

44
.C 73/7
96-75

1041

96-75
C 73/7
96/4

AUTOMOBILE FUEL ECONOMY AMENDMENTS OF 1979

D GOVERNMENT DOCUMENTS

Storage

1980

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 1583

TO AMEND TITLE V OF THE MOTOR VEHICLE INFORMATION
AND COST SAVINGS ACT

S. 2010

TO AMEND TITLE V OF THE MOTOR VEHICLE INFORMATION
AND COST SAVINGS ACT

S. 2035

TO AMEND THE MOTOR VEHICLE INFORMATION AND COST
SAVINGS ACT TO MODIFY FUEL ECONOMY STANDARDS

JANUARY 23, 1980

Serial No. 96-75

Printed for the use of the
Committee on Commerce, Science, and Transportation



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1980

58-783 O

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION

GPO



COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

HOWARD W. CANNON, Nevada, *Chairman*

WARREN G. MAGNUSON, Washington
RUSSELL B. LONG, Louisiana
ERNEST F. HOLLINGS, South Carolina
DANIEL K. INOUE, Hawaii
ADLAI E. STEVENSON, Illinois
WENDELL H. FORD, Kentucky
DONALD W. RIEGLE, Jr., Michigan
J. JAMES EXON, Nebraska
HOWELL HEFLIN, Alabama

BOB PACKWOOD, Oregon
BARRY GOLDWATER, Arizona
HARRISON H. SCHMITT, New Mexico
JOHN C. DANFORTH, Missouri
NANCY LANDON KASSEBAUM, Kansas
LARRY PRESSLER, South Dakota
JOHN W. WARNER, Virginia

AUBREY L. SARVIS, *Staff Director and Chief Counsel*

EDWIN K. HALL, *General Counsel*

DANIEL JAFFE, *Staff Counsel*

A. EDWARD SMICK, *Professional Staff Member*

WILLIAM M. DIEFENDERFER, *Minority Staff Director*

PHILIP GRILL, *Minority Staff Counsel*

SUBCOMMITTEE ON SCIENCE, TECHNOLOGY, AND SPACE

ADLAI E. STEVENSON, Illinois, *Chairman*

WENDELL H. FORD, Kentucky
RUSSELL B. LONG, Louisiana
ERNEST F. HOLLINGS, South Carolina
DONALD W. RIEGLE, Jr., Michigan
HOWELL HEFLIN, Alabama

HARRISON H. SCHMITT, New Mexico
BARRY GOLDWATER, Arizona
NANCY LANDON KASSEBAUM, Kansas

CONTENTS

Opening statement by the Chairman	Page 1
Text of bills:	
S. 1583	3
S. 2010	6
S. 2035	10

LIST OF WITNESSES

Claybrook, Joan, Administrator, National Highway Traffic Safety Administration, Department of Transportation; accompanied by Michael Finkelstein, Associate Administrator for Rulemaking; Barry Felrice, Associate Administrator for Plans and Programs; Rhoads Stephenson, Associate Administrator for Research and Development; and Steve Wood, Assistant Chief Counsel for Rulemaking	21
Hori, Saburo, vice president, engineering, Checker Motors Corp.; accompanied by Robert John McInctosh, legal counsel	58
Prepared statement	58
Hutchinson, Philip A., director, government and industry relations, Volkswagen of America, Inc.; accompanied by Gerhard Riechel, corporate legal staff	52
Kennedy, Christopher, director, Federal Government affairs, Chrysler Corp	43
Nelson, Hon. Gaylord, U.S. Senator from Wisconsin.....	12
Prepared statement	17
Nield, George C., president, Automobile Importers of America, Inc.; accompanied by David Busby	77
Prepared statement	82
Potter, David S., vice president of public affairs, General Motors Corp	40
Secrest, F. G., executive vice president, Ford Motor Co	35
Stucky, Marvin W., vice president, governmental affairs and corporate planning, American Motors Corp.; accompanied by Fred Stewart, vice president for governmental affairs; and Kevin Tighe, Washington counsel	60
Prepared statement	64
Wolpe, Hon. Howard, U.S. Representative from Michigan	33

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

American Imported Automobile Dealers Association, statement	93
Avanti Motor Corp., statement	90
A Way To Produce Small Cars Faster, article	19
Clarkson, Kenneth W., professor of economics, Law and Economics Center and University of Miami School of Law, statement.....	91
Fuel Economy Technology Assessment Program, report	31
Heinz, Hon. John, U.S. Senator from Pennsylvania, letter of December 13, 1979..	89
Helping AMC Survive the Count, article	20
Low Volume Manufacturers, table	24
Motor Vehicles Manufacturers Association, statement	94
Paster, Howard G., legislative director, International Union, UAW, statement..	95
Stewart, Milton D., Chief Counsel for Advocacy, Small Business Administration, letter of January 25, 1980	90

AUTOMOBILE FUEL ECONOMY AMENDMENTS OF 1979

WEDNESDAY, JANUARY 23, 1980

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON SCIENCE, TECHNOLOGY, AND SPACE,
Washington, D.C.

The subcommittee met at 9:35 a.m. in room 235, Russell Senate Office Building, Hon. Howard W. Cannon (chairman of the committee) presiding.

OPENING STATEMENT BY THE CHAIRMAN

The CHAIRMAN. The hearings will come to order. A little over 4 years ago the Congress enacted title V of the Motor Vehicle Information and Cost Savings Act, over which this committee holds jurisdiction. Against the continuing crisis of our Nation's dependence on imported oil, the automobile fuel economy program established by that law stands out as the only truly effective action taken in the past decade to reduce that dependence.

I take this occasion to acknowledge and commend the National Highway Traffic Safety Administration, its Administrator, Ms. Joan Claybrook, and its staff for dedicated administration and enforcement of that act.

Today's hearing is set to consider several amendments proposed for the act. In general those amendments can be viewed as readjustments of certain provisions of the act in response to changes within the automobile industry which were not perceivable in 1975 when the act was passed.

Two of the amendments hold promise of added employment opportunity, or job preservation in some segments of an industry that has been hard hit in recent months by production and employment cutbacks. One amendment provides added flexibility for industry planning, which may serve to reduce the cost of compliance with increasingly stringent fuel economy standards—costs which are ultimately borne by consumers.

Another amendment eliminates several provisions of fuel economy regulation from a sector of the automobile industry wherein experience has shown that such regulation is nonproductive. That sector constitutes but a fraction of 1 percent of the total automotive industry.

None of the proposed regulations alter any of the mandated automobile fuel economy standards now established and applicable to each model year through 1985. From a study of statements and comments already received by the committee, we can expect to

hear testimony decrying the fact that certain proposed amendments are discriminatory and indeed, they are. They are intended to provide relief against certain burdens. As such, they can hardly be expected to provide relief to those not so burdened.

Of course, it is important that such relief not come by adding new burdens on those not benefited. Accordingly, I urge any party raising that issue to include specific information as to the nature and magnitude of any new burden anticipated as a consequence of any amendment up for consideration.

We have had indications from several out-of-town witnesses who have other pressing commitments today and would like to leave as early as possible. Accordingly, we have arranged two panels to facilitate discussion of all the issues under consideration. I emphasize, however, that each panelist is scheduled to speak for himself and I remind them of our collective need that they stay within the time allotted in the invitation.

[The bills follow:]

96TH CONGRESS
1ST SESSION

S. 1583

To amend title V of the Motor Vehicle Information and Cost Savings Act.

IN THE SENATE OF THE UNITED STATES

JULY 26 (legislative day, JUNE 21), 1979

Mr. RIEGLE (for himself and Mr. LEVIN) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To amend title V of the Motor Vehicle Information and Cost Savings Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. That section 507 of the Motor Vehicle In-
4 formation and Cost Savings Act is amended to read as fol-
5 lows: "Except as provided in subsection 4, the following con-
6 duct is unlawful."

7 SEC. 2. Section 507 is further amended by adding the
8 following new subsection (4) to read as follows:

1 “(4) Notwithstanding the provisions of subsections
2 (1) and (2), the failure of any manufacturer to comply
3 with any average fuel economy standard shall be
4 deemed not to be ‘unlawful conduct’ unless, following a
5 determination under section 508(a)(2) that the manu-
6 facturer violated either subsection (1) or subsection (2),
7 the Secretary also determines that (A) the amount of
8 any credits calculated pursuant to subparagraph A(ii)
9 or B(ii) of section 508(a)(3), respectively, is not suffi-
10 cient to fully offset the amount of any penalty assessed
11 pursuant to section 508(b)(3) and (B) the time, in
12 which credits could be earned pursuant to subpara-
13 graph A(i) or B(i) of section 508(a)(3), respectively, so
14 as to fully offset the amount of any such penalty, has
15 expired.”.

16 SEC. 3. Section 508(a)(3)(A)(i) (I) and (II) is amended to
17 read as follows:

18 “(I) deducted from the amount of any civil penalty
19 which has been or may be assessed against such manu-
20 facturer for a violation of section 507(a)(1) occurring in
21 the three consecutive model years immediately prior to
22 the model year in which such manufacturer exceed
23 such applicable average fuel economy standard, and

24 “(II) to the extent that such credit is not deduct-
25 ed pursuant to subclause (I), deducted from the amount

1 of any civil penalty assessed against such manufacturer
2 for a violation of section 507(1) occurring in the three
3 consecutive model years immediately following the
4 model year in which such manufacturer exceeds such
5 applicable average fuel economy standard.”.

6 SEC. 4. Section 508(a)(3)(B)(i) (I) and (II) is amended to
7 read as follows:

8 “(I) deducted from the amount of any civil penalty
9 which has been or may be assessed against such manu-
10 facturer for a violation of section 507(2) occurring in
11 the three consecutive model years immediately prior to
12 the model year in which such manufacturer exceeds
13 such applicable average fuel economy standard, and

14 “(II) to the extent that such credit is not deduct-
15 ed pursuant to subclause (I), deducted from the amount
16 of any such civil penalty assessed against such manu-
17 facturer for a violation of section 507(2) occurring in
18 the three consecutive model years immediately follow-
19 ing the model year in which such manufacturer ex-
20 ceeds such applicable average fuel economy stand-
21 ards.”.

96TH CONGRESS
1ST SESSION

S. 2010

To amend title V of the Motor Vehicle Information and Cost Savings Act.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 15, 1979

Mr. CANNON introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To amend title V of the Motor Vehicle Information and Cost Savings Act.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Automotive Fuel Econ-
4 omy Amendments of 1979".

5 SEC. 2. Section 502(c) of the Motor Vehicle Information
6 and Cost Savings Act (15 U.S.C. 2002(c)) is amended to
7 read as follows:

8 “(c) The requirements for passenger automobiles of this
9 section and subsection 505(a) do not apply to a manufacturer
10 for any model year in which it manufactured (whether or not

1 in the United States) fewer than 10,000 passenger
2 automobiles.”.

3 SEC. 3. The first sentence of section 503(b)(1) of the
4 Motor Vehicle Information and Cost Savings Act (15 U.S.C.
5 2003(b)(1)) is amended by inserting the phrase “, other than
6 a manufacturer whose domestically manufactured production
7 commenced after the effective date of title V of the Motor
8 Vehicle Information and Cost Savings Act,” following the
9 word “manufacturer”.

10 SEC. 4. Section 507 of the Motor Vehicle Information
11 and Cost Savings Act (15 U.S.C. 2007) is amended by—

12 (1) striking the words “The following conduct is
13 unlawful:” and inserting in lieu thereof the words “Ex-
14 cept as provided in subsection (4), the following con-
15 duct is unlawful:”, and

16 (2) adding at the end thereof the following new
17 subsection:

18 “(4) Notwithstanding the provisions of subsections
19 (1) and (2), the failure of any manufacturer to comply
20 with any average fuel economy standard shall be
21 deemed not to be ‘unlawful conduct’ unless, following a
22 determination under section 508(a)(2) that the manu-
23 facturer violated either subsection (1) or subsection (2),
24 of section 507 the Secretary also determines (A) that
25 the amount of any credits calculated pursuant to sub-

1 paragraph A(ii) or B(ii) of section 508(a)(3), respec-
2 tively, is not sufficient to fully offset the amount of any
3 penalty assessed pursuant to section 508(b)(3), and (B)
4 that the time, in which credits could be earned pursu-
5 ant to subparagraph A(i) or B(i) of section 508(a)(3),
6 respectively, so as to fully offset the amount of any
7 such penalty, has expired.”.

