

**STATEMENT**

**OF**

***THE ALLIANCE OF AUTOMOBILE MANUFACTURERS***

**BEFORE THE:**

**COMMITTEE ON ENERGY AND NATURAL RESOURCES**

**U.S. SENATE**

**APRIL 7, 2011**

**PRESENTED BY:**

Mr. Shane Karr  
Vice President, Federal Government Affairs

Thank you, Chairman Bingaman, Ranking Member Murkowski and members of the Committee. My name is Shane Karr and I am Vice President for Federal Government Affairs at the Alliance of Automobile Manufacturers (Alliance). The Alliance is a trade association of twelve car and light truck manufacturers including BMW Group, Chrysler Group LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz, Mitsubishi Motors, Porsche Cars, Toyota Motors, Volkswagen Group and Volvo Cars. Together, Alliance members account for nearly 80 percent of annual motor vehicle sales in the U.S. Auto manufacturing is a cornerstone of the U.S. economy, supporting 8 million private-sector jobs, \$500 billion in annual compensation, and \$70 billion in personal income tax revenues. On behalf of the Alliance, I appreciate the opportunity to offer our views on the role biofuels can play in helping address our nation's energy security and environmental concerns.

Automakers are fully engaged in development of vehicles and advanced technologies to help reduce gasoline consumption and emissions, including carbon emissions. Today, consumers can choose from more than 160 models that get over 30 miles per gallon – and we are working on a variety of additional technologies that will also dramatically reduce gasoline consumption. However, there is no silver bullet or single technology that will solve the challenges of enhancing energy security and reducing greenhouse gas emissions. Therefore, we strongly believe that any legislation mandating a particular vehicle technology is a step in the wrong direction for our nation's energy policy.

Automakers support flexible fuel technology and are manufacturing flexible fuel vehicles (FFVs) faster than the fueling infrastructure can keep up. In fact, there are already more than 8.2 million FFVs on U.S. roads, yet less than 2 percent of gas stations have an alternative fuel pump, and most are concentrated in the Midwest, where most ethanol is produced. The GAO predicts that federal fleet alternative fuel usage requirements are unlikely to be met in the foreseeable future “because of limited availability of alternative fuel.” But even in states where E85 pumps are concentrated, actual sale of E85 has been stagnant. For example, in 2008 (the last year for which complete data is available), Minnesota had 364 stations with an E85 pump, but on average, FFVs in the state used less than one full tank of E85 each for the whole year. The data suggests that widespread market penetration of biofuels is not as simple as it is sometimes

portrayed. FFVs will likely continue to be an important vehicle technology, but their effectiveness in helping to reduce U.S. oil consumption is a function of fuel price and availability and consumers' willingness to use it.

S. 187 calls for 90 percent of vehicles to be FFVs beginning in model year 2016. At costs of \$100-\$300 per vehicle, a 90 percent mandate would cost consumers more than \$2 billion per year to purchase FFVs (if fully passed through), even though consumers will have little or no access to alternative fuels. Therefore, such a mandate is essentially a tax with little consumer benefit. There is also a large opportunity cost with such a plan. Hundreds of millions of dollars annually that could be applied to other fuel saving technologies would be diverted to one technology. Without companion fuel use, the overall GHG and oil consumption reductions from an FFV mandate would be marginal and possibly less impactful than other technology applications.

The cost of making vehicles flex fuel capable is also expected to increase in the next few years as smog-forming emissions requirements are tightened. Today's FFVs do not comply with the most stringent state emissions standards and testing requirements. California has indicated it will require virtually all vehicles to certify to the most stringent standard in the coming years under LEV III, and the federal government is likely to follow suit under Tier 3. It is not clear that future FFVs may be engineered to meet these regulations at an affordable cost for consumers.

All of this said, automakers continue to believe that renewable fuels are an important component of our national strategy to lessen our dependence on foreign oil. Our industry also understands that calls for FFV mandates are largely motivated by the requirements of the Renewable Fuel Standard (RFS) to greatly increase the amount of ethanol and other biofuels in the national fuel mix.

While our industry opposes FFV mandates for all of the reasons I have previously noted, we recognize the need for pragmatic policies to address expanding production of biofuels under the RFS. We know the auto industry has a role to play in helping to make the RFS a success.

The question is: What combination of fuel-related and auto-related policies will best facilitate that goal? FFV mandates that fail to align the vehicle population with the fuel available in the marketplace are not the answer. The pressing need going forward – for automakers, for fuel providers, and for American consumers – is to ensure that our nation’s passenger vehicle fleet and our national fuel pool remain compatible as we transition to greater use of renewable fuels. Our industry has a vision for how we can work together prospectively with policymakers and fuel providers to accomplish that goal.

For our part, automakers would commit to a dialog with Congress and the appropriate federal agencies to discuss making our future light duty vehicles capable of running on gasoline/alcohol blends at a level higher than what is available today at E10, for model years beyond an established timeframe. The availability of the new fuel should coincide with the availability of the vehicles that can run on the new fuel, so there is a market for both. Such a prospective approach is a far preferable alternative to the use of E15 in MY 2001 and newer vehicles, which are not designed, certified or warranted to run on greater than 10% volume ethanol blends.

In order to ensure a successful implementation, we would work closely with other stakeholders to determine the right level and to identify and propose government policies to safeguard consumer access to the fuels needed to maintain vehicle performance, reliability, and refueling convenience. Some key considerations in such a transition include:

- Octane Level: Since ethanol provides less energy per gallon than gasoline, the future fuel may need to provide higher octane – to minimize fuel economy decreases and corresponding increases in greenhouse gas emissions – as more ethanol is added to gasoline. This change may be crucial for consumer acceptance. It is also critical that automakers not be penalized under future regulations for any decreases in fuel economy that are attributable to greater ethanol use.
- Legacy Fuels - Misfueling: Legacy fuels must continue to be available for older vehicles while the refueling infrastructure for higher level ethanol blends is

transitioning. Government assistance in implementing an effective program to educate consumers about the fueling capabilities of their vehicles to prevent misfueling will also be crucial to the success of the effort. In addition, enforcement of fuel blend and labeling requirements must be extensively and effectively executed.

- Liability Protection: Because some misfueling is likely to occur despite the best efforts of regulators, automakers and fuel providers, consideration should be given for appropriate liability protection that would stem from misfueling.

The approach I have outlined here provides a strong path forward to helping to meet our energy security goals. By taking a responsible, prospective approach, for both the vehicles and the fuels, we can avoid the problems that have undermined the ability of E85 to make a meaningful contribution to date and the problems likely posed by using E-15 in older vehicles not designed for such fuels.

Above all, this approach would give automakers the lead-time required and establish the certainty needed to design and develop vehicles that can best meet the multitude of requirements placed on us by regulators, and by consumers. It should also provide a clear path for producers, retailers, engine manufacturers and other stakeholders. With certainty about the fuels our vehicles will be using, our engineers can design vehicles that are optimized for these fuels. This will allow us to deliver better fuel economy, better performance, and more cost-effective compliance with emissions standards – which in turn improves the value proposition for our customers.

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