



**AUTO ALLIANCE**  
DRIVING INNOVATION®

To: President-elect Donald J. Trump Transition Team  
From: Mitch Bainwol, President and CEO  
Date: November 10, 2016  
Subject: **The Automobile Sector -- Forging Public Policy for Even Safer, Cleaner and More Transformative Mobility**

## INTRODUCTION

These are heady times for the auto industry and mobility in the U.S. New vehicle sales are strong, employment is growing, safety technologies are now making it possible to prevent crashes instead of just surviving them, research is ambitious and consequential, and technological innovations are re-defining mobility as we know it. We have a keen understanding that what we do – build vehicles that move America (and the world) – is critical to public safety, ensures there is a growing economy and also helps to better protect our environment. Now more than ever, sound public policy for the automotive industry is essential not only for our sector’s continued success but for this country’s economic growth.

Sound public policy provides certainty so businesses can plan; it mitigates chaos so that rules are clear and fair and equitably enforced; it relies on a commitment to established regulatory practices like rigorous cost/benefit analysis; it provides timely and harmonized government responses both within agencies and between agencies; and it recognizes the importance of vehicle affordability for consumers as well as the corresponding efficiency and safety benefit to the traveling public.

It’s in that spirit that we reach out to your Transition Team. This memorandum has two sections. The first outlines the **context** for our industry as we head into 2017. The second offers some policy **recommendations** for the Transition team to consider as you reflect on next year.

## CONTEXT

### GROWTH

2015 marked an unprecedented sixth year of sales growth and an all-time record for new vehicles sales (17.5 million). 2016 could - potentially - be the seventh year of increased sales. The combination of an aging fleet (average age of a car is now 11.5 years old), coupled with attractive

incentives from manufacturers, low interest rates and longer financing terms has generated the strength of this recovery. Yet we are a cyclical industry. Accordingly, we do not view growth as an entitlement. Sustainable growth requires the development of compelling product on our part, favorable economic conditions (including healthy disposable income, readily available and inexpensive financing) and a regulatory framework that is securely grounded in common sense at both the state and federal level.

## PLANTS

Since 2008, four new manufacturing plants have been launched in the U.S. and there has been substantial, multi-billion-dollar reinvestment in existing plants. New plants are located in: Greensburg, IN (Honda), West Point, GA (Kia), Blue Springs, MS (Toyota), and Chattanooga, TN (Volkswagen). Also, Volvo is slated to open its new plant in South Carolina in 2018. More broadly, over the last decade (including 2005), six manufacturing plants opened in the U.S. while one plant opened in Canada and five plants opened in Mexico. Given our highly competitive industry, plant location choices reflect trade rules, sales patterns, port and infrastructure access, and cost structure.

## PRODUCT

Americans view automobiles manufactured today as significantly improved relative to a decade ago, according to the Auto Index national tracking poll conducted monthly by the Alliance. Ratings (better vs. worse) for quality (79-12), technology (93-2), safety (85-7) and fuel economy (88-3) all are up profoundly. Especially in a low gas-price context, the types of vehicles that Americans buy continues to evolve, reflecting functional lifestyle needs. As you can see below, over the past fifteen years, CUVs (Crossovers) have picked up market share from each of the other segments, with traditional passenger cars now accounting for just over 40% of new vehicle purchases.

Year	2015	2010	2005	2000
Car	43.3	48.7	45.2	50.6
CUV	30.0	24.5	12.9	3.5
Pickup	14.2	13.9	18.8	18.3
SUV	7.2	6.9	14.5	17.2
Van	5.3	5.9	8.7	10.3

For more information about the automotive industry, please visit: [www.autoalliance.org/](http://www.autoalliance.org/)

## SAFETY

From the 1970's through 2014, fatalities on the road as a share of vehicle miles traveled (VMT) fell dramatically. Viewed through the lens of a longer vantage point - the half century dating from the passage of the National Traffic and Motor Vehicle Safety Act in 1966 through 2014 - fatalities as a share of miles travelled are down about 80 percent. Yet far too many individuals are losing their lives on our roadways (35,092 in 2015). As NHTSA notes, 94% of all crashes are attributable to driver choices and human error, including impaired driving, lack of seat belt use, speeding, and distraction. Vehicle defects are a factor in less than 1% of these fatalities and our industry is working to reduce that number even more. A bright spot is the rapidly emerging technologies that mitigate human error and help save lives by preventing crashes from happening.

