Obama Fuel Economy Standards to Boost Vehicle Prices

Moving forward with President Obama's environmental agenda, the White House is expected to authorize new federal auto standards in the coming weeks that will nearly double fuel economy requirements for vehicles by 2025. The regulations require a "fleet wide" gas mileage, or the average fuel economy for all cars, vans, trucks, and other vehicles, of 54.4 miles per gallon.

"This agreement on fuel standards represents the single most important step we've ever taken as a nation to reduce our dependence on foreign oil," Obama said in July 2011 when he unveiled the standards. "Using less oil also means our cars will produce fewer emissions. So when your kids are biking around the neighborhood, they'll be breathing less pollution and fewer toxins."

The Environmental Protection Agency (EPA) and National Highway Traffic Safety Administration (NHTSA) filed their 2017-2025 fuel-efficiency proposal in July with the Office of Management and Budget, and a final decision is expected sometime in August. While higher fuel economy will save drivers money on gasoline, new vehicles could cost them as much as $3,000 more, according to government estimates. However, as *The New American* reported in February, that number could be a whole lot more:

> "That figure combines the administration's cost estimate for fuel economy standards from 2012–2025," [Fox News' Judson] Berger writes. "The NADA [National Automobile Dealers Association], though, says that estimate doesn't factor in certain elements like advertising, and pegged the actual increase at more like $5,000."
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> A study by the Center for Automotive Research last year indicates that the cost of meeting the new standards is approximately $10,000 extra per new vehicle, an estimate the Center has admitted to be low.

Critics have voiced an array of concerns about the new standards, including one that may hinder buyers from securing loans for new vehicles, which would weigh down on U.S. automakers such as Chrysler and General Motors, which received billions of dollars in taxpayer-funded bailouts to avoid bankruptcy during the recession.

"Dealers support fuel economy increases," said Bailey Wood, a spokesman for the National Automobile Dealers Association (NADA). "But if dealers cannot put vehicles on the road, we cannot reduce greenhouse gases or our dependence on foreign oil."

A February 2012 study commissioned by NADA reported that millions of potential car buyers, including college students and working families, will be ousted from the new-vehicle market, as they will no longer qualify for loans:

> Based on the NHTSA $2,937 cost estimate, the proposal will increase the minimum cost of a new vehicle to approximately $15,700 in 2010 dollars and remove 3.1-4.2 million households or 5.8-6.8 million licensed drivers from the new vehicle market by 2025, assuming incomes, non-vehicle debt burdens and the 40% maximum debt to income ratio standard remain constant. A $4,803 cost increase would remove 5.4-5.9 million households or 10.0-11.0 million licensed drivers from the new vehicle market by 2025. Lastly, a $12,349 cost increase would remove 14.9 million households or approximately 27.7 million licensed drivers from the new vehicle market by 2025.

Another major concern is that Obama's plan, which pushes heavily for the use of expensive hybrid and electric cars, will force drivers to hold on to their existing vehicles or nudge them to purchase used vehicles with lower gas mileage. Regardless of market demand, the administration unveiled a $5-million initiative in May "to help expand the use of alternative-fuel vehicles, including electric vehicles (EVs), in cities and towns across the country."

Of course, the sticker prices for these vehicles are astronomical — so high that car buyers would actually save money purchasing a Mercedes-Benz C350 over the administration's oft-touted Chevy Volt. Simply put, consumers are not ready to pay $40,000 for a smaller, slower, and less attractive vehicle.

The 55 miles per gallon standard, which many leaders in the auto industry claim is far too high, is leaving automakers in a position where they will have to pour billions of dollars more into research and development. In fact, the government reports that the mandate will cost automakers $8.5 billion per year to comply. After factoring in these added costs, the *Wall Street Journal* previously noted, "Vehicles that currently cost $15,000 or less will effectively be regulated out of existence."

In an effort to meet Corporate Average Fuel Economy (CAFE) mandates, Sam Kazman of the Competitive Enterprise Institute asserts that some automakers are actually removing spare tires in order to scrap excess car weight:

> But the fact that spares are being eliminated in the name of fuel economy, rather than market demand, demolishes one of the chief claims of CAFE's advocates. For several decades, the need to reduce vehicle size and weight in order to raise mileage has been CAFE's Achilles' heel. Smaller, lighter cars not only hold fewer passengers and less baggage; they're also less crashworthy. CAFE-induced downsizing causes several thousand additional traffic deaths per year.

Furthermore, CNN reported that the Obama administration's standards could be devastating to smaller automakers:

> Stricter fuel economy requirements could spell trouble for smaller automakers that lack the research and engineering staffs to come up with new fuel-saving technologies, said industry analyst Dave Sullivan of Autopacific.
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> Also, smaller automakers don't have as broad a range of models to work with. Their larger competitors can improve their average fuel economy simply by incentivizing sales of smaller cars at the expense of larger ones.

The underlying factor is consumer demand, and whether Americans will be able, or willing, to pay a much higher cost for a new vehicle — even if it gets better gas mileage. "Fuel economy standards can't just be some number picked out of thin air. They have to be based on consumer demand," NADA's

Bailey Wood said in a statement earlier this year. “If dealers can’t sell these vehicles, then you defeat any other benefits you were seeking.”

Photo: new cars for sale via Shutterstock