



ENVIRONMENTAL DEFENSE

finding the ways that work

To: Docket Section
National Highway Traffic Safety Administration
400 Seventh Street, SW
Washington, D.C. 20590

April 8, 2002

From: John M. DeCicco, Senior Fellow

Re: Docket No.: NHTSA-2001-10774; Notice 2, in response to March 6, 2002 NPRM on
Automotive Fuel Economy Manufacturing Incentives for Alternative Fuel Vehicles

Environmental Defense strongly recommends that NHTSA issue a notice of termination ending the dual-fuel vehicle incentive program at the close of model year 2004, as provided under the Alternative Motor Fuels Act of 1988 (AMFA). Thus, we are recommending that the agency not extend the program as it has proposed in the above referenced NPRM. The effects of this program, which provides credits to automakers to offset their requirements under the Corporate Average Fuel Economy (CAFE) standards, are clearly contrary to the national interest in terms of both energy security and the environment.

As documented in NHTSA's Report to Congress,¹ the dual-fuel vehicle CAFE incentives are measurably and significantly detrimental to the environment, as well as detrimental to national security, because the result of the program is higher gasoline consumption, and therefore higher oil imports and increased risks of higher prices to consumers, than if the program were absent. The Report to Congress further indicates that, under any plausible fuels market scenarios for the foreseeable future, extension of the program will result in increasing harm to both the environment and energy security. Among the environmental impacts of concern is exacerbation of the growth in greenhouse gas emissions from light duty vehicle gasoline consumption. It is inconsistent for NHTSA to propose extending a program at the same time it is issuing a report that documents not only its failure, but also its counterproductive impacts.

Due to this flawed policy, the United States of America is now consuming more gasoline, and therefore importing more oil and emitting more greenhouse gases, than if the country had no alternative fuel programs at all.

The Report to Congress [p. 42] estimates that, through 2000, the AMFA credits have resulted in a total increase in petroleum consumption of over 700 million gallons and a total increase in greenhouse gas emissions of roughly 2.4 MMTc (million metric tons carbon-equivalent). While these effects so far are relatively small in the context of the annual 125 billion gallons of light duty vehicle petroleum fuel consumption and corresponding 300 MMTc of greenhouse gas emissions,² they are heading in the wrong direction and growing steadily.

The extension proposed by NHTSA most likely will cause a **20-fold increase** in the AMFA credit program's energy security risks and environmental damage by 2008. The Report to Congress [p. 44]

projects, under the most plausible scenarios of market conditions over the next six years, that extension of the AMFA credits will result in an additional increase in petroleum consumption of 14 billion gallons and an additional increase in greenhouse gas emissions of 42 MMTc (cumulatively for 2001-2008). Terminating these credits at the end of model year 2004, by letting the program sunset as provided in AMFA, will substantially lessen the adverse impacts of the program on energy security and the environment.

In its NPRM, NHTSA notes that, "domestic energy security is more important than ever," citing this issue as reason for extending the program. However, the agency's logic is at variance with the facts and rests on a false promise of what will work to enable substitution of petroleum fuels with domestically produced alternative fuels such as ethanol.

When AMFA was enacted 14 years ago, the arguments were that incentives for dual-fuel vehicles would be valuable because they would help establish a fleet of vehicles capable of operating on non-petroleum fuels. However, such a fleet is of no value without a broader business case for economically viable non-petroleum fuels. In spite of massive subsidies, to the domestic ethanol industry in particular, such a business case is nowhere close to being established. In its Report to Congress, DOT recommends that steps be taken to enhance the infrastructure for supplying alternative fuels and that the CAFE credits program be maintained while efforts are made to identify and implement such steps. However, the country now has many years of experience in attempting to promote alternative fuels, including incentives for infrastructure and fleet programs. The result has been only very small use of alternative fuels, at what has been a significant expenditure of both federal and state tax dollars.

As documented in DOT's Report to Congress, the adverse effect of higher gasoline consumption due to the CAFE credits vastly overwhelms what is, by comparison, trivial alternative fuels use. Moreover, in the NPRM, NHTSA states that it is "not yet clear whether the continuing presence of [dual-fuel] vehicles, their ability to use alternative fuels, programs intended to increase the use and production of alternative fuels and other conditions will stimulate the expansion of the alternative fuel infrastructure as envisioned by Congress in creating the dual fuel incentive program." Based on both the alternative fuels experience to date and on technological developments, such as the rapid progress of hybrid gasoline-electric vehicles and the long-term prospects for more advanced alternatives such as fuel cell vehicles, it is clear that the AMFA vision of expanding infrastructure for alternative fuels to be used in conventional vehicles will probably never be realized, and will certainly not be plausible for at least 10-15 years.

Over this time horizon, the most effective way to reduce motor vehicle petroleum use will be through increased fuel economy of gasoline vehicles, using improved conventional technologies and emerging technologies such as hybrid drive. By lowering the effective CAFE requirements faced by automakers, the AMFA credits work against the country's most practical and affordable way to reduce petroleum use. Terminating the CAFE credits for dual-fuel vehicles will provide real energy security and environmental benefits; it would also be a valuable first step toward a badly needed reform of the country's counterproductive and wasteful alternative fuels policies.

¹ U.S. Department of Transportation, "Report to Congress: Effects of the Alternative Motor Fuels Act CAFE Incentives Policy," Washington, DC, March 2002; referenced herein as "the Report to Congress."

² Derived from U.S. Department of Transportation, Federal Highway Administration, Highway Statistics 2000.