TESTIMONY OF DON CHALMERS,

GOVERNMENT RELATIONS COMMITTEE CHAIRMAN

NATIONAL AUTOMOBILE DEALERS ASSOCIATION (NADA)

BEFORE THE

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION (NHTSA)

AND THE

U.S. ENVIRONMENTAL PROTECTION AGENCY (EPA)

DETROIT, MI

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As Chairman of NADA's Government Relations Committee, I thank NHTSA and EPA for hosting today's hearing on the proposed light-duty vehicle fuel economy and greenhouse gas (GHG) standards for model years (MYs) 2017-2025. NADA represents approximately 16,000 franchised automobile and truck dealers who sell new and used motor vehicles, and engage in service, repair and parts sales. Together they employ upwards of 1,000,000 people nationwide. By way of introduction, I am also president of Don Chalmers Ford of Rio Rancho, New Mexico.

Today, I will make three main points:

1. NADA supports one workable national fuel economy program.

2. Mandates must be feasible and affordable as consumers have choices.

3. The proposal dramatically underestimates its impact on new vehicle costs.

I. NADA Supports One Workable National Fuel Economy Program

NADA supports a single national program governing light-duty vehicle fuel economy and GHG emissions. This is what Congress sought in the Energy Independence and Security Act (EISA), which called for a fleet-wide, combined light-duty fuel economy average of at least 35 miles per gallon by 2020. For MYs 2021 through 2030, EISA instructs that the average light-duty fleet fuel economy be the maximum feasible.

Dealers are concerned about the accelerated schedule of this rulemaking. The standards for MYs 2011-16, which aggressively moved up the 2020 EISA objective by four years, are just now being implemented. Yet, the current proposal aims to set new standards for MYs 2017-2025, some five to 14 years out into the future, designed to more than double the fuel economy of the vehicles I now sell. Rushing to set new standards nearly three years early will unnecessarily and unhelpfully forgo the opportunity to learn how consumers react to the aggressive new standards just now being put into place.

Manufacturers (OEMS) need adequate lead time to achieve compliance. And, as businessmen, we appreciate regulatory certainty. But we question whether setting fuel economy mandates so far out makes sense when critical variables like fuel prices, consumer behavior, and creditworthiness are paramount. If anything, setting mandates all the way to 2025 is contrary to Congress' intent that such standards be set in five year (or fewer) increments, and is the epitome of uncertainty. Moreover, any supposed certainty may be fleeting given that the proposal's "mid-term" review could result in even stricter mandates for MYs 2022-2025. The showroom realities I see suggest that these rules should not be finalized until we learn how consumers react to the higher mileage/higher cost vehicles OEMs will build in the next few years.

In 2011, sales of new vehicles were 12.7 million, a far cry from the 17-plus million high water mark of the mid-2000s, but much better than the 10.4 million sold in 2009. Dealers embrace the pivotal role we are playing to help lead our nation back to the road of prosperity, but we are wary of anything that might depress sales and turn back the gains being made.

Simply put, before rushing head-long into a set of new mandates aimed at doubling today's fleet fuel economy, we need to understand better the potential ramifications.

II. <u>Mandates Must Be Feasible and Affordable As Consumers Have Choices</u>

To work, fuel economy rules must require improvements that are affordable. Why? Because while you can mandate what OEMs must build, you can't dictate what customers will buy. If our customers do not purchase these products, we all lose.

Note that we are not suggesting that the proposal is technologically infeasible. For example, I'll bet my manufacturer, Ford Motor Company, has or can develop the engineering and manufacturing expertise necessary to comply. But at what cost? Our concern is for our customers and the higher prices they will face.

When prospective purchasers come to my showroom, they have choices, even if their car just broke down that morning and they need desperately to get to work. I'm always delighted when they buy a new car or truck. But if they can't afford what I've got to sell, or if what I'm selling fails to meet their needs, we can always walk over to my used vehicle lot, or explore the option of having my service department fix up their old vehicles. And you can trust that my many competitors in the used car sales and service business will jump at the opportunity to offer these options if I don't. So, if new mandates are to achieve the efficiency and emissions targets being sought, they must not undermine vehicle affordability or performance.

III. <u>The Proposal Dramatically Underestimates Potential Impacts on New Vehicle Costs</u>

The proposal indicates that by 2025, the average price of a new light-duty vehicle will increase by some $3,200 over what it is today. A study NADA will release next month will raise significant concerns regarding how the proposal calculates retail price impacts. By using a more realistic analytical approach, our initial analysis shows that the proposal underestimates costs at retail, and suggests that *compliance-related price increases in my showroom could be at least 60% higher.*

NADA also soon will release a look-back at the 2002-2010 medium and heavy-duty truck emissions mandates revealing that EPA *underestimated average actual compliance costs by a factor of three.* This look-back shows what can happen when a regulatory proposal seeks to set far-in-the-future mandates based on far-in-advance predictions. Importantly, it also will document the widely-recognized market disruptions that occurred as a result. Like light-duty vehicle customers, commercial truck buyers seek out alternatives when faced with unreasonable regulatory mandates.

In closing, I ask only that you take into account the market realities of the showroom. If the new vehicles OEMs must produce fail to meet the needs, desires, or financial constraints of car and truck buyers, those buyers will seek out – and find – other options. Again, dealers support a national program for improved light-duty vehicle fuel economy, but one that consumers are willing and able to buy into.

On behalf of NADA, I thank you again for the opportunity to present these views. If you have questions, I’ll do my best to address them or will have NADA staff get back to you.