Still, and unfortunately, in 2015 fatalities rose 7.2%. It will take additional time for the Department of Transportation and other stakeholders to determine why this occurred. Increased VMT explains part of the rise, but that still leaves a significant part resulting from other causes, including distraction on the part of both drivers and pedestrians and potentially higher bicycle and motorcycle fatalities. Our preliminary look at the data suggests the vehicle factor share is unchanged at under 1%.

## ENVIRONMENTAL

Smog-forming pollutants have been virtually eliminated from passenger cars, down over 99% since the 1960s. We are now complying with policies designed to mitigate the last 1% of these pollutants. Meanwhile, cars are far more efficient than they were even a decade ago as automakers down-weight and deploy new technologies to reduce carbon emissions. The increases in fuel economy have occurred in recent years even as the combination of low gas prices and higher conventional engine efficiency has resulted in declining market share of alternative powertrain vehicles and, as noted, growing market share of light trucks versus cars.

	2005	2012	2013	2014	2015
<b>Adjusted Fuel Economy (MPG)</b>	19.9	23.7	24.3	24.3	24.7 (p)
<b>Hybrids</b>	205,828	427,676	498,054	452,507	378,402
<b>Hybrid %</b>	1.21%	2.96%	3.21%	2.75%	2.18%
<b>Plug-in Hybrid</b>	0	38,585	48,957	55,441	43,458
<b>Plug-in Hybrid %</b>	0.00%	0.27%	0.32%	0.34%	0.25%
<b>Electric</b>	0	13,941	47,595	64,772	70,823
<b>Electric %</b>	0.00%	0.10%	0.31%	0.39%	0.41%
<b>Alt Total</b>	205,82	480,20	594,61	572,72	492,68
<b>Total</b>	8	7	6	2	3
<b>Percent All Volume</b>	16,947,754	14,439,684	15,531,706	16,435,286	17,386,331
	<b>1.21%</b>	<b>3.33%</b>	<b>3.83%</b>	<b>3.48%</b>	<b>2.83%</b>

Source: Wards Auto/ EPA Trends Report for Adjusted Fuel Economy

## INNOVATION

We are in the midst of an incredibly dynamic time in the history of our industry. Change and disruption is rapid; new players are entering our sector; new business collaborations are being established; and new models of mobility are emerging.

The future holds vast and diverse opportunities. We know there will be more ride sharing entrants and programs and that the traditional models of vehicle ownership are evolving. We know that new cars will take over more and more of the driving duties, ultimately achieving full autonomy, but that a majority of the fleet will not be self-driving for more than a generation. We know that technology, while not perfect, offers the promise of reducing crashes, injuries and fatalities on American roadways. With wider deployment of crash avoidance technologies, we will achieve a range of other social objectives including reduced fuel consumption, lower carbon emissions and higher productivity rates. Autonomy is destined not only for automobiles but also for large trucks and buses. And long term, autonomy will present far-reaching implications for everything from urban land use to public transportation and infrastructure requirements.

Due to the rapid change that is occurring in the auto sector, our industry has proactively established an Automotive Information Sharing and Analysis Center (Auto-ISAC) to facilitate the exchange of important cyber threat information – and countermeasures – in real time. In addition, the Alliance and our members established the consumer data Privacy Principles that apply to the collection, use, and sharing of covered information in association with vehicle technology and services available on cars and light trucks sold or leased to individual consumers for personal use in the United States.

As current NHTSA Administrator Mark Rosekind often notes, the pace of technological change in safety has far outstripped the pace of regulatory action. That's not an indictment of the agency. Rather, it is reflection of rapid global innovation, much of it in the U.S., fueled by marketplace competition to achieve safety, social, environmental and other outcomes never before imagined.

