUMER CHOICE AND ECONOMIC PRACTICABILITY

In recent years, CAFE standards can at best be credited with preventing backsliding. The fact is, light truck fuel efficiency has risen dramatically since the mid-1980's. The largest SUVs dealers sell today put out one tenth of the pollution with the same fuel economy as a mid-1970's small car. Of course, they are safer vehicles due to their greater weight, crash avoidance, and crashworthiness features. Drivability, performance and convenience features abound. Simply put, consumers have gotten and are getting the performance and capacity increases they demand, along with the emissions and safety performance EPA and NHTSA require, without any degradation in fuel economy.

Most light trucks are purchased for their capability and performance characteristics. Potential business and consumer purchasers focus heavily on vehicle utility and durability. Four- or all-wheel drive options, which add weight, are increasingly popular for off-road commercial and recreational use and for their on-road handling benefits.

Popular towing configurations or "packages" add weight and often include larger, less fuel efficient engines. These towing capabilities often are viewed by the buying public as essential to their ever-expanding recreational needs. Of course, large and powerful light truck designs are critical to many business purchasers (e.g., farmers, contractors, etc.).

Vans and other multipurpose vehicles will continue as the first choice for growing families and other small groups of people (i.e., car pools). Having largely replaced station wagons, these vehicles often transport what it took two or more vehicles to carry in the 1970's.

Light truck purchase decisions cannot easily be shifted by market incentives if there are no alternatives available to meet consumer needs. Thus, any CAFE standard that would restrict product availability would result in lower sales, reduced dealership profits and employment, and the retention by consumers of older vehicles with lower fuel efficiencies. A significant enough drop in vehicle sales could result in hundreds of dealerships shutting their doors, losing money, and/or reducing the size of their workforces. Such potential economic impacts must be taken into account.

While market-based incentives may offer limited utility for influencing light-truck buying decisions, they can effectively help to reduce VMTs. Unlike CAFE standards, VMT reduction strategies involve the entire in-use fleet, not just new motor vehicles. Use-based insurance rates, taxes, fees, tolls, credits, and consumer education are just some of the market-based incentive options for reducing VMTs. Others include strategies to promote practical mass transit, ride sharing, tele-commuting, and the facilitation of pedestrian and bicycle travel.

Incentives promoting alternative fuel use, particularly by fleets, will also help. However, supply and infrastructure constraints will continue to limit alternative fuel use, particularly if petroleum-based fuel prices remain low. Fortunately, vehicle manufacturers are practically tripping over themselves to introduce cleaner and more fuel efficient vehicles in a race to the "hydrogen economy." The growing introduction of hybrid powertrains and light-duty diesels is expected for the MY 2005-10 time frame. Further out the time line, petroleum fuel-based, fuel cell powered vehicles are expected. The successful introduction of these technologies will also require market-based incentives (e.g., tax credits, accelerated depreciation, continued government research and partnerships).

Notwithstanding recent Congressional interest in increasing CAFE through legislation, the motoring public's interest in fuel economy has declined relative to other new vehicle performance purchase considerations. Small four cylinder engines and diesel powerplants continue to have limited public acceptance. Fortunately, overall in-use fleet light truck fuel economy continues to increase as older, less fuel efficient trucks are replaced by vehicles offering comparable performance with improved mileage characteristics.

IV. DRIVABILITY, PERFORMANCE AND SALES

Vehicle manufacturers are constrained by limited lead time. Manufacturers are presently struggling with a wide array of emissions control and vehicle safety mandates for the MY 2005-10 time frame. Most of these mandates will have a potentially negative impact on vehicle fuel economy. They will also place a considerable strain on the increasingly limited engineering resources of manufacturers. Notwithstanding these demands, marketplace competition will serve, as it always has, to promote the adoption of technological improvements which increase vehicle fuel economy.

CAFE standards set too high may prematurely force technological changes resulting in decreased vehicle performance, reliability, and/or marketability. Dealers remember all too well the hurried push by manufacturers toward greater fuel efficiency during the late 1970's and early 1980's and the many drivability and performance problems suffered as a result. This scenario must never be repeated, especially as the result of a government mandate.

V. CONCLUSION

Relatively stable fuel prices will continue to govern the configuration of new light trucks desired by consumers and thus limit maximum feasible CAFE levels for MYs 2005-10. Any proposed CAFE standard that would predictably and unduly restrict product availability, reduce product performance, or increase product price, resulting in lower sales, reduced profits and employment, and the retention by consumers of older vehicles with lower fuel economies (and higher emissions) would be unacceptable. However, a multi-year rule approach hopefully will allow manufacturers the lead time necessary to achieve appropriate CAFE objectives without sacrificing critical light truck performance characteristics.

Given recent and projected near term purchasing trends for light trucks and the competing demand of emissions and safety based federal standards, NADA urges NHTSA to act conservatively when developing proposed light truck CAFE standards for MY 2005-10 based on the four criteria set out in the statute.

Respectfully submitted,

Douglas I. Greenhaus

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Director, Environment, Health & Safety

Attachment II

Average Regular Gasoline Formulations Price Per Year

	1996	1997	1998	1999	2000	2001	2002
U.S. Regular Formulations Area Retail Gasoline Price (cents/gallon)	122.985*	129.8958	123.0458	160.7458	153.598	153.598	110.9714

* Average beginning in April, 1996

Source: Energy Information Administration