8 SEC. 5. Sections 508(a)(3)(A)(i) (I) and (II) of the Motor
9 Vehicle Information and Cost Savings Act (15 U.S.C.
10 2008(a)(3)(A)(i) (I) and (II)) are amended to read as follows:

11 “(I) deducted from the amount of any civil penalty
12 which has been or may be assessed against such manu-
13 facturer for a violation of section 507(1) occurring in
14 the three consecutive model years immediately prior to
15 the model year in which such manufacturer exceeds
16 such applicable average fuel economy standard, and

17 “(II) to the extent that such credit is not
18 deducted pursuant to subclause (I), deducted from the
19 amount of any civil penalty assessed against such man-
20 ufacturer for a violation of section 507(1) occurring in
21 the three consecutive model years immediately follow-
22 ing the model year in which such manufacturer ex-
23 ceeds such applicable average fuel economy standard.”.

1 SEC. 6. Sections 508(a)(3)(B)(i) (I) and (II) of the Motor
2 Vehicle Information and Cost Savings Act (15 U.S.C.
3 2008(a)(3)(B)(i) (I) and (II)) are amended to read as follows:

4 “(I) deducted from the amount of any civil penalty
5 which has been or may be assessed against such manu-
6 facturer for a violation of section 507(2) occurring in
7 the three consecutive model years immediately prior to
8 the model year in which such manufacturer exceeds
9 such applicable average fuel economy standard, and

10 “(II) to the extent that such credit is not deduct-
11 ed pursuant to subclause (I), deducted from the amount
12 of any such civil penalty assessed against such manu-
13 facturer for a violation of section 507(2) occurring in
14 the three consecutive model years immediately follow-
15 ing the model year in which such manufacturer ex-
16 ceeds such applicable average fuel economy standard.”.

96TH CONGRESS
1ST SESSION

S. 2035

To amend the Motor Vehicle Information and Cost Savings Act to modify fuel economy standards.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 20 (legislative day, NOVEMBER 15), 1979

Mr. NELSON (for himself, Mr. RIEGLE, Mr. LEVIN, Mr. EXON, Mr. WARNER, and Mr. LUGAR) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

A BILL

To amend the Motor Vehicle Information and Cost Savings Act to modify fuel economy standards.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) section 503(b)(1)(A) of the Motor Vehicle Informa-
4 tion and Cost Savings Act is amended to read as follows:
5 “(A) Passenger automobiles which are domestical-
6 ly manufactured by such manufacturer (plus, in the
7 case of model year 1978 and model year 1979, passen-
8 ger automobiles which are within the includable base
9 import volume of such manufacturer, and in the case of

1 model year 1980 and before model year 1987, for any
2 manufacturer whose production, by corporate identity,
3 for calendar year 1978, was less than 300,000 passen-
4 ger automobiles worldwide, a number of imports which
5 shall be the lesser of such manufacturer's total number
6 of imports for the applicable model year, or 150,000, if
7 upon application of such manufacturer to the Secre-
8 tary, containing such information as the Secretary may
9 require by rule, the manufacturer demonstrates and the
10 Secretary finds that—

11 “(i) the ability of such manufacturer to meet
12 the average fuel economy standard for the model
13 year for which the application is made, is primar-
14 ily dependent upon reasonably selected technology
15 (as defined in section 502(d)(3)(A), but for pur-
16 poses of this subsection only, also made applicable
17 to model years subsequent to the 1980 model
18 year), including vehicle design, developed by, and
19 obtained from, other manufacturers; and

20 “(ii) a reasonable and economically practica-
21 ble technology is not within the ability of such
22 manufacturer to develop,”.

23 (b) Section 503(b)(1)(B) of such Act is amended by strik-
24 ing “manufacturer.” and substituting “manufacturer and

1 which, in the case of model year 1980 and before model year
2 1987, are not included under section 503(b)(1)(A)).”.

3 (c) Section 503(b)(2)(F) of such Act is amended by strik-
4 ing “or 1979,” and substituting “and subsequent model
5 years,”.

The CHAIRMAN. Now we will lead off with Ms. Joan Claybrook, after my colleague Senator Nelson has been heard unless he prefers to wait until Ms. Claybrook has spoken.

Senator NELSON. I have to be over at the House on the windfall profits tax conference starting at 10.

The CHAIRMAN. Why don't you go right ahead now, then?

Senator NELSON. If it is all right with the chairman.

The CHAIRMAN. That's perfectly OK.

STATEMENT OF HON. GAYLORD NELSON, U.S. SENATOR FROM WISCONSIN

Senator NELSON. Mr. Chairman, I would ask that the full text of my statement be printed in the record as though read, and I can save some time by not reading all of the detail. Subsequent witnesses will cover some of the same material, in any event.

Then I would ask unanimous consent that at the conclusion of my remarks an editorial by the New York Times and one by the Milwaukee Journal endorsing the amendment which is pending before the committee be printed in the record.

The CHAIRMAN. That will be made a part of the record.

Senator NELSON. Mr. Chairman, I appreciate the opportunity to appear before the subcommittee today as you hear testimony on various legislative measures which would reform the Energy Policy and Conservation Act. I would like to confine my remarks to S. 2035, a bill I introduced on November 20, 1979, which would amend section 503(b)(1) of the Motor Vehicle Information and Cost Savings Act as amended by the EPCA.

The amendment I am discussing today proposes an adjustment of existing fuel economy law for purposes of computation. It modifies the manner in which the Department of Transportation may allow the inclusion of domestically produced foreign automobiles for determining measures of fuel economy. At the beginning of my remarks I wish to make it clear that this amendment does not—and I emphasize, does not, seek a Federal subsidy or a loan guarantee. It does not seek a change in the existing laws governing air quality or fuel economy achievements.

It does not change the fuel economy capability of any domestic auto manufacturer and it does not open the doors of the American automobile market to foreign imports or to domestic manufacturers seeking to avoid the fuel economy standards of the Energy Policy and Conservation Act.

The only impact of this amendment is to relieve American Motors from paying a fine for its inability, temporarily, for about a 3-year period—temporarily—to meet a congressionally mandated deadline on the domestic content level of American produced Re-

nault automobiles. If this fine were imposed it would not, and I emphasize, it would not speed up compliance with the law, because American Motors is proceeding as rapidly as it is feasible to do so.

American Motors only signed its agreement with Renault Motors last summer. It will not in any way affect the mileage achievement of American Motors' fleet. And I emphasize that, this amendment will not change the mileage achievement of the American Motors fleet by any fraction of a mile, because the same cars will be marketed whether or not a fine is imposed.

It will only impose a financial penalty for failure to meet a mileage standard which was beyond their physical capacity to meet, and the only impact of the fine will be to reduce available capital at American Motors' disposal for automobile manufacturing.

S. 2035 would allow a small manufacturer, one who produced less than 300,000 passenger automobiles in 1978, to have the EPA administrator include in its corporate average fuel economy calculations up to 150,000 nondomestic passenger automobiles during model years 1980 through 1986; however, the inclusion would not be automatic. Rather, the manufacturer would have to make a yearly application to the Secretary of Transportation for a determination that (a) the ability of the manufacturer to meet the fuel economy standard for the applicable model year is primarily dependent upon technology developed by another manufacturer and (b), that the manufacturer lacks the ability to develop the necessary reasonable and economically practicable technology.

This bill is critical for the continued vitality of an important entity in the highly competitive automobile industry; namely, American Motors Corp.

In the case of American Motors, this bill would allow them to remain in compliance with Federal fuel economy standards which they otherwise would be unable to do, for a temporary period estimated to be 3 years. In addition it would provide them with sufficient time to reach the level of 75 percent domestic content on the fuel efficient Renaults, which they have recently agreed to produce in this country beginning in 1982.

The Renault, which AMC will begin producing in 1982, will have a 50-percent domestic content level for that first year; 60 percent in 1984; and 75 percent in 1985. Clearly, the AMC produced Renault will comply with the spirit of the existing law in 1983, and increasingly thereafter until it meets the legal requirement of 75 percent set by Congress.

However, the 75-percent figure might have been established, or could have been established, at 50 percent. It was an arbitrary percentage figure established by the Congress at the time, and if it had been 50 percent, American Motors wouldn't be here today to seek legislative assistance. This amendment wouldn't be here, American Motors wouldn't be asking for a temporary modification to permit them to comply with the law without having to be fined for it.

The CHAIRMAN. I might say that I generally am in agreement with a number of the things that you've said; however, twice you mentioned the fact that they would be in compliance within that 3-year period, and I'm wondering—as you know, we are considering

here as one of these amendments the 3-year carry forward-carry back provision. If they will be in compliance within the 3-year period, why do you need any additional adjustment?

In other words, why isn't that adequate? And if you're not prepared to address that, perhaps later witnesses from AMC can address that question.

Senator NELSON. I would ask that they address it. That issue has been raised. American Motors says that the carry forward-carry back is not sufficient to put them in compliance but they will be witnesses and be prepared to respond to your question.

The CHAIRMAN. Very good.

Senator NELSON. I think it is pretty clear that if they had reached the agreement with Renault 3 years ago, then they could've gotten to the 75-percent domestic content in the same span of time and would be in compliance with the statute. But, of course, that agreement wasn't made until this summer.

The CHAIRMAN. Senator Schmitt?

Senator SCHMITT. Thank you, Mr. Chairman. And thank you, Senator Nelson for your comments. I have a statement to make for the record, Mr. Chairman.

Mr. Chairman, 4 years ago Congress enacted the Energy Policy and Conservation Act which formalized a national policy that new automobiles sold in this country meet a schedule of increasingly stringent minimum fuel economy standards. Passage of this act followed soon after the 1973-74 oil embargo and the first series of dramatic increases in the world crude oil price. At that time, the fleet average fuel economy for 1974 model year cars was slightly less than 14 miles per gallon. This compares with a 1980 model year standard of 20 miles per gallon and 27.5 miles per gallon for 1985 and thereafter.

These fuel economy standards were established with the realization that this new program would require a major resource commitment by auto manufacturers to improve fuel economy technologies and that some program modifications could prove desirable as the program was put into place and administered. The Secretary of Transportation was therefore directed to submit to Congress an Annual Automotive Fuel Economy Report recommending any legislative improvements the Secretary believed necessary. The third annual report was submitted in January 1979 and identified certain policy issues which the subcommittee will address this morning.

I am happy that the Commerce Committee is maintaining a continuing interest in the fuel economy standards. This program has a major impact on our national energy conservation objectives as well as ability of U.S. auto manufacturers to compete in the world marketplace. It is a program that is most worthy of our continuing oversight, and I look forward to this morning's testimony.

Many years ago—as a matter of fact, in 1974, when I became involved with energy research and development in directing NASA's programs—it was obvious that we had been taking the wrong approach with respect to environmental standards. That is we were requiring emissions to be cleaned up in engine exhaust

rather than having required, or begun the effort a long time ago to develop more efficient propulsion systems.

Now with these fuel economy standards we actually began to get on the right track, and it is my hope that we can stay on that track. I also understand however, that because of these and other regulations, standards and tax problems we really reduce the economic margins for success for any company, not just AMC. It may be that in the course of these discussions we can get more deeply into those kinds of issues. Hopefully, though, we're now on track toward developing more efficient propulsion systems.

Still we're dealing with an internal combustion engine for the most part, which has some very inherent efficiency and pollution limitations. I feel very strongly that in our future there are better propulsion systems than the internal combustion engine, but this development is going to take some time.

Senator NELSON. Let me say to the committee, I would not support a proposal that modified the law on the fuel economy achievement at the fleet level. I introduced the first legislation in the Congress on mileage achievement and I feel very strongly about it.