The current Administration deserves credit for working to promote the adoption of semi-autonomous and fully autonomous technologies. The Secretary and NHTSA Administrator both understand that the benefits to society are so profound that it is vital to take an approach that maximizes the deployment rate in order to maximize safety. And both recognize that the traditional regulatory approach is less than ideal.

## RECOMMENDATIONS

As the Trump Administration prepares to take office in late January, we are pleased to offer the following recommendations to consider as you develop your agenda, especially for the first 100 days.

### I Harmonize and Adjust Fuel Economy and GHG Emission Standards:

The Corporate Average Fuel Economy (CAFE) and Greenhouse Gas (GHG) Emission Standards that were adopted in 2012 by the EPA, NHTSA, and the California Air Resources Board (CARB) via a Joint Final Rule pose a substantial challenge to the auto sector due to the steeper compliance requirements for Model Years (MY) 2017-2025. As part of the Mid-Term Review process that kicked off this summer with release of the Draft Technical Assessment Report (TAR), the EPA, NHTSA, CARB and the auto sector are in the process of re-evaluating the assumptions that shaped those original standards. Automakers have outlined concerns that call into question the viability of the modeling used in the draft TAR. In short, we believe the TAR over-projects technology efficiencies and inadequately accounts for consumer acceptance and marketplace realities. These market factors are absolutely critical since automakers are ultimately judged by what consumers take out of showrooms across America, rather than what automakers put into those showrooms. The combination of low gas prices and the existing fuel efficiency gains from the early years of the program is undercutting consumer willingness to buy the vehicles with more expensive alternative powertrains that are necessary for the sector to comply with the more stringent standards in out-years.

When the EPA, NHTSA and CARB established the 2012 Joint Final Rule creating “One National Program,” one primary aspect was to “harmonize” the three sets of fuel economy regulations at the federal and state level as fully as possible to provide greater consistency and certainty for automakers as they develop their products for sale across the U.S. The Administration’s 2012 Regulatory Announcement highlighted the value of harmonization: “*Continuing the National Program ensures that auto manufacturers can build a single fleet of U.S. vehicles that satisfy requirements of both federal programs as well as California’s program.*”

#### **But significant inconsistencies continue to exist.**

Since 2012, it has become increasingly clear that many automakers may be in compliance with the EPA program, yet subject to fines in the NHTSA program. This regulatory friction is already occurring, driving up vehicle costs, and will become even more counterproductive as the regulatory requirements become more stringent in future Model Years. Potentially billions of dollars in fines under the NHTSA CAFE program are anticipated.

**We recommend that the White House lead efforts with EPA, NHTSA, CARB and the automakers on finding a pathway forward regarding the standards for 2022 MY and beyond prior to publishing the NPRM and preliminary determination.**

**We also recommend that the Trump Administration support the administrative and legislative reforms necessary to achieve harmonization. This includes approving the petition that the Auto Alliance filed with EPA and NHTSA on June 20, 2016 regarding certain harmonization gaps that exist that can be addressed administratively.**

## **II Include Zero Emission Vehicle (ZEV) Mandate Cost in Mid-Term Review:**

Under a waiver granted by EPA, California’s ZEV requirement (followed by nine other states), forces GHG-reducing solutions (heavy electrification) into the market rather than allowing the “technology-agnostic” approach that EPA and NHTSA relied upon in the One National Program. This additive ZEV requirement grows to over 15% of vehicle sales by 2025 in the ten states that together account for roughly one-third of all light-duty vehicle sales in the United States. The benefits of the ZEV program are factored into the Draft Technical Assessment Report, but the costs of the ZEV program are ignored.

And while EPA argues that substantial electrification is not required for compliance with the federal program, that point is academic if it is separately required for the ten relevant states.

