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**Subject:** Why Fuel Economy Standards Matter to U.S. Energy Dominance

Bill:

Hope that all is well with you. Singing SAFE's song on fuel economy standards in this article below.

Chuck

Council on Foreign Relations

**Why Fuel Economy Standards Matter to U.S. Energy Dominance**

Amy Myers Jaffe and Dylan Yalbir

During last week's international energy industry gathering in Houston, CERA Week, U.S. Secretary of Energy Rick Perry introduced a new buzzword for the Trump administration's energy policy: "energy realism." Perry is reported to have insisted that this policy requires the United States to, "focus on maximizing exports for its energy, as well as its technologies." Yet, as the secretary of energy insists on maximizing energy exports and a more pragmatic national energy policy, the larger Trump administration stands on the precipice of making a major decision about the fate of long-standing Corporate Average Fuel Economy (CAFE) standards. In case the administration needs a refresher, we offer this data driven analysis of CAFE standards: they are quite pivotal to enhancing the United States' net oil exports levels.

As the administration approaches the deadline for their ongoing review of CAFE standards, it would be wise to consider the energy security implications of any weakening of fuel economy standards to appease automakers. Lost in the albeit important discussion of the environmental benefits of CAFE is the pivotal role that they have played in reducing U.S. oil consumption and putting the nation on a path to making the rare transition from being a net importer of oil to being a net exporter. The Energy Information Administration's (EIA) recently released 2018 Annual Energy Outlook projects that the United States will become a net exporter of petroleum and other liquids in 2021. This achievement, if attained, would undoubtedly be a critical part of achieving Trump's desired "energy dominance."

The achievement of this net energy independence milestone (measured in the amount of our net exports) would be severely diminished without the maintenance of congressionally mandated fuel economy standards from the 2000s. Proponents of an "energy dominant" America policy have so far focused mainly on the role of growing domestic production. If that production is not accompanied by the expected decrease in consumption, however, the United States will wind up a much weaker net oil exporter. In one speech, Trump dismissed the fuel savings from current CAFE standards as a "thimbleful of fuel" but the numbers suggest otherwise.

Using data from Annual Energy Outlooks (AEO) past and present, we calculate a back of the envelope estimate for what light-duty vehicle oil use would have been—and will be in the future—without CAFE standards. To measure this, we adjust for vehicle efficiency back to the pre-CAFE projections from the 2007 AEO for the fleet average, with the caveat that oil price differences might alter somewhat the distribution of new car purchases over the time period in question. The 2007 AEO predates and doesn't include the raised fuel economy standards of the 2007 Energy Independence and Security Act or the National Program rulings passed by the Obama administration in 2010 and 2012.

The above graph uses 2018 AEO data for U.S. consumption and production of petroleum and other liquids in the high oil and gas resource and technology case, which shows the U.S. Department of Energy's projection for the maximum potential of U.S. production. More importantly, it's the version of the U.S. oil industry that the Trump administration envisions and most experts expect. With CAFE standards maintained, the United States reaches net exporter status as

early as 2021 and achieves net exports of around 1.45 million barrels per day (MMb/d) in 2022. Without CAFE standards driving down consumption, however, the amount of U.S. net exports in 2022 would drop to just a little under 2,500 b/d. By 2030, the United States' net exports—without CAFE standards—will be 1.47 MMb/d, which is a paltry fraction of the nearly 4.2 MMb/d the United States is projecting if CAFE standards are maintained. Weakening fuel economy standards would severely hamper the economic benefits of U. S. export capabilities. The situation is even bleaker in the business as usual case (AEO reference case), where the increase in U.S. production is moderate. As the graph below shows, the United States does not reach net exporter status in the next decade if fuel economy standards are not maintained in the business as usual case.

Rick Perry has broken down the administration's energy dominance/realism policy into two components in the past: 1) self-reliance and 2) the ability to "export to markets around the world, [thereby increasing] our global leadership and our influence." Weakening CAFE will harm both components and make it harder for the Trump administration to achieve its goals. Two of the top five source countries of U.S. petroleum imports are currently Saudi Arabia and Venezuela; dependence on neither seems ideal given recent political developments. The original intent of enacting fuel economy standards for the U.S. vehicle fleet—which came on the heels of the oil crises of the 1970s—was to avoid being susceptible to fallout from foreign political turmoil like the events currently playing out in Venezuela and the Middle East. Nearly forty years after the first set of CAFE standards were established in 1975, the United States is finally close to achieving the standard's original intent: oil self-reliance and energy security. It would be misguided to undo all the progress on this front right when the United States has reached the home stretch.

Weakening standards will also make it more difficult for the United States to achieve the second component of Trump's energy dominance vision: leveraging U.S. energy strength to expand U.S. global leadership and support its allies. Becoming a self-reliant net exporter of petroleum will allow the United States to untether its foreign policy from the constraints of domestic oil politics. In fact, the trend line that we are currently on, in which domestic consumption is decreasing and production is increasing, has already given the United States "strategic weapons once unthinkable. The United States and its allies now have a supply cushion at a time when political turmoil in Venezuela, Libya and Nigeria is threatening to interrupt flows to markets." Separately, Rick Perry characterized America's ability to export energy to its allies as "exporting freedom" and described it as a central pillar of Trump's energy policies. The bottom line, however, is that the U.S. will not be able to effectively "export freedom" in the counterfactual non-CAFE scenario because its surplus oil production will only be a fraction of what it could be with fuel economy standards maintained. More importantly, without CAFE standards, oil could become another economic resource where the U.S. has lost global leadership.

If the Trump administration plows forward with any plans to water down CAFE—and thereby lessens the United States' soon to be achieved surplus oil stock—it will further cement its undoing of U.S. global energy leadership. At a time when China is doubling down on its green energy policy and positioning itself to become the world's supplier of renewable energy, the Trump administration is doing the exact opposite. By attempting to withdraw from the Paris Climate Agreement, reducing the budget for Mission innovation, and generally deemphasizing renewables since taking office, Trump has already set the stage for China to become the energy leader of the future. Weakening CAFE and reducing future U.S. net oil exports will further diminish the future global energy leverage of the United States and leave the country and its allies on a more precarious footing.

It would behoove the Trump administration to reconsider the critical importance of fuel economy standards. They are not another "burdensome" regulation. Instead the Trump administration must consider thoughtfully the energy security implications of fuel economy standards. If anything, the administration should push Detroit to be more ambitious to meet foreign competition. Taking away yet another avenue enabling U.S. energy leadership would render President Trump's energy legacy as subordinate, not dominant.

This is a guest post by Dylan Yalbir, a research associate at the Council on Foreign Relations.