



STATEMENT
OF
THE ALLIANCE OF AUTOMOBILE MANUFACTURERS

BEFORE THE:
HOUSE COMMITTEE ON ENERGY AND COMMERCE

APRIL 24, 2009

PRESENTED BY:
The Honorable Dave McCurdy
President & CEO

Mr. Chairman, Ranking Member Upton, members of the Subcommittee, thank you for the opportunity to share the auto industry's views on the draft American Clean Energy and Security (ACES) Act of 2009.

The Alliance of Automobile Manufacturers (Alliance) is a trade association made up of eleven car and light truck manufacturers including BMW Group, Chrysler LLC, Ford Motor Company, General Motors, Jaguar/Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche, Toyota, and Volkswagen. Together, Alliance members account for nearly 80 percent of annual motor vehicle sales in the U.S. The U.S. economy depends on a healthy auto industry, because autos represent the country's largest manufacturing base. Almost 4% of U.S. gross domestic product is auto-related. One out of every 10 U.S. jobs, or about 13 million, is auto-related, and auto workers receive \$335 billion annually in compensation.

I am particularly pleased to appear before you at one of the most important transitional periods in the history of the auto industry. Automakers are committed to doing our part to reduce greenhouse gas emissions from the vehicles we sell and from our assembly plants. We understand that our economic viability continues to depend on innovation, and we plan to be ahead of the curve.

Alliance Climate Principles and the ACES Draft

The Alliance supports Federal legislation for an economy-wide greenhouse gas (GHG) emissions reduction program. Recognizing that addressing climate change will require actions across the economy, the Alliance supports a program that will require GHG emissions reductions from all sectors at the lowest cost with the least economic disruption. The long-term viability of any program will depend on a technologically and economically sustainable transition to cleaner sources of energy and utilize market-based measures to the greatest extent possible. Such a program should incentivize rapid development and deployment of advanced technologies while delineating appropriate roles for federal, state and local governments.

While we are still analyzing the draft ACES Act, we believe that it lays out a basic framework for addressing climate change that aligns with the Alliance's core climate principles. The draft encompasses a comprehensive approach to reduce economy-wide GHG emissions, including the broader transportation sector, utilities, energy providers, manufacturing and even consumers. Additionally, we agree with the Chairmen, Administrator Jackson and others that a comprehensive legislative approach is superior to piecemeal regulation under the existing Clean Air Act.

Importantly, the draft caps emissions upstream at the fuel source, which allows for the broadest possible coverage and also will result in clear price signals that encourage conservation and incentivize businesses and consumers alike to invest in clean energy technologies. Making carbon dioxide the common denominator for future competition between completely different fuel options and powertrain technologies stimulates innovation as it provides transparency to the customer, who in turn can choose the appropriate technology for his or her individual mobility needs.

The proposed transition from some free allowances to a full auction addresses the political issues associated with the transition to a capped world while putting us on a clear path to a system where incremental carbon costs are passed through. Transparency of these costs is particularly important in the transportation sector, where we expect energy providers to pass through the market price of carbon.

Although the scheduled reductions in the cap are very challenging in the early years, the draft's provision for offsets and a strategic allowance reserve provide a mechanism to contain costs. We do have concerns, however, over whether these mechanisms will be sufficient to ensure economic and political viability of the program over the long term. To use an analogy from our industry, you don't shift a car directly from drive into reverse to change direction. Rather, you slow down, stop, and then put the car in reverse. We would urge a similar approach to reversing GHG emissions.

It is also critical for the long-term viability of any GHG reduction program to avoid excessive energy price volatility. Rapid increases and decreases in energy prices make introducing new low carbon technologies and fuels exponentially more difficult and risky, particularly in our industry where long lead times are required. We would encourage Congress to ensure that a final bill include robust provisions to address price volatility, including self-implementing triggers to avoid inflation due to higher than expected energy prices.