**We recommend that the cost of the ZEV mandate be factored into the Mid-Term Review due to the much more expensive compliance pathway that will increase costs for consumers nationally.**

**In addition, the 9 states that have adopted the California ZEV requirements have not provided comparable and needed incentives for consumers to be willing to purchase the highly electrified vehicles in their markets. This is leading to dramatically different consumer acceptance of electrified products in the Northeast states compared to California. The Administration should engage as appropriate to help address these ZEV issues – especially to help avoid the creation of a patchwork of requirements that will frustrate the overall intent of the “One National Program”.**

## **III Regulatory and Organizational Reforms are Critical:**

The number of government regulators (state and federal) who are interested in or currently oversee the automobile sector (U.S. DOT, NHTSA, FCC, FTC, DHS, NTIA, U.S. Department of Commerce, CFPB, EPA and California ARB) continues to grow. A robust examination of the combined impact of such uncoordinated regulatory oversight on the auto industry and the American consumer is warranted. As car prices rise, it becomes vital to look at the full cost of regulatory initiatives. Well-meaning regulatory action risks increasing compliance costs to the point that additional safety and fuel-efficiency technologies put new vehicles out of financial reach of the average new car purchaser.

**To maximize affordability for all Americans, it therefore makes sense to assess a range of ideas that can lead to even more thoughtful regulatory approaches, including:**

- **Comprehensive Regulatory Review.** Undertake a comprehensive review of all regulations (final and proposed), interpretations of regulations, guidance, information disseminations, information collections, that were promulgated or issued since September 1, 2016 to ensure that these are consistent with the policy objectives of the new administration.
- **Ensure that the EPA does not issue any Proposed Determination on whether the Model Year 2022-2025 Greenhouse Gas Light Duty Vehicle standards are appropriate under section 202(a) of the Clean Air Act.**
- **Establish a New OMB Requirement for “Whole Car Cost Analysis.”** To ensure that the overall health and vitality of the auto sector is not jeopardized by the cumulative costs of new vehicle regulations/policies, agency proposals for new car requirements should be accompanied by a *Whole Car Cost Impact Statement* that aggregates compliance expenses.
- **Impose a “Shot Clock” for Agency Responses to Industry Submissions/Petitions.** To encourage prompt responses to requests for regulatory actions, and prevent federal agencies and departments from sitting on such waivers and petitions that may help spur additional innovation, the timelines established in statute must be made meaningful and binding.
- **Revise OMB Guidance for Federal Agencies and Departments.** OMB ought to establish clear thresholds regarding the use of non-regulatory guidance to ensure that quasi-regulatory efforts do not circumvent the traditional rulemaking process.
- **Establish a Presidential Advisory Committee to Coordinate Auto Sector Regulators.** Such an advisory committee would help reduce regulatory friction and confusion among federal agencies and departments and could potentially result in recommendations for a new paradigm for vehicle regulation. The committee also could identify opportunities to streamline and improve the efficiency of multiple federal and state agencies by eliminating duplication of effort and more efficiently allocating responsibilities by agency area of expertise.

#### IV Autonomous Vehicles:

We will be filing soon a detailed response to the recent Administration proposal regarding autonomous vehicles. Our technical experts are busy at work evaluating that proposal and formulating our reaction. We will share it with you upon its submission. But the test of policy at

a conceptual level should be: how do we save the most lives by promoting the rapid deployment of these technologies while also maximizing public safety and building public support for their adoption?

## SUMMARY

The future of mobility is bright and offers the long-term promise of great manufacturing jobs and mobility that increases national productivity while generating significantly improved safety and environmental outcomes. We live at a moment where technology and change are swamping the regulatory capacity to manage our emerging reality. Reform is imperative.

The question at the end of the day is what kind of reform? There will be those who argue against change and for a traditional regulatory paradigm that in effect slows down the march of technology. And there may be those who argue that public policy should stay out of the way. Neither of these choices is our view. We believe that to maximize consumer acceptance of new mobility patterns and opportunities, the public and private sectors must work in a more coordinated and cooperative fashion. It is in that spirit, and with a commitment to keeping cars safe, clean and affordable for Americans, that we offer these recommendations and our pledge to work with you to achieve the great social outcomes that are within grasp.