The problem here, simply, is that all that would happen to American Motors is they would be fined during a 2- or 3-year period because they didn't have, or they couldn't count the foreign cars that they were assembling and making in this country, because the domestic content of those cars, was less than 75 percent. They will be starting out at 50 percent, and then go to 60 and then, within the third year as I understand it, they will be at 75 percent.

So it would not change the composition of the fleet that went onto the highway; it wouldn't change the mileage achievement of that fleet that went onto the highway; it would change nothing except impose a penalty upon American Motors reducing that amount of available capital that they have for purposes of putting automobiles out onto the highway. And that is, in my judgment, nonproductive, particularly so since there is nothing they could do about reaching compliance on the statutory deadline, which was set by the Congress in advance of any agreement—substantially in advance of any agreement reached between American Motors and Renault.

So, without this amendment the only thing that happens is they pay a fine.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman. Let me just say at the outset that I appreciate your leadership in moving forward on these items, especially so early in the year. Those that Senator Nelson has spoken about and the others that we will be addressing later in the morning are complex.

Senator Nelson, I think you make a very compelling case and argument here, and I would just like to touch on two or three points with you, so that I'm sure they are clear in the record. As I understand your testimony here, AMC is on track in terms of making the best good faith effort they can to meet the requirements that we are talking about here, that they are moving as rapidly as they can. Is that fundamentally the case?

Senator NELSON. That is correct. They will be here to testify as to the exact specifics, but as I understand it they will have the

domestic content when they start in 1982 of 50 percent; it will go the next year to 60 percent; it will go the next year to 75 percent. And that is as fast as they can tool up to reach a 75-percent domestic content in that Renault which is going to be built in their plant at Kenosha, Wis.

And they are prepared to address that question better than I, but we have discussed it and I think there is no way that physically they can advance to the 75-percent domestic content any faster.

Senator RIEGLE. That is also my sense for it. I think it is far preferable that we have domestic manufacturers building the cars with a maximum percentage of American componentry and work effort, rather than foreign manufacturers. Today we are seeing a tremendous inroad of foreign built automobiles, particularly Japanese vehicles, totaling about 15 percent of the total U.S. market. This is creating enormous economic dislocations, not just with auto workers, but going on all through our economy.

So let me ask this: Do you have a clear sense for what would happen to American Motors if we were not able to accommodate this rather modest adjustment to enable them to make this transition?

In other words, if they are not able to do this, what will be the implications for the company, as nearly as you understand it?

Senator NELSON. Since better witnesses are here to testify to that, I would rather not comment at length. They would be fined millions of dollars each year, and as we all know, American Motors is our smallest domestic manufacturer. They have had a successful year this year and they are the biggest producer of the Jeep—that is the biggest vehicle of its kind produced in this country and, I think, in the world. I think AMC is a viable company; and all this statutory requirement, if held to, would do is to reduce the available capital they have, and to that extent reduce their capacity to compete.

I think the last thing we want to do is reduce the capacity of this company to compete when it is the smallest of the automakers. I agreed and voted for the original provision for 75 percent domestic content, but I am sure if you said at that time, "Now, here is a company that is going to reach an agreement,"—if we had known that, and AMC didn't, know that either,—and they will be able to reach this 75 percent domestic content by X date. I believe that we wouldn't have passed the statute just arbitrarily, imposing a fine on firms not able to meet the date that the Congress said they ought to meet, when we aren't in the business of making automobiles.

While standard is something they can't comply with in 1982 they're going to meet it in a 3-year period and there is no sense in us reducing their capacity to compete at any stage in history, let alone this one.

Senator RIEGLE. I think another statistic that reinforces the argument that you're making is that our—the second largest item in the balance of payments deficit is, of course, in the motor vehicle account. It comes right after oil and our deficit just in motor vehicles last year will be something approximating \$10 billion. This is a serious national problem I think it is absolutely vital that our domestic manufacturers make this difficult transition so they can

stay in business and keep the jobs and the economic strength in the United States. In going through these companies one by one I know that the problems that face Ford or General Motors or Chrysler or AMC are all different. We have to be intelligent in making sure that we are pursuing broad national objectives that we all agree on, in a fashion that allows each of these companies to work way through the particular problems that it face.

So I think your request is a reasonable one, and I hope that we can proceed along these lines.

Senator NELSON. I would just like to add, in view of our situation with employment in the auto industry, it is very encouraging that American Motors is going to be expanding the number of employees as Renaults are built in Kenosha, Wis. They are going to add to the number of employees, while you've got other companies reducing their number of employees.

And though American Motors is a small automobile manufacturer, compared to Ford and Chrysler and General Motors, it is a very significant part of our economy. It employs, right now, directly—this doesn't count the indirect employees who have suppliers, equipment materials in Illinois and Indiana and Iowa and other factories in our own state and elsewhere—they employ now 12,550 people and they're going to increase their employment as they open up the Renault line in Kenosha.

And their payroll, direct payroll, is \$227 million. So I think it is important that we encourage the expansion and development of a company like this, if all it requires is a technical modification on the date that they must reach a standard that we set some time back.

The CHAIRMAN. Thank you very much, Senator.

Senator SCHMITT. Mr. Chairman, Senator Nelson, I don't know whether you know the answer to this question or not, but it's my understanding that Volkswagen has found that the cars manufactured in the United States—are more fuel efficient than those manufactured in Europe.

Do you know if AMC has yet had any experience along this line?

Senator NELSON. No, I don't, but they have a witness here today, Senator.

Mr. CHAIRMAN, I want to thank Ms. Claybrook for allowing me to appear prior to her schedule, so that I can get over to the windfall profits tax conference in the House. Thank you.

The CHAIRMAN. Thank you very much.

[The statement follows:]

STATEMENT OF HON. GAYLORD NELSON, U.S. SENATOR FROM WISCONSIN

Mr. Chairman, I appreciate this opportunity to appear before the Subcommittee today as you hear testimony on various legislative measures which would reform the Energy Policy and Conservation Act (EPCA). I would like to confine my remarks to S. 2035, a bill I introduced on November 20, 1979, which would amend Section 503(b)(1) of the Motor Vehicle Information and Cost Savings Act (MVICSA), as amended by EPCA.

The amendment I am discussing today proposes an adjustment of existing fuel economy law for purposes of computation. It modifies the manner in which the Department of Transportation allows the inclusion of domestically produced foreign automobiles for determining measures of fuel economy. At the beginning of my remarks I wish to make it clear that this amendment does not seek a federal subsidy or loan guarantee. It does not seek a change in the existing laws governing

air quality or fuel economy achievement. It does not change the fuel economy capability of any domestic auto manufacturer. And it does not open the doors of the American automobile market to foreign imports or to domestic manufacturers seeking to avoid the fuel economy standards of the Energy Policy and Conservation Act.

The only impact of this amendment is to relieve American Motors from paying a fine for its inability, temporarily, to meet a congressionally mandated deadline on the domestic content level of American produced Renault automobiles. If this fine were imposed, it would not speed up compliance with the law because American Motors is proceeding as rapidly as it is feasible to do so. It will not in any way affect the mileage achievement of American Motors fleet because the same cars will be marketed whether or not a fine is imposed. It will only impose a financial penalty for failure to meet a mileage standard which was beyond their physical capacity to meet.

The only impact of the fine will be to reduce the available capital at AMC's disposal for automobile manufacturing.

Section 503(b)(1) of the EPCA Act provides that the EPA Administrator shall separate a manufacturer's total number of passenger automobiles into two categories:

First, passenger automobiles which are domestically manufactured; and second, passenger automobiles which are not domestically manufactured.

Each category must comply with fuel economy standards. In effect, they are treated as if manufactured by a separate manufacturer.

Under existing methods for computing fuel economy, an automobile manufacturer may include nondomestic passenger cars in its domestic fleet if 75 percent of the value of the car is attributable to value added in the United States or Canada. If 75 percent of the manufacturer's component cost of the vehicle originates in the United States or Canada, then that vehicle is considered to be domestic, by definition.

S. 2035 would allow a small manufacturer, one who produced less than 300,000 passenger automobiles in 1978, to have the EPA Administrator include in its corporate average fuel economy (CAFE) calculations, up to 150,000 nondomestic passenger automobiles during model years 1980 through 1986. However, the inclusion would not be automatic. Rather, the manufacturer would have to make yearly application to the Secretary of Transportation for a determination that (a) the ability of the manufacturer to meet the fuel economy standard for the applicable model year is primarily dependent upon technology developed by another manufacturer; and (b) that the manufacturer lacks the ability to develop the necessary reasonable and economically practicable technology.

If the Secretary makes these determinations, the Administrator of the Environmental Protection Agency would then be directed to include up to 150,000 nondomestic passenger cars in such manufacturer's domestic CAFE.

Mr. Chairman, this bill is critical for the continued vitality of an important entity in the highly competitive automobile industry; American Motors Corporation. In the case of American Motors, the bill would allow them to remain in compliance with federal fuel economy standards, which they will otherwise be unable to do after model year 1981. In addition, it will provide them with sufficient time to reach the level of 75 percent domestic content on the fuel efficient Renaults which they have recently agreed to produce in this country beginning in 1982.

The Renault which AMC will begin producing in 1982 will have a 50 percent domestic content level that first year, 60 percent in 1984, and 75 percent in 1985. Clearly, the AMC-produced Renault will comply with the spirit of the existing law in 1983 and increasingly thereafter until it meets the legal requirement of 75 percent set by Congress. However, the 75 percent figure might have been established by Congress at 50 percent at the outset, in which case the AMC-produced Renault could have complied with the law initially. Consequently, this legislation attempts to modify a difference of degree, not a difference of kind. This amendment adjusts an existing law for purposes of computation; it does not create an exception where there was none before.

This amendment does not alter the Act's fuel economy standards, nor is it a means for a manufacturer to seek a waiver of those standards. In fact, the Department of Transportation in reviewing this bill concluded that the quantitative impact of this bill upon the national fuel economy objective is insignificant. Similarly, the fuel economy of the AMC vehicles is completely unchanged by this amendment since the bill deals only with fuel economy computation.

This bill is in no way connected to a compromise of air quality standards. No reduction in air quality will occur as a result of this bill inasmuch as the amend-

ment does not include an emission control component. All current air quality standards will continue to apply in full force.

Moreover, any inclusion of non-domestic passenger automobiles would not be automatic under this amendment. For each year in which the manufacturer wishes to have a number of non-domestic passenger automobiles included in its fuel economy calculations, it must apply to the Secretary of the Department of Transportation for a two-fold determination. First, the Secretary must determine that the ability of the manufacturer to meet the average fuel economy standard in the model year for which the application is made, is primarily dependent upon reasonable and economically practicable technology which is not within the ability of the manufacturer to develop. If the Secretary makes these determinations, the Environmental Protection Agency Administrator would then be directed to include up to 150,000 non-domestic passenger cars in such manufacturer's average fuel economy.

Mr. Chairman, this bill is critical for the continued vitality of an important component in the highly competitive automobile industry, namely, American Motors Corporation. American Motors is committed to playing a crucial role in United States automobile manufacturing.

Due to its limited resources, American Motors can not assume the role of a technological innovator in the capital intensive automobile industry. For this reason, American Motors' engineering efforts must be restricted primarily to technology application. This process of applications requires "lead time" before available technology can be applied to American motors' automobiles in order to increase fuel efficiency. By applying technology gained from others and by following its corporate strategy, American Motors will continue to be able to meet the federal fuel efficiency standards through model year 1981. However, its ability to meet the standards beyond the 1981 model year depends upon permission to include in the fuel economy calculations those Renault vehicles manufactured in part and assembled by American Motors in the United States.

However, Mr. Chairman, I believe that enactment of this legislation will benefit not only American Motors, but also the American people in a wide variety of ways.

By permitting American Motors to remain a viable automobile manufacturer, the amendment will foster continued competition in the auto industry. Moreover, by allowing AMC to gain from its agreements with Renault, the public will also benefit from the fuel efficient vehicles which will now be produced in the United States. Enactment of this legislation will also protect the jobs of current American Motors' employees, as well as expand future job opportunities within American Motors. It is for this reason that this bill has received the unqualified support of both the United Automobile Workers and the National Automobile Dealers Association. American Motors now employs 30,000 persons, principally in Michigan, Wisconsin, Ohio, Indiana and Ontario. The Corporation has 2,200 dealers who employ an additional 45,000 persons as well. This bill will preserve jobs, ensure the infusion of foreign capital from Renault, improve the balance of payments, and work to reduce our dependence on imported oil. This bill represents a combination of benefits for which the American people will not have to pay a penny. There will be no financial costs and no federal revenue tax losses. There will be no environmental compromises and no significant modification of fuel economy. In short, this is a bill which everyone can support.

Mr. Chairman, I want to submit for the Record two editorials, by The New York Times and the Milwaukee Journal, which express enthusiastic support for this amendment.

I thank you, Mr. Chairman, for the opportunity to appear before you today.

[From the New York Times, Dec. 11, 1979]

A WAY TO PRODUCE SMALL CARS FASTER

There are good ways and bad ways to bend the rules for automakers. Chrysler, for instance, needs money desperately. One bad way to help would be for Washington to guarantee it billions of dollars with few strings attached. American Motors, on the other hand, needs a waiver of the rule that counts only those cars produced largely in the United States in calculating the average mileage per gallon for an automaker's fleet. The company would like to include in its average a new, small, Renault-designed car that will be assembled in the United States from parts that for a short time will be imported mostly from France. We think The Government would be wise to give the waiver. It will provide more high-mileage cars in 1982 and 1983, and more jobs in American assembly plants.

Present law requires that at least 75 percent of a car, measured by the value of its parts, be made in the United States before it can figure in a company's average

mileage. This rule was meant to insure that multinational manufacturers like Ford and General Motors would build small cars here rather than selling more cars that they produce abroad.

But since the legislation was passed, the danger has almost disappeared. The United States is now a relatively cheap place to build cars, with wages and production costs below those of northern Europe. Volkswagen is already producing here, the Japanese are studying the possibilities, and Ford and G.M. are rushing to build their own domestic small cars. American Motors wants to get into the act quickly.

The company does not want to evade the 75 percent rule for long. It plans to reach that level of American-made parts by 1984. Considering the cost of French parts, it would probably be delighted to reach the goal sooner. But it cannot get French-designed parts build that fast in the United States.

American Motors found a creative answer to the urgent problem of building small cars when it teamed up with Renault. If the cars that result are included in the company's average mileage figures, American Motors will meet the standard of 24 miles to the gallon in 1982 and the 26-mile standard in 1983. Washington should be equally creative in releasing the company from the 75 percent rule for a few years.

[From the Milwaukee Journal, Nov. 18, 1979]

HELPING AMC SURVIVE THE COUNT

American Motors is asking Congress for a break so that the automaker can comply with the main intent of the federal law that sets auto fuel-efficiency standards. We believe that AMC deserves relief.

In general, the fuel standards law is reasonable. It exists for an increasingly important cause—energy conservation. However, a provision of the law could have a perverse effect on the AMC. The company could be heavily fined for its very attempt to meet the fuel-economy requirements.

Why is AMC in trouble? As the smallest of the four major domestic auto producers, it always has had to scramble to keep its head above water financially. Thus, in order to produce the small, fuel-efficient autos that both the law and the marketplace are demanding, AMC has turned to partnership with Renault, the big French auto firm. AMC's problems with the fuel-efficiency standards stem from the AMC-Renault combination.

AMC soon will be assembling little Renaults at its Kenosha plant. These cars will meet the ever-tightening fuel-efficiency standards mandated by Congress. But there is a catch. The current law says that AMC can't count those Renaults in calculating its fleetwide fuel-economy average. Unless it is allowed to do so, it will face fines beginning in 1982 estimated at between \$19 million and \$38 million a year.

Why can't AMC count those Renaults? The reason has to do with protecting jobs in the U.S. auto industry, not with promoting fuel-efficient autos. In writing the law, Congress wanted to force domestic auto companies to manufacture fuel-efficient cars in the U.S.—thus saving jobs here. So Congress decreed that imports could not be counted in the fleetwide fuel-efficiency averages unless the imports were at least 75 percent American-made. That arbitrarily established percentage is AMC's hangup.

AMC says that even though the Renaults will be assembled in Kenosha, the U.S. content will not reach 75 percent until at least 1985. The irony is that the Renault assembly process actually will create jobs in Kenosha and the rest of Wisconsin.

In contrast, the imposition of federal fines would weaken AMC financially and threaten domestic jobs. Moreover, the auto firm worries, with justification, that the ensuing image of fuel-efficiency—even though false—would further erode the company's car sales and competitive position.

The automaker's answer is for Congress temporarily to allow AMC to count up to 150,000 of its Renaults annually in its fleetwide average until the 75 percent content level can be reached. The company accurately claims that little or no degradation in fuel economy would occur since the Renaults are efficient and AMC's other models would be competitive in fuel economy with their GM, Ford and Chrysler counterparts.

Admittedly, the present law already has considerable elasticity, which might allow American Motors to get through the regulatory squeeze. The law, for one thing, allows a company to "bank" any efficiency savings gathered from exceeding the fuel standard. These savings can be applied one year forward or backward, thus helping a company comply in the future or wipe out a past transgression.

One year's savings would not particularly help AMC, but there is a strong chance that Congress will extend the carry-forward, carry-backward provision to three

years. The odds are about even that AMC could conform to the fuel-efficiency standard if it could use the three-year provision. At the least, Congress should approve that modification.

AMC also has a second option. The law allows penalties for noncompliance to be reduced or waived if they threaten to wipe out a company or lessen competition in the industry. AMC can make a strong case that its presence is vital to keep an already heavily concentrated auto industry competitive. However, it would first have to be stigmatized as noncompliant, which would be unfairly seen in the public marketplace as evidence of fuel inefficiency, not technical entanglement.

We're inclined to believe the surest and fairest form of relief is a bill sponsored by Sen. Nelson (D-Wis.). It would allow AMC to count Renaults in its fleetwide average if, upon annual analysis, the U.S. secretary of transportation first determined that AMC could not otherwise meet existing requirements.

Invariably AMC's request will be compared to Chrysler's questionable appeal for U.S. help. There is little comparison. Chrysler is asking for a billion dollar bailout. American Motors is not requesting a cent. Furthermore, AMC is not asking for a lessening of the fuel-efficiency standard. The Renaults it wants to assemble—and count—will meet the test.

THE CHAIRMAN. I might say to my colleague that his statement is correct, because they make the Rabbits here and they make the Porsches and Audis, both of which are bigger in Europe, and so they do get better mileage.

Senator SCHMITT. Well, that would make a difference, but I was speaking about similarly designed cars which for some reason, the manufacturing process over here made more efficient.

THE CHAIRMAN. Well, that will be interesting to hear from them, to see if that's correct.

Ms. Claybrook?

STATEMENT OF JOAN CLAYBROOK, ADMINISTRATOR, NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION; ACCOMPANIED BY MICHAEL FINKELSTEIN, ASSOCIATE ADMINISTRATOR FOR RULEMAKING; BARRY FELRICE, ASSOCIATE ADMINISTRATOR FOR PLANS AND PROGRAMS; RHOADS STEPHENSON, ASSOCIATE ADMINISTRATOR FOR RESEARCH AND DEVELOPMENT; AND STEVE WOOD, ASSISTANT CHIEF COUNSEL FOR RULEMAKING

Ms. CLAYBROOK. Thank you, Mr. Chairman. I'm pleased to appear before your subcommittee to discuss S. 1583, S. 2010, and S. 2035, and the administration's proposals relating to the automotive fuel economy program under title V of the Motor Vehicle Information and Cost Savings Act.

With me today are: Michael Finkelstein, Associate Administrator for Rulemaking, Barry Felrice, Associate Administrator for Plans and Programs, Rhoads Stephenson, Associate Administrator for Research and Development, and Steve Wood, Assistant Chief Counsel for Rulemaking.

The Energy Policy and Conservation Act, enacted on December 22, 1975, was designed to increase domestic energy supplies and availability, restrain energy demand and plan for coping with energy emergencies. As an integral part of its provisions for conservation, title V, "Improving Automotive Efficiency," was established, requiring the Secretary of Transportation to set corporate average fuel economy standards for passenger cars and light trucks.

These standards make significant contributions to the Nation's total effort to conserve energy. Projected cumulative passenger automobile fuel savings from model year 1978 through model year 2000 will approximate 395 billion gallons or 9.4 billion barrels. Comparable fuel savings for light trucks are estimated to be approximately 114 billion gallons or 2.7 billion barrels.

Thus, total fuel savings should be more than 500 billion gallons over the next 20 years. This is equivalent to a 20-percent savings—compared to prestandard consumption levels—and will provide the Nation with the equivalent of an additional 4-year supply of gasoline for its passenger car and light truck fleet.

These savings over the 1978–2000 period yield a combined discounted present value of approximately \$215 billion. That is in 1979 dollars. In the year 2000 alone, the savings for passenger car owners are estimated to be \$12.1 billion and \$3.7 billion for light trucks, resulting in a combined present value of \$15.8 billion.

Consumer savings from the fuel economy standards are significant. The average purchaser of a 1985 model year car, for instance, is expected to realize a net savings over the vehicle's lifetime of \$1,540—present value of fuel savings minus estimated retail price increases—when compared to a model year 1977 automobile. Likewise, the average purchaser of a model year 1981 light truck is expected to realize a net savings of \$1,240 over the average 1978 vehicle.

In administering the fuel economy program, we try to be alert to any difficulties that the manufacturers may encounter in meeting the standards. We have been willing to respond to reasonable requests for changes, consistent with the statutory mandate to attain the maximum feasible average fuel economy level for each year.

The National Highway Traffic Safety Administration conducted an analysis of the need for changes in the fuel economy program for our January 1979 Report to Congress, as required by section 502(a)(2) of the Cost Savings Act. As part of this analysis, we sought the views of the manufacturers and the public on possible program improvements. One of our prime concerns in developing our legislative recommendations was to minimize unnecessary burdens on the vehicle manufacturers while still securing substantial improvements in automotive fuel economy.

In that report on automotive fuel economy, we recommended three amendments to the act. These amendments, together with an additional fourth amendment, are now incorporated into a departmental draft bill transmitted to the Congress last December.

The first amendment would amend section 502(c) of the act to exempt passenger car and light truck manufacturers producing fewer than 10,000 vehicles per year from both the fuel economy standards and the act's semiannual reporting requirements. The production volume of these manufacturers is so low that there is minimal gasoline saved through such regulation and their economic and technical capabilities to make necessary fuel economy improvements are severely limited. An exemption for these manufacturers would therefore have no significant effect on fuel economy and would save both the manufacturers and the government a lot of unnecessary work.

The low volume manufacturer would not, by this amendment, be altogether free from fuel economy considerations. Upon being certified each year by EPA, a fuel economy value for each of its base levels is established. This value becomes the basis for the Gas Mileage Guide, labeling provisions, and the "gas guzzler" excise tax. Therefore, although exemption from fuel economy standards and reporting would be granted, a limited amount of pressure to improve fuel economy would remain. In our view, this represents a constructive form of deregulation.

I do have a list, Mr. Chairman, of the manufacturers who would be exempted by this amendment and the amount of excise tax they would pay this year and in 1986. If you wouldn't mind, I would like to submit that for the record.

The CHAIRMAN. Without objection, that will be made a part of the record.

And, Ms. Claybrook, if I may at this time, the Armed Services Committee is being briefed this morning on the military situation in the Mideast, and so I'm going to have to leave and Senator Stevenson will take over. I don't want anyone to get the idea that this is any indication of lack of interest on my part, because I am very much interested in this, and I hope with my colleagues that we can work out some reasonable solutions. And I certainly will read all of the testimony with interest.

And I thank Senator Stevenson for taking over for me.

Ms. CLAYBROOK. Thank you very much, Mr. Chairman.

[The following information was subsequently received for the record.]

LOW VOLUME MANUFACTURERS

MANUFACTURER	LOCATION	PROJECTED SALES FOR MY 1980 [] ^c	FUEL ECONOMY ^{1/}		GAS GUZZLER ^{4/}	
			1978	1979	1980	1986 ^{2/}
Aston Martin	Buckinghamshire, England	[] ^c	Not Certified	11.5	[] ^c	\$550 \$3,850
Avanti	South Bend, Indiana	200	16.4	16.4	16.4	0 1,850
Checker	Kalamazoo, Michigan	4596	17.6	16.5 ^{2/}	18.6	0 1,050
Excalibur	Milwaukee, Wisconsin	250	11.5	11.5	14.0	200 2,700
Lamborghini	Bologna, Italy	120	Not Certified	11.5	12.0	550 3,850
Maserati	Modena, Italy	500	12.5	12.5	11.5 ^{3/}	550 3,850
Rolls Royce	Cheshire, England	[] ^c	10.7	10.7	[] ^c	550 3,850
	TOTAL	7,000		AVERAGE	15.6	

^{1/} Manufacturers' projections.^{2/} EPA estimated fuel economy was reduced due to an increase in the road load horsepower setting.^{3/} Maserati has added a new model with lower fuel economy.^{4/} Tax calculation is based on no improvement in fuel economy above projected 1980 levels.^{5/} NOTE: Brackets [] denote Confidential Information.

Ms. CLAYBROOK. I would like to point out that some of the companies in 1980 would pay as much as \$550 per vehicle in excise tax under the existing excise tax requirements, and by 1986 some of them would pay as much as \$3,800 per vehicle in excise tax.

I would also like to point out that 72 percent of the production that would be exempted from compliance with the fuel economy standards is U.S. production.

The second amendment would amend section 503(b)(1) of the act to allow a manufacturer to average U.S.-assembled automobiles with its imports if U.S. production began after the act was passed. This amendment would be consistent with the purpose of section 503(b)(1), in that it would help domestic employment by encouraging foreign manufacturers to build cars in this country, as Volkswagen has recently done, using a high percentage of U.S.-made parts and materials.

Absent such an amendment, VW would be forced to continue using less than 75 percent domestic content of parts and materials in their U.S.-built vehicles. We intend to pay careful attention to any discussion in subsequent testimony concerning the economic and competitive effects of this amendment.

The third amendment—listed fourth in the order of our bill—would amend section 508(a)(3)(A) of the act to modify the automotive fuel economy system of credits and penalties to allow the credits a manufacturer may earn to be carried forward or backward for 3 years instead of the current 1 year. This amendment is designed to facilitate compliance by manufacturers in the unlikely event that they may be unable to meet the required levels during a given year due to unforeseen circumstances. It is not intended either that manufacturers, other than those that are financially troubled, would use the extended credit period routinely or that any manufacturer would exploit it in order to deliberately delay fuel economy improvements in later years.

Accordingly, our first three amendments are substantively identical to amendments proposed in S. 2010.

The fourth amendment would amend section 507 of the act to exempt a manufacturer from a finding of unlawful conduct for its failure to comply with a fuel economy standard if it has earned sufficient credits in the 3 years prior to the year of the penalty to completely offset such penalty. The section would also provide relief from a finding of unlawful conduct to a manufacturer that has not earned sufficient credits before the year of penalty, on the condition that the manufacturer submit a plan showing that it will earn sufficient credits during the following 3 years to offset the penalties. If the manufacturer, despite its plan, has a net penalty at the end of the 3-year carry-back period, it would be considered to have acted unlawfully. The amendment would thus continue the statute's emphasis on compliance.

The only difference between our fourth amendment and similar provisions in S. 2010 and S. 1583 is that while each of the bills would provide relief from a finding of unlawful conduct to a manufacturer that has not earned sufficient credits before the year of penalty, our bill would condition that relief on the submission by the manufacturer of a plan showing that it will earn sufficient credits during the following 3 years to offset the penalties.

The submission of the plan would not affect a finding of unlawful conduct if the manufacturer, despite its plan, has a net penalty at the end of the 3-year period. However, it is our view that the very process of developing such a plan and its review could contribute significantly to assuring its achievement and thus contribute to the success of the program.

We have mixed feelings about S. 2035, the bill designed to permit American Motors Corp. to include up to 150,000 nondomestic passenger automobiles in its corporate average fuel economy. We are very concerned about the economic well-being of the smaller domestic manufacturers and we do not want the fuel economy program to limit unduly the efforts of those companies to prosper in the marketplace. AMC's recent arrangement with Renault appears to be a creative solution to their mutual problems and should, in the long run, promote the goals of improved fuel economy, higher domestic employment, and increased competition in the domestic auto industry. In preparing our 1979 report to the Congress on the fuel economy program, we considered a variety of approaches to minimize the potential adverse impacts of the fuel economy program on limited product line manufacturers such as American Motors. The provisions discussed today, for a 3-year carry-forward/carry-back of credits and the elimination of the unlawful conduct characterization where credits exist to offset civil penalties, were designed to provide additional flexibility for manufacturers such as American Motors which have unique problems of a few years' duration.

Our preliminary analysis of the American Motors/Renault joint product plan through 1987 indicates that our legislative proposals adequately take care of AMC during the transition to full domestic production of the Renault vehicles. Credits earned by AMC in 1980, 1981, and 1985-87 should more than offset any civil penalties incurred during the 1982-84 period. Absent a clear need for the special provision AMC is requesting, we are naturally reluctant to support such legislation.

We are also concerned that S. 2035 does not require any showing of need for the waiver. Rather, AMC must only demonstrate that it cannot develop on its own the technology needed to meet fuel economy standards. AMC purchases engines, transmissions and a variety of other components for its passenger automobiles, and the question of whether it can purchase the technology to meet fuel economy standards is also highly relevant.

On the other hand, the adverse energy consequences of adopting S. 2035 are minimal, compared to requiring complete reliance on domestic vehicles to meet fuel economy standards. Employment at AMC may be reduced in 1982-84 compared to levels which would exist if the company focused its resources on improving the fuel economy of its current vehicles. However, long-run employment will likely be higher at AMC under its current plan of producing the high fuel economy, front-wheel-drive Renault vehicle. On the basis of available data, we are not able to predict what the net effects of the amendment would be on employment.

We are unable to conclude that the AMC proposal is either needed or appropriate at this time, although the adverse impacts of adopting the proposal appear quite small and speculative. There

are questions still to be answered about the effect of the amendment on employment and competition. If such an amendment were to be enacted, however, it should be given a sunset date of 1985, to encourage AMC to proceed expeditiously with its conversion. We favor waiting to determine whether AMC does in fact have a real problem before enacting their proposal.

On the subject of long-range fuel economy, I would call your attention to the provisions of S. 2015, the Transportation Energy Efficiency Act, under which a total of \$200 million over 10 years would be authorized in conjunction with the windfall profits tax for carrying out fuel economy technology assessment under the Motor Vehicle Information and Cost Savings Act.

The act would enable us to undertake a rigorous assessment of technology to determine what fuel economy improvements are commercially achievable beyond 1985. Among the projects to be addressed under this act would be projects on engine and drive-train technology, diesel emission controls, transmission optimization, and advanced materials and structures. Such an assessment is essential to the success of long-range fuel economy planning.

This completes my statement. I would be pleased to answer any questions you might have.

Senator STEVENSON [presiding]. Thank you.

We are going to hear later today from AMC, and I understand that they are going to say that they are doing everything possible to comply with the 1982-85 standards. They are discontinuing their least efficient models and concentrating production on their most efficient models.

Is there any realistic way, including through the development and production of technology, that they could bring those most efficient models into compliance with the 1982-85 standards?

Ms. CLAYBROOK. Not to our knowledge, Mr. Chairman. We have accepted on face value what AMC has told us, and they will be carrying forward credits, substantial credits, beginning in the year 1982. The proposal that we have made to the Congress of a 3-year carry-back/carry-forward provision would allow them to carry those credits forward so that, for whatever lack of fuel economy they have in the 1982-84 period, those credits would counterbalance much of it.

Additionally, presuming that in 1985 their Renault vehicle is up to 75 percent domestic content, they could then carry back, for 3 years from the extremely effective fuel economy that they would achieve from that vehicle. And based on the latest calculations that we made from a letter that we received from AMC just last week, the carry-forward plus the carry-back provisions would more than compensate for the lack of fuel economy in the 1982, 1983, and 1984 models.

The material that they submitted to us, Mr. Chairman, is confidential. So I would suggest that you ask AMC to give you greater details. Or if they would like to release us, we would be glad to do that.

Senator STEVENSON. But generally, you think we ought to wait and determine on the basis of experience whether the carry-forward and the carry-back credits are enough to carry them through?

Ms. CLAYBROOK. Based upon our best calculations of what AMC plans to do, we think the credits will do that. The position of the Department is that we recommend the carry-back/carry-forward as a way of giving added flexibility for special, unforeseen circumstances within the industry. And there are already other provisions in the statute which allow for flexibility. One is, of course, noncompliance with the fuel economy standards. The result is to pay a penalty, but that is an option.

There is another provision I believe that AMC would certainly qualify for, which allows the Federal Trade Commission to recommend waiver of any penalties at all in order to ensure competition in the automotive industry. So that even should they not comply with the standards under the carry-back/carry-forward, that provision for waiver for enhancement of competition would also most likely apply.

Senator STEVENSON. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman.

There are several thoughts I would like to share and discuss. First of all, I think your presentation today is a helpful one and I appreciate your constructive and reasonable approach to these issues. You know as well as anyone, that this is a time of great stress within the domestic automobile industry. We have had an enormous change in circumstance, with the gas lines and the higher gas prices, and suddenly we have had a massive, and I think, a permanent shift in buying preferences.

So our domestic industry is caught in a very difficult and complex transition. It affects each company in the industry differently and they're all struggling to deal with it. Enormous capital requirements go with it and very difficult leadtimes of 2, 3, and 4 years in some cases. On top of that, there is an overlay of all the Federal standards, which are designed to achieve, at least in terms of our intent, good public purposes in terms of clean air and safety and fuel economy.

The inroads of Japanese imports, particularly just within the last several months, really is staggering to comprehend. I don't think anybody yet understands the strategic economic damage that's being done to the United States in terms of the penetration of a major industry of the sort that has taken place.

Japanese imports alone now constitute about 15 percent of the total sales in the U.S. market. In States like California the share of market is 42 percent. The balance-of-payments deficit in the motor vehicle account for the year just ended is probably close to \$10 billion. After oil, our second biggest problem is motor vehicles.

I think it is encouraging that the Department of Transportation is endeavoring to work in a more constructive way with the industry to try to resolve some of these matters and to help facilitate a reasonable and practical transition.

I would just like to say, Mr. Chairman, that about 2 weeks ago I received an unsolicited phone call from Secretary Goldschmidt, indicating that he felt something of a breakthrough had taken place in resolving one particular item that had been in contention between the Department of Transportation and the industry on a technical matter. He was just calling to say that he felt that this would be helpful. It would be helpful to the industry and to the

national economy. I was struck by his initiative in taking that step. It's the first time that's happened over a long stretch of years.

I thought that was a significant moment in terms of a desire to want to find answers that can work here and which are not unduly restrictive or harmful to the country in the larger sense.

With respect to the AMC situation, we will be hearing from them and so we will be able to evaluate their testimony directly. But in trying to respond to today's problems it seems to me that in any large and complex company, being able to plan with some certainty is really vital, especially if you are in a tight financial situation and you don't have much margin for error. We could be talking about any of the auto companies or other large, complex, industrial operations.

You have to be able to have some advance knowledge, so that you can lock yourself in to very expensive spending plans and can work through to a successful conclusion, especially with long lead-times.

In the case of AMC, I am particularly interested in the fact that they are getting involved in a very complex coproduction arrangement with Renault. That is a new development. Perhaps it is a feature of the world car market that is on the increase.

If we're going to err we ought to err on the side of making sure that the automotive manufacturers receive clear and reasonable signals from those implementing the Federal regulations that they need to have from an advanced planning point of view to be able to synchronize this coproduction arrangement. We must recognize that it takes place in phases over a period of years.

I think it is healthy that we have four domestic automobile manufacturers. I hope we will have at least four for a long, long time, because there are competitive advantages, advantages for our economic strength, and, of course, employment advantages.

When we consider the complexity of the situation, the fact that there is very little margin for error and that capital resources are very tight—money is available today only on a limited basis and only at a very high interest rate cost—I don't want to see us applying extra burdens that could end up being counterproductive.

I want to see maximum good faith compliance. I think it is occurring. As I watch what's taking place in the domestic industry today, I think every company is straining to its outer limits to make this conversion and this transition to this smaller fuel efficient cars. It's very difficult to do, especially when the Japanese are being so aggressive with tremendous cooperation from their government.

They don't have a big defense spending bill in Japan, so a lot of their capital resources go into their domestic industries. They keep our cars out of their market, but they are saturating our market here.

I'm not even sure that the pricing arrangements are fair. You can't, for example, buy the same Japanese vehicle in Japan at the low price that it is available here in the United States. One wonders how that is accomplished under any kind of definition of fair trade. But that's the way it is.

So, I would just conclude by saying that I appreciate the thrust of your testimony today and the willingness of the Department to

try to work out accommodations that are practical ones and not ones that make this transition problem more difficult. I think we are making some progress here. I appreciate the support on carry-forward/carry-back legislation that I have offered and the other matters that you discuss here. If we can continue to work in that vein we can make our way through this transition without doing lasting damage to our economy. It is vital that that be done.

Ms. CLAYBROOK. Thank you, Senator Riegle. I don't disagree with many of the things that you've said, and the intent and purpose of our bill is to try and work out some of the provisions of the statute in a way that works as effectively as possible.

One point the Department is making on the AMC provision is that we are attempting to write generic changes in the statute rather than ones that apply individually company by company. That was one reason for our position on that amendment.

Senator RIEGLE. I appreciate that distinction. I don't want to see us respond to the particular needs of one company to the strategic detriment of another company.

There is always that factor to consider and I am keenly concerned about that as well.

But we have an industry of only four companies to make a generic bill, and we have four specific situations. If we had 400, I think you'd have a different kind of case for a generic bill.

Given the pressures I think that we can afford to do some custom-tailoring. It is going to make sense to do that, not to create differential advantages that are of a strategic size, but simply to facilitate the companies in changing from the old ways and previous definition of what had to be done into the new realities.

I think if people are straining to their end limits to do that as quickly as they can, as competently and with good faith, that it is in our interest to find a way to facilitate that.

I'm as ready to do it for Ford as I am for AMC as I am for GM as I am for Chrysler because it is in the national interest that we do that.

Ms. CLAYBROOK. It is important to say, again, that we're very enthusiastic about the AMC/Renault arrangement. Our testimony does try to express an interest in seeing more cars manufactured in the United States where there are now foreign imported cars.

Senator STEVENSON. How do you feel about the proposal to permit manufacturers and importers to combine their U.S. produced and their imported cars provided the combination included at least 75 percent of the total value added in the United States?

Ms. CLAYBROOK. Our amendment, which has been dubbed the VW amendment, what I think you are referring to, is an attempt to correct a deficiency in the present law.

Senator STEVENSON. Excuse me. This is a suggestion that is different. I understand it is not VW; it is a Ford proposal.

Ms. CLAYBROOK. Would you repeat it, then? I'm sorry.

Senator STEVENSON. The proposal is to let either a manufacturer or importer combine his U.S. produced and his imported automobiles provided that for the combination, at least 75 percent of the value is added in the United States.

Ms. CLAYBROOK. We have not really considered such a proposal, so I don't think that I should speak for the Department of Trans-

portation and give you an answer, although we would be delighted to submit something for the record.

I presume that what would happen is that you would have the importation of a rather large number of captive imports; that is, cars manufactured abroad by the American manufacturers and brought into this country and averaged against their domestic fleet, which would mean that they would make fewer fuel economy improvements in the domestic fleet.

We have not favored that kind of a provision in the past. In the proceeding to establish the truck fuel economy standards for 1980 and 1981 models, we considered the issue of allowing that kind of importation. The Department decided law and policy argued against that.

So I presume that there would be some reluctance to support a provision like that because it would lead to reduced improvements in the fuel economy of the vehicles manufactured domestically.

Senator STEVENSON. You might have some adverse effects on U.S. employment.

Ms. CLAYBROOK. Yes; I think it definitely would. There's no question that the provisions in the bill we submitted to the Congress are intended to enhance U.S. employment.

Senator STEVENSON. Well, we would be glad to have further reaction to that proposal, if we could.

If there are no further questions, thank you very much.

Ms. CLAYBROOK. Thank you.

Senator STEVENSON. We're grateful for your help.

[The following information was subsequently received for the record:]

FUEL ECONOMY TECHNOLOGY ASSESSMENT PROGRAM

During 1977 the United States imported 8.2 million barrels of crude oil per day at a cost of \$45 billion. During the same period the U.S. trade deficit was \$26.5 billion. The high cost of oil and the uncertainty of supply make reduced dependence on imported oil essential to the interests of the nation. The fuel economy program has had substantial impact on petroleum usage and is projected to increase its effect beyond 1985, provided substantial further improvements in fuel economy which are technologically feasible for the new car fleets can be implemented by the automobile manufacturers. Further improvements in fuel economy beyond what is now projected by the manufacturers will require extensive redesign in new powertrains and substantial additional weight reduction. Such redesign will require continued high levels of spending by the manufacturers for engineering, tools and facilities and the manufacturers can be expected to challenge strongly the necessity to maintain or raise the fuel economy standards.

Establishment of the feasibility of further increases in the fuel economy of passenger automobiles and light trucks is expected to require increased budget levels for research for the following reasons: future fuel economy improvements will be harder to attain and will require more sophisticated technology than before; inflation has increased the cost of research; and there is increased pressure for better and more detailed justification for regulation.

PROGRAM OBJECTIVE

The Fuel Economy Technology Assessment Program is designed to complement our current Automotive Fuel Economy Research Program and to address emerging problems. A full range of technologies for the improvement of fuel economy of components and motor vehicles will be evaluated, tested, and demonstrated. The resulting data and demonstrations will show the consumer and the automotive manufacturers what can be achieved with known technology.

PROGRAM DESCRIPTION

The Fuel Economy Technology Assessment Program has three major components dealing with: (a) improved engines and drivetrains; (b) structural design improvements; and (c) fuel efficient prototype vehicles. The engine projects concentrate on spark ignition and diesel engines and will examine further improvements which can be commercialized during the next 5-10 years as well as evaluate future means of dealing with currently unregulated pollutants. This project enriches our evaluation of current engine technology providing more data on how far the manufacturers can go with changes to existing components and also addresses technologies in advanced stages of development. The structures project will more thoroughly examine analysis tools, materials substitution, and new structural concepts which will allow substantial weight reductions in future vehicles. The prototype vehicles project concentrates on the development of two vehicles to demonstrate the potential for energy savings while maintaining the utility of the vehicle.

The Fuel Economy Technology Assessment Program includes the projects listed below:

IMPROVED ENGINE AND DRIVETRAIN

1. *Research for improving the indirect injection (IDI) diesel engine for passenger cars and light trucks.*—The IDI diesel engine already provides more than 25 percent fuel economy improvement compared to equivalent gasoline engines. However, due to suspected carcinogenicity of diesel particulates, and known NO_x problems, this project will pursue aggressively techniques for control of emissions, without penalizing fuel economy. Combustion chamber design, particulate traps, and catalyst technology are areas where improvements are likely.

2. *Research on direct injection (DI) diesel engines for passenger cars and light trucks.*—DI diesel engines can provide a fuel economy about 10 percent higher than the IDI diesel engines currently available for automobiles. However, the engine speed limitation, noise, and emissions of current DI diesel engines make them unacceptable for light duty applications. Some promising results have been shown in the laboratory, for light duty application, and this project will further investigate this type of engine and its feasibility for cars and light trucks.

3. *Research on the optimum gasoline spark ignition engine.*—This project will evaluate alternative combustion chamber designs for maximum efficiency. It will also investigate the impact of variable valve timing, and the development of advance knock control for optimum combination of compression ratio, timing of ignition, and fuel properties. Engine designs for reduced engine friction will also be investigated.

4. *Research on advanced transmissions and controls of light-duty vehicles.*—In particular, this project will investigate the reduction of transmission losses, and the integration of transmission shifting with the engine control optimization. Vehicle speed control (or warning devices) integrated with cruise control will also be demonstrated to assess consumer acceptability and fuel savings.

5. *Research on heavy-duty truck engines.*—This project will have two components. One gives priority to assessment and demonstration of emission controls (especially for particulates) for well-developed conventional heavy-duty truck diesels. The second is to test and evaluate a fall-back, high efficiency, multi-fuel, stratified charge engine in the event that the emissions of diesel cannot be satisfactorily controlled.

6. *Research on the cost, capital, leadtime manufacturability, and scrappage and recycling requirements.*—This project will assess the levels of these requirements for implementation of improved engine and drivetrain components.

STRUCTURAL DESIGN IMPROVEMENTS

The major thrust of the structures research will be to develop creative interaction between all vehicle structural systems such that improved performance can be attained in: (1) fuel economy through structural weight optimization; (2) durability, damageability and reparability; (3) functional requirements; (4) energy management and (5) safety.

This creative interaction will require optimum material utilization in the vehicle structure; more skill and care in the design phase; and improved methodologies for analyzing the structure. The following activities will be conducted to reach these requirements.

7. Initiate research to develop and expand analytical methods and scale modeling techniques for predicting the response of structures and components composed of

new materials (e.g. non-isotropic plastic composites) and for optimizing vehicle design.

8. Initiate research to develop and refine testing and analysis method to explicitly determine the loads and forces on vehicle components.

9. Initiate research to develop a computerized fact book to provide automotive engineers with readily accessible and useable data on (non-linear) properties of advanced materials.

10. Initiate research to define and minimize passenger compartment volume for safety within present and projected fuel economy objectives.

11. Initiate and maintain a continuing project to evaluate innovative light weight vehicle structural concepts.

12. Develop procedures for evaluating damageability and repairability of advanced materials.

13. Initiate research on the cost, capital, leadtime manufacturability and scrap-page and recycling requirements for implementation of new fuel efficiency, safe structural concepts.

FUEL EFFICIENT PROTOTYPE VEHICLES

Two vehicle types will be developed as described below to demonstrate that improved engines and drivetrains can be integrated with structural improvements in complete vehicles to provide greatly enhanced fuel economy. Neither of these vehicle types is being addressed in any existing program.

14. *A light weight truck with 3,000 pound payload capability.*—Vehicles of this type, which are larger than the standard pickups, are widely used in commercial activities and account for significant fuel consumption. The design of this vehicle will integrate improved components and subsystems developed by other projects on the Fuel Economy Technology Assessment Program into a vehicle which will weigh 1,000 pounds less than comparable vehicles with the same payload and volume capacity to achieve a 40 percent improvement in fuel economy. The demonstration of a commercial vehicle with greatly enhanced fuel economy will show that all system requirements can be simultaneously met thereby stimulating demand in the market for commercial vehicles as well as supplying an engineering data base for fuel economy improvements.

15. *A very small lightweight car for commuting and urban use.*—This car is visualized as carrying two front seat passengers with limited luggage space for carrying groceries or possibly small children if adequate safety and comfort features can be provided. The major thrust in this development program will be to demonstrate that practical small cars with high fuel economy can be safely substituted for larger vehicles in many applications to conserve important quantities of fuel that would be consumed by the larger vehicles. A two-passenger vehicle will be developed in the 1,200 and 1,500 pound weight range with fuel mileage up to 50 or 65 mpg which will conveniently and safely perform many of the commuting and short-trip urban functions for which larger automobiles are currently used. This will reduce the amount of fuel consumed for commuting and other urban driving by 50 percent. However, intensive efforts will be required to provide an acceptable level of safety and functional practicality in such a small vehicle that will be operating in traffic which includes larger cars and commercial vehicles.

Senator STEVENSON. And we have been joined by Congressman Wolpe of Michigan. We're delighted to have you with us, sir. And if you would like to offer some comments for our record, we would be happy to have them.

STATEMENT OF HON. HOWARD WOLPE, U.S. REPRESENTATIVE FROM THE THIRD CONGRESSIONAL DISTRICT OF MICHIGAN

Mr. WOLPE. Thank you, Mr. Chairman, and members of the committee.

I would like to express my appreciation to you for the opportunity to make a few remarks relative to the small manufacturers exemption provision of Senate bill 2010.

Having carefully reviewed the amendment that is being proposed, it seems to me clear that the proposal that is offered successfully balances the need for improved fuel economy in the auto-

mobile industry with the very real problems which confront low volume automobile manufacturers in conforming to the standards which are more appropriately applicable to the large volume producers.

In fact, the Department of Transportation in recent years, in recognition of the unique circumstances facing small volume producers, has granted several waivers from the Federal standards designed for the large automobile manufacturers.

The proposed statutory exemption would eliminate the need for much of the extraordinarily time consuming and costly paperwork for the Government and the small manufacturer now required annually under existing waiver procedures.

Unlike the "Big Three," Checker Motors Corp.—which is located in my district—and other small companies specializing primarily in one model car, cannot average their fleet or make major modification in design in order to meet Federal fuel economy standards.

As members of the committee are no doubt aware, Checker, in its half century of production, has focused on that small segment of the transportation market reserved for commercial taxicab production.

Checker's automobiles are designed to meet the rigorous demands of extended urban driving, with maximum passenger occupancy.

Clearly, a Checker may not get 35 miles per gallon, but when the number of passengers who can simultaneously be transported in the Checker sedan is computed, the fuel savings are, indeed, impressive.

Clearly, expanded taxicab utilization can make a major contribution to our national fuel economy goals.

Last year, Checker Motors manufactured approximately 5,000 automobiles in the approximately 10 million market. The small manufacturers exemption—which will allow those companies which produce less than 10,000 cars a year to be exempt from the fuel economy standards and the semiannual reporting requirements—is a commonsense answer to what would, otherwise, be a very serious problem—in terms of both compliance and reporting—for the small automobile producers.

The Department of Transportation who submitted the amendment for consideration, and the administration, recognize that failure to enact the exemption provision would only result in troublesome administration of the provision with no appreciable improvement in fuel savings.

Let me quote briefly from the Department of Transportation's own analysis:

The Department has processed eight applications from eligible manufacturers for lower fuel economy standards since 1975 and has denied none of them. In actuality, the resources of these manufacturers are not sufficiently great to justify substantial commitment of resources to increasing fuel economy. An insignificant amount of fuel is saved by establishing alternate standards for these manufacturers instead of simply allowing them a complete exclusion from title V.

The burdens of filing applications and reports required by Title V is also disproportionately large for these manufacturers.

The DOT goes on to note:

The low volume manufacturers would not, by this amendment, be altogether free from fuel economy considerations. Upon being certified each year by FHA, a fuel

economy value for each of its base levels is established. This value becomes the basis for the gas mileage guide, labeling provisions, and the "gas guzzler" excise tax.

Therefore, although exemption from cafe standards and reporting would be granted, a limited amount of pressure to improve fuel economy would remain.

Unquestionably, it will be in the self-interest of Checker and all other low volume car manufacturers to produce ever more efficient automobiles. However, given the very specialized focus of most limited production automakers, with little flexibility in changeovers, design, or intended use, the rigid requirements of the fuel economy standards and reporting procedures just do not make sense.

I would, again, like to thank the committee for extending this time to me today, and for your attention to this small, but important amendment to the bill.

Senator STEVENSON. Thank you, sir. Your views will receive very sympathetic consideration, I'm certain, in the committee.

They are, as you know, supported by the administration.

Senator Riegle?

Senator RIEGLE. I would just make a brief comment. It is a great pleasure to have Congressman Wolpe appear here today. This is an excellent statement, and I think the strength of the rationale is borne out by the fact that the Department of Transportation is also supporting this position, which is a constructive step on their part. We're pleased to have you appear before the subcommittee today.

Mr. WOLPE. Thank you for your support. It is much appreciated.

Senator STEVENSON. Thank you, sir. I will invite our next witnesses to come forward and form a panel.

They are: Mr. Fred G. Secrest, executive vice president of Ford Motor Co.; David S. Potter, vice president of public affairs of General Motors; and Chris Kennedy, director of Federal Government affairs for the Chrysler Corp.

Can we begin with you, Mr. Secrest?

**STATEMENT OF F. G. SECREST, EXECUTIVE VICE PRESIDENT,
FORD MOTOR CO., DEARBORN, MICH.**

Mr. SECREST. Thank you, Mr. Chairman.

I'm Fred Secrest, executive vice president of Ford Motors.

We at Ford welcome this opportunity to comment on the proposed amendments to EPCA, which could not be, in our judgment, more timely.

Today, the U.S. auto industry is in the midst of the most massive product changeover in peacetime industrial industry, caused by the world oil crisis and EPCA, the legislation stemming from this crisis.

Reportedly, U.S. auto manufacturers will commit some \$80 billion by 1985 to the conversion of their vehicle fleets.

The energy results of this conversion are already impressive—today's new U.S.-built cars will consume some 4 billion gallons less gasoline in their first year of operation than they would have used at 1974 fuel efficiency levels.

As The Washington Post pointed out on November 7, 1979:

The 1975 auto efficiency law is still the only major energy conservation measure operating in this country—it has saved consumers billions in gasoline costs, and its impact is just beginning to be felt.

But the effects on the producers and their employees are clearly very critical. In the third quarter of 1979 alone, the domestic car manufacturers are estimated to have lost nearly \$900 million before taxes on their overall operations, and probably more than that on their U.S. automotive activities.

There have also been serious employment consequences: over 150,000 auto workers are now on indefinite layoff. There is little evidence of a quick upturn in the currently depressed market for cars and trucks.

Yet, the capital spending required by law to continue the fleet conversions cannot be postponed. Accordingly, there is an urgent need to see whether EPCA can be modified to ease the financial strain to some extent, without weakening our national commitment to improved fuel economy.

Of the several amendments before this committee, one—the extension of carryforward/carryback originally introduced as S. 1583—has received widespread support, and from diverse groups that do not always agree:

It is endorsed by DOT, which first proposed a general extension in its January, 1979 report to Congress.

It was endorsed last spring by the UAW.

All domestic auto manufacturers—including those seeking separate special treatment under other amendments—support the carryforward/carryback proposal.

Over 80 Members of Congress from 23 States and both parties have joined in cosponsoring this amendment.

On December 17, Secretary Goldschmidt gave firm support to carryforward/carryback by transmitting to the Senate draft legislation essentially the same as S. 1583 and S. 2010—although he proposed some minor changes, to which we at Ford have no objection.

This broad pattern of support is a clear indication of the merit of the carryforward/carryback concept. The proposed extension to 3 years would provide equitable and important flexibility for all manufacturers—domestic and foreign; large and small.

Language revisions would make it clear that, in practice, credits could be utilized without breaking the law. At the same time, the amendment would have little or no impact on national fuel savings.

If the market continues, as at present, to place exceptional emphasis on fuel economy, every manufacturer will be forced by competitive factors to offer as many miles per gallon as its financial and technical resources will permit—in excess of the standards, if possible.

And, if the market should swing, temporarily, away from today's very strong demand for the most fuel-efficient vehicles, there would still be an incentive for manufacturers to exceed the standards, if possible, in order to bank fuel economy credits as a cushion against future market reversals or unforeseen technical problems.

The 3-year extension would also help producers to avoid marginal or temporary fuel economy actions that wouldn't make sense for the consumer. The rigid year-by-year standards that DOT has applied under EPCA will almost surely require, in some instances, investments in product changes that will be obsoleted a year or two

later—or disruptive acceleration of programs that cannot be speeded up without risks of compromises in cost, quality, or both.

Secretary Goldschmidt appears to have concluded that these consequences cannot be greatly minimized without adverse counter-effects, by the proposed changes.

For these reasons, then, we hope that the committee will act promptly to recommend the carryforward/carryback extension for early Senate action.

The other amendments before this committee differ from the carryforward/carryback in several crucial respects. Carryforward/carryback would provide all manufacturers with flexibility; by contrast, the other amendments would in effect set different requirements for different manufacturers.

Such differential treatment would be unfair; it would appear contrary to the original intent of Congress; and in practice it would principally benefit companies based overseas, or those allied with foreign-based firms.

Further, these proposals could intensify the anticompetitive effects already being seen in the industry as a consequence of regulation.

For example, according to the May 1979 "Wainwright Report," economies of scale give GM a big advantage in cost and investment requirements relative to smaller manufacturers, and this is being magnified by the growing size of what Wainwright calls the regulatory wedge of cost and capital spending.

On the other hand, Congress has already chosen to help Chrysler in its EPCA task by guaranteeing some of the funds necessary for its fleet conversion.

Now special treatment under EPCA is being sought for VW, AMC, and very low-volume producers.

All of these special advantages inevitably will come at the expense of someone else.

Ford faces an obvious handicap compared with its largest rival, as pointed out by Wainwright and others. Ford faces another obvious handicap in competing against government-guaranteed loans and government-sponsored labor contract concessions.

We think it's time to speak out against proposals to use fuel economy laws to hand out still more advantages to still more competitors.

Looking specifically at the so-called Volkswagen amendment—as things stand now, that company's U.S.-assembled cars are classified as imported vehicles under EPCA because they contain less than 75 percent North American content.

If VW were to increase this content ratio to 75 percent or more, it could no longer mix, for fuel economy purposes, the U.S. production with its other lines of vehicles imported from Germany.

Volkswagen's U.S.-built Rabbit cars exceed EPCA standards, but the company is concerned that its imported units—including high-priced lines such as Audi and Porsche—will not meet future fuel economy standards.

Therefore, the amendment would allow Volkswagen, or anyone else starting U.S. production after 1975, to average domestic and imported cars together, without regard to local content.

The competitive impact, as we see it, is to enable VW to avoid the investment required to bring its Audis and Porsches up to the U.S. fuel economy standards.

These car lines would presumably continue to offer some high performance characteristics that are important to some U.S. customers.

Accordingly, the sales of such imported cars in the United States would displace sales of U.S.-built cars to some extent.

Those of us in business here before 1975 would be denied any similar import opportunities, as far as EPCA is concerned.

Volkswagen points out that the change would give it an incentive to increase U.S. jobs. This is no doubt true as far as Volkswagen itself is concerned, but it seems at least conceivable that some jobs at Volkswagen's U.S.-based competitors would be lost because of imports of German cars that, by themselves, may not meet EPCA fuel economy standards.

Although the Japanese presently produce primarily small vehicles, they obviously could utilize this amendment to produce larger, and probably more profitable, cars, when and if they establish U.S. production.

In any event, this form of special treatment would become a valuable asset, creating an opportunity not available to Ford and other long-established domestic competitors.

If Congress wants to encourage foreign producers to build U.S. plants, any incentive should come through legislation directed specifically at that issue—not through discriminatory exemptions built into a fuel economy law.

Let me turn to the so-called AMC amendment.

This would permit a "small" manufacturer such as American Motors to include, in each year through 1986, up to 150,000 imports in its domestic CAFE—while Ford and other manufacturers would have to continue meeting EPCA standards separately with their domestic and their imported fleets.

This exemption would allow AMC to avoid major fuel economy expenditures on its present line of U.S. vehicles, because according to public statements, the below standard fuel economy of such cars would be offset by the better results of Renault cars, consisting primarily of imported components.

Meanwhile, Ford capital spending will average \$4 billion each year between now and 1984—two-thirds of which will be in North America, primarily for product changes to meet EPCA and the market.

Again, the result would be a significant cost advantage granted by law to a particular competitor, under the guise of a fuel economy amendment.

In summary, Ford opposes both the VW and AMC proposals. They would constitute class legislation that would grant special privileges to certain manufacturers and place other competitors at a significant disadvantage in the marketplace, with no discernible offsetting benefits to consumers.

Ford is not seeking changes in the law to permit inclusion of imported vehicles in our domestic fleet for fuel economy purposes.

On the other hand, if such changes are considered essential to U.S. employment or to the health of certain competitors, we believe

that all producers should be given equal opportunity to share in this increased flexibility.

For example, any producer who qualifies as a domestic manufacturer under EPCA might be authorized to include up to 150,000 imported cars or trucks annually in its domestic-CAFE fleet.

Alternatively, the 75-percent local content rule for domestic product lines could be modified to provide that any manufacturer's entire domestic fleet rather than each of his various product lines would have to average 75 percent or more in domestic content.

This would permit Volkswagen, American Motors, Ford, or anyone else to mix completely domestic production, complete imports, and hybrids as they saw fit, so long as the overall package comprised at least 75 percent of local content.

Either of these alternatives would appear to provide reasonable added flexibility to firms such as Volkswagen and American Motors, but on a uniform, fair and nondiscriminatory basis.

Ford has not actively opposed the so-called small producer provision, under which firms producing less than 10,000 vehicles annually worldwide would be completely exempt from EPCA.

This is relatively unimportant in the overall picture—but it too would be inherently unfair.

Most of the affected vehicles are in the luxury class, like Rolls-Royce, and of course this is the class especially jeopardized in domestic fleets by the costly fuel economy actions required for such vehicles to maintain luxury level performance and comfort characteristics.

To sum up, Mr. Chairman, the four amendments to EPCA under consideration today have one thing in common—they all bear witness to the fact that the auto industry, because of a combination of regulations and abrupt market shifts, is experiencing serious difficulties in meeting the stringent year-to-year fuel economy requirements established by DOT.

But the amendments involve two very different approaches: the carryforward/carryback concept would apply to everyone without arbitrary discrimination; the other three proposals are designed to mitigate the special problems of selected individual companies, and therefore, would introduce new forms of special discrimination against those American manufacturers who are not "selected."

So we at Ford believe that if the import rules are to be changed at all, they should be modified in a manner more equitable to all—and we've suggested two such approaches.

The carryforward/carryback amendment, on the other hand, has received support from all quarters—which should allow prompt congressional review and approval.

It is clear that this entire industry is facing substantial uncertainties in employment, sales and earnings and that this issue, which has now been under discussion for almost 1 year, should be resolved as soon as possible.

Senator STEVENSON. Thank you, sir. And if Senator Riegle has no objection, we will continue with all of the statements and then come back to the panel with our questions.

Senator RIEGLE. Fine.

Senator STEVENSON. Mr. Potter?

**STATEMENT OF DAVID S. POTTER, VICE PRESIDENT OF
PUBLIC AFFAIRS, GENERAL MOTORS CORP.**

Mr. POTTER. Mr. Chairman, I am Dave Potter, vice president of General Motors.

We thank you for the opportunity to present our views on the legislation to amend the automotive fuel economy provisions under the Motor Vehicle Information and Cost Saving Act.

The issues under consideration by the committee include, as has been stated, an exemption from the fuel economy program for small manufacturers and the opportunity to include imports in corporate average fuel economy under certain conditions, and then extending to 3 years the period in which credits for exceeding the standards can be carried forward or back.

As we expressed in earlier written comments on S. 2010, GM is opposed to legislation that would provide an advantage to selected competitors in our free market economy. Free and open competition for the rewards of our economic system have resulted in a standard of living and a quality of life in America unequaled elsewhere in the world. Treating all competitors in the same industry equally is an integral part of our system, and in our view must be preserved.

We are opposed on fundamental grounds to legislation that would give special competitive advantages to one manufacturer while denying them to others in the same industry.

Further, there appears to be a mechanism available which would operate uniformly across the industry and still solve the particular problem of at least one of the manufacturer's relief schemes envisioned in these proposals. I think Chairman Cannon noted that very well in his opening statements.

One of the changes under consideration would encourage the importation of automobiles with less fuel efficiency than our standards now permit. In this particular case, the preferential treatment will certainly not help our balance-of-payments problems so ably stated by Senator Riegle.

There are changes that can and should be made in the automotive fuel economy program that will apply uniformly to all U.S. and foreign manufacturers and which we believe will improve the program. The 3-year carryforward/carryback provision and the amendment to the unlawful conduct section are in this category, and we will discuss these issues later.

With that background in mind, I would like to elaborate on our concerns on the three proposals that would provide preferential treatment to certain auto manufacturers.

With the small manufacturer's exemption, these manufacturers who produce a preponderance of large or high-performance, low-fuel economy cars would not be required to make any attempt to improve the fuel efficiency of their products. It would seem sufficient for NHTSA to continue to monitor the efforts of these small volume manufacturers just to assure that reasonable progress toward fuel economy is being made.

General Motors is thus opposed to granting small manufacturers a total exemption to the established fuel economy standards. But we do believe that revision of the current regulation is the proper way to relieve the administrative burden on both the NHTSA and

the small manufacturers with no need for additional changes in the legislation.

Current law allows U.S. auto manufacturers to include captive imports in their passenger car CAFE for model years 1978 and 1979, and all manufacturers were aware of that and made what use of it they chose. Beginning with the 1980 model year, U.S. manufacturers, as you know, must calculate the CAFE of their domestic passenger car fleet separately and may not include captive imports. This has been the case since the current law was enacted, and most companies have developed their fuel economy strategies accordingly.

Section 3 of S. 2010 and section 2 of the administration bill would allow auto manufacturers that began U.S. production after the enactment of EPCA on December 22, 1975, to average U.S.-assembled passenger autos with imports in its CAFE, and S. 2035, the captive import amendment will allow a selective manufacturer to include up to 150,000 imports in its domestic passenger car CAFE calculations for the model years 1980 through 1986.

Now the first amendment—that is, the one that would allow the importation of the automobiles otherwise exempt or otherwise exceeding our standards—in our view, is quite undesirable. It would permit a domestic manufacturer to continue importing vehicles which by themselves could not meet the standards, and this again does not seem to be the direction that the national policy has been taking us.

The second amendment really relates to the short-term problem of a domestic manufacturer which might equally be accommodated by the 3-year carryforward/carryback proposal with the unlawful conduct portion modified. I know that Senator Cannon addressed that question this morning to Senator Nelson, and I would expect that there would be more discussion on that point. We are not trying to suggest a solution for that domestic manufacturer, but nonetheless, it appears that one is available which would be uniform in its application across the industry.

I would now like to return to the proposals which we believe are appropriate for consideration as amendments to the fuel economy program. These are the three proposals before the committee which would extend the carryforward/carryback provisions from 1 to 3 years. These proposals would also change the act so that a manufacturer's failure to comply with the fuel economy standard shall not be considered unlawful conduct if the manufacturer offsets the penalty with a credit earned under the law for exceeding the fuel economy standard.

General Motors supports the provisions in S. 1583 and S. 2010. Increasing the period in which credits may be earned for use against possible penalties will enable manufacturers to benefit from earlier conservation efforts and to better balance future planning. It may also help to reduce the magnitude of the risk manufacturers face in bringing more fuel efficient passenger cars and light trucks into the market.

The preceding witness has commented at some length on what these risks are, and though none of us are deliberately walking into situations in which we might fail to meet the fuel economy standards, the risks of the marketplace at times do change as the

years go on and are clearly there, and this added flexibility will let us accept those risks with some more equanimity than we do at the moment.

We believe the change in the unlawful conduct provision of the existing law as embodied in both Senate bills is necessary to make the extension of the credit provisions meaningful and would allow a manufacturer to use the 3-year carryforward/carryback provisions without first having to violate the law.

Section 3 of the administration bill attaches, in our view, an unnecessary condition to the application of the unlawful conduct amendment in the carryback situation, and we would recommend that instead of including or putting a condition in an amendment to the act, that NHTSA should amend its reporting regulations to require manufacturers to indicate when offsetting credits will be earned.

Finally, the legislative history should clearly show that it is the intent of Congress that manufacturers be allowed the maximum flexibility under the carryforward/carryback provisions, so long as a manufacturer does not eventually incur a penalty which cannot be offset by a credit.

General Motors recognizes that the fuel economy program has the potential to impact the vehicle manufacturer very seriously. The impact could be especially damaging when the fuel economy standards force a manufacturer to build vehicles that do not respond to the marketplace demand.

General Motors is making every effort to further improve the fuel efficiency of our products. We now forecast our passenger car fleet fuel economy for 1980 will be about 21½ miles per gallon. That's 1½ miles per gallon better than the standard of 20 miles per gallon. We expect that consumers will continue to demand fuel economy that surpasses the level of the standards, and we intend to try to meet that demand. Notwithstanding our expectations, the 3-year carry-forward/carry-back and unlawful conduct provisions would give the industry a welcomed measure of flexibility to meet those market demands without otherwise compromising the intent of the existing law.

In fact, as I have indicated earlier, it appears to us that this might well be the flexibility required for one of the domestic manufacturers to accommodate their very particular short-term problem.

I would like to conclude my remarks with a comment on fuel economy, its relationship to the marketplace, and its relevance to the regulatory program.

The fuel economy of a car or truck has always been an attribute worthy of consideration by consumers in the marketplace, and the events of the past year have made that consideration far more important than it was in past years. Meeting the market demand for fuel economy in both cars and light trucks is really the only viable course of action a manufacturer has. Fuel economy standards that force a manufacturer beyond the market are likely to leave him with vehicles which consumers are not willing to buy and thus are not economically practicable. A manufacturer who builds vehicles that do not meet the fuel economy demands of the market will only be able to sell those vehicles that consumers

want. Either situation will place a manufacturer in economic jeopardy.

Mr. Chairman, we continue to believe that the marketplace is the proper mechanism to address the need to reduce fuel consumption.

Mr. Chairman, that concludes my statement.

Senator STEVENSON. Thank you, Mr. Potter.

Mr. Kennedy?

**STATEMENT OF CHRISTOPHER KENNEDY, DIRECTOR,
FEDERAL GOVERNMENT AFFAIRS, CHRYSLER CORP.**

Mr. KENNEDY. I'm Christopher Kennedy, director of Federal Government affairs for Chrysler Corp., and I, too, thank you for the opportunity to comment on the amendments now before this committee.

These amendments raise a number of issues that are important not only for Chrysler Corp., to the American automobile industry as a whole, and to the economy of the entire Nation.

We believe that this hearing shows that the Government and industry have learned a great deal since the Energy Policy and Conservation Act was passed. Energy conservation is still as important as it was in 1975. But we've learned that it's just as important to curb inflation, maintain domestic employment, and to improve the balance of payments.

Chrysler Corp. expects to meet the fuel economy standard of 27.5 miles per gallon by 1985. We are already committed to spend \$13.5 billion—the largest capital spending program in our history. We're rebuilding and retooling virtually every one of our plants, developing all new, fuel-efficient engines and drivetrains, and designing and building a completely new fleet of cars and trucks for the 1980's. Everything is going to change.

However, this task has turned out to be more costly and difficult than anyone thought it would be when the Energy Policy and Conservation Act was passed in 1975.

A \$13.5 billion investment would be difficult to handle even in the best of economic times. But with double digit inflation, soaring interest rates, and slow automobile sales, it has contributed to record losses at Chrysler because we were unable to curtail or defer these massive expenses when our income was sharply reduced.

These problems are not unique to Chrysler; the entire North American automobile industry shows the adverse effects of these inflexible regulations. We no longer have the ability to adjust spending as income drops, because spending must remain at twice normal levels to meet Government standards. If the industry is to regain its former strength, it must be allowed more freedom to manage its own resources.

We are not suggesting that we abandon or modify the 27.5-mile-per-gallon standard set by the Energy Policy and Conservation Act. However, we believe that some of the amendments this committee is considering would let us meet the standard at lower cost to consumers and to the country. They will give us the flexibility to plan our products and programs so that we can make the most efficient use of our capital and manpower.

Let me comment on the amendments before the committee.

Exemption for small manufacturers: This amendment would exempt manufacturers of less than 10,000 vehicles from U.