Providing clean energy necessary for continued economic growth and prosperity will require rapid development and commercial scale deployment of advanced technology across many sectors, including motor vehicles. We strongly urge the Committee to use revenues generated from the proposed cap and trade system to help fund research, development and implementation of new technologies and upgrading/re-tooling of manufacturing facilities to provide the next generation of green vehicles.

Finally, a key concern for auto manufacturers is that we not be subject to contradictory or incompatible state and federal regulatory approaches, either for mobile sources or stationary sources. It is well known that the Alliance strongly supports a single, national program for motor vehicle greenhouse gas emissions and fuel economy to bridge state and federal programs. We support the authors' efforts to clarify the roles of the existing regulatory framework and the states with regard to our manufacturing facilities. We will continue to work constructively with Congress, the Administration, and all other stakeholders to ensure a national vehicle program administered by the Federal government that not only enhances energy security and addresses climate change, but also gives automakers a clear road map to compliance.

Reducing GHG Emissions from Vehicles

Reducing greenhouse gas emissions from motor vehicles requires a three-pronged approach: vehicle technologies, fuels and drivers.

According to the endangerment finding released by EPA last week, light duty vehicles – the cars, trucks and SUVs that we drive – account for around 17 percent of manmade GHG emissions in the US. The Energy Independence and Security Act requires auto makers to achieve at least a 30 percent reduction in GHG emissions from new vehicles by 2020, and we are committed to further sustained reductions.

In order to achieve the significant reductions we know we will have to achieve, it is imperative that revenues generated from a cap and trade program fund aggressive efforts to incentivize low carbon vehicle technologies. In the vehicle sector, this means sizable, sustained incentives to deploy advanced low carbon vehicle technologies. Front loading investments in these technologies is particularly critical for automakers given the long lead times to develop new technologies, the extended periods needed to ramp up production of new technologies, and the long-lived nature of the product. Given the importance of this sector, we urge at least 5% of annual allowance value (either in the form of allowances or revenue) be dedicated specifically to development and deployment of advanced technologies for light duty vehicles. We are open to further discussions with the Committee on how to allocate such resources among manufacturers, suppliers and purchasers of these advanced technology vehicles.

Clean vehicles need clean fuels, so the Alliance supports a low carbon fuel standard, such as the one included in Section 121 of the draft. Lowering the carbon content of the fuels we put into our fuel tanks will help lower greenhouse gas emissions from the fuel source to our tailpipes for years to come. And the benefits of cleaner fuels can be realized by all of the 250 million autos on the road today.

The same systems principle applies to electric drive vehicles and our electric grid infrastructure. We can no longer think of transportation and electrical generation as distinct sectors of our economy. Measures included in the discussion draft to promote clean, renewable electricity generation will also lead to lower carbon emissions per mile as electric vehicles enter the fleet. The “Clean Energy” title includes a number of important measures that the Alliance supports to accelerate this transition, including financial assistance to electric vehicle

manufacturers, standards for integrating vehicles with a new Smart Grid, and programs to promote a vehicle charging infrastructure.

Finally and too often overlooked in the equation, there is the driver's role. The choices we all make – from what type of vehicle we buy to how we maintain our cars to the types of fuel we purchase and our daily driving habits – can have a significant impact on the planet. Predictable price signals that reflect the market price of carbon encourage conservation and incentivize businesses and consumers alike to invest in clean energy technologies.

As automakers, we know the importance of getting cleaner, more fuel-efficient technologies on the road quickly, but the most advanced technologies come at a cost. Customers are keenly aware of the importance of the environment, but they are also keenly aware of their personal finances. Last year, when gasoline was \$4 a gallon, consumers lined up to purchase more fuel efficient vehicles, and we could barely keep hybrids on the lots. Today, with gas prices closer to \$2 a gallon, the sales of fuel efficient vehicles have declined. The draft bill will create a price signal for carbon and includes a placeholder for “consumer assistance” in Section 431. Many Americans would like to buy one of the exciting clean technologies on sale now or coming soon. Technologies ranging from flex-fuel vehicles, hybrid and plug-in hybrid vehicles, clean diesel, hydrogen/hydrogen-internal combustion engines and fuel cell vehicles are available now or will be in the next couple of years. It's critical that the ACES Act includes assistance for consumers to help get more green vehicles on the road.

