

CAFE: Challenge and Opportunity

Congress responded to the Arab Oil Embargo of 1973 by passing Corporate Average Fuel Economy (CAFE) – a law intended to reduce America’s vulnerability to oil supply disruptions and price hikes by improving the fuel efficiency of cars and light trucks.

CAFE’s initial energy security-centered purpose has been largely lost as efforts to use the law to promote greenhouse gas emission reduction goals have intensified.

Empowered by the Supreme Court's ruling that greenhouse gas could be regulated under the Clean Air Act, the Obama Administration tasked EPA and the National Highway Traffic Safety Administration (NHTSA) with developing joint regulations on tailpipe greenhouse gas emissions and CAFE. Pursuant to that directive, EPA and NHTSA subsequently raised the CAFE standard to 54.5 miles per gallon (mpg) by 2025. It will be difficult for the auto industry to achieve such standards without significantly increasing the cost of new vehicles, with the attendant negative implications on demand for new vehicles and thus auto supply chain jobs.

Replacing onerous regulatory fiat with fuel competition

In the 114th Congress, several bills were introduced to create an alternative compliance pathway for CAFE that would be much less costly for automakers and that would greatly benefit US energy producers as well as American consumers.¹

These bills would have effectively reduced the fuel economy requirements for automakers that open at least half the vehicles in their fleet in a given model year to fuels other than only gasoline or diesel. **Specifically, the bills provided a substantial topline fuel competition CAFE bonus to automakers that make at least half of their fleet fuel competitive vehicles.** Unlike existing CAFE credits which accrue per vehicle, this bonus comes into effect fully once half the vehicles in a given model year allow fuel choice, and is added to the topline of an automaker fleet’s average fuel economy calculation. In order to ease the regulatory burden imposed by EPA, the bills also deem such automakers compliant with greenhouse gas regulations promulgated under the Clean Air Act.

The lowest cost option for enabling fuel competition is gasoline-ethanol-methanol² liquid fuel flexibility, which adds under \$100 to the cost of a vehicle. This is less costly by an order of magnitude than meeting current requirement through typical efficiency enhancement means, e.g. making cars lighter.

As EPA proceeds with the recently announced re-opening of the Obama Administration's midterm review, the Administration and Congress should consider the measures prescribed in the above referenced legislation among the options for making the law more effective.

¹ See Section 3 of S.889, the Fuel Choice and Deregulation Act, introduced by Senators Rand Paul, John Thune, Pat Roberts, and Chuck Grassley in the 114th Congress. Also see HR2418, the Fuel Choice for American Prosperity and Security Act.

² Methanol, like gasoline and ethanol, is a liquid fuel. It is generally made from natural gas or coal. Its production in the US is growing by leaps and bounds due to low natural gas prices.