Last month, President Obama pointed to fleet modernization – or “cash for clunkers” – programs that have been successful in Europe, and he announced he would work with Congress to fund a program from existing dollars in the Recovery Act. The Alliance welcomes Presidential, as well as Congressional, support for a fleet modernization program. We will continue working towards creating a program available to all manufacturers and consumers. A well crafted fleet modernization program holds the promise of providing two beneficial effects: in the near term, helping to stimulate auto sales during the current economic/credit crisis and in the long term, helping to replace older, less fuel-efficient vehicles with cleaner, safer, more fuel-efficient ones.

Reducing GHG Emissions from Auto Manufacturing Plants

In addition to reducing vehicle emissions, automakers have been working to reduce GHG emissions at our manufacturing plants. Our members participate, both collectively and individually, in numerous voluntary greenhouse gas reporting and reduction initiatives and have been industry leaders in reducing their emissions footprint. Having taken this initiative we would support the broadest possible approach to early action credits for demonstrated reductions.

The goal of the legislation should be to focus on the most significant sources of greenhouse gases. Currently, the bill would make sources with 25,000 metric tons per year or more of CO₂-equivalent emissions subject to the cap and trade program. This may be casting the net too wide, with little to show for a huge administrative burden. According to EPA, a threshold of 100,000 metric tons per year would bring in 6,598 sources, while a threshold of 25,000 metric tons per year would bring in 13,205 stationary sources. Yet the difference in the percent of national greenhouse emissions covered by these two thresholds would be only 3 percent. We suggest that Congress consider a 100,000 metric ton per year threshold, but establish a means for companies that are not automatically in the cap and trade regime to “opt in.”

A National Approach to Reducing GHG Emissions is Critical

A key concern for auto manufacturers is that we not be subject to duplicative or incompatible state and federal regulatory schemes, either for mobile sources or stationary sources. For mobile sources, the Alliance strongly supports an Obama National Program for greenhouse gas emissions and fuel economy to bridge state and federal programs to address the environment and today’s economic realities. To do otherwise adds unnecessary cost and is a waste of resources that could be better utilized for additional carbon reductions.

For stationary sources, one key principle is that a facility subject to a market-based, federal emission reduction program such as cap and trade should not also be subject to a separate regulatory standard for the same emissions. A second key principle is that a facility that complies with the federal requirement to hold allowances for its GHG emissions should not then be subject to various state or regional cap and trade programs. Such duplicative and overlapping requirements would place an undue burden on an extremely fragile sector of our economy.

Likewise, facilities that are not capped, but are significant enough sources to be subjected to a federal regulatory standard for GHG should not also have to meet additive state and local GHG emissions control standards, with all the complexities that such a result would entail for industry. In some respects, the draft bill attempts to address these issues; we look forward to working with Committee staff to suggest how such results can be assured in the legislation.

Conclusion

In summary, the transition to a new way of using energy and new energy sources requires that we collaborate with government and other industries like never before. The next generation of vehicles will require a new generation of fuels and supporting infrastructure.

As in any industry that's been around for more than a century, 100-plus years of decision making has meant that some worked out better than others. But we are a new industry in countless ways. Today's industry is transforming because we must. We're on the threshold of a new era. We have a new Administration... a new way of doing business... a new generation of customers keenly aware of the importance of our issues. This all presents a bigger opportunity for change than we've ever seen before.

You have our commitment to continue reinventing the automobile. We will continue to provide you with a wide range of vehicles that are highly fuel-efficient. We will be on the leading edge of the world's low-carbon economy; an economy in which "green" auto jobs are a fundamental part of the engine driving our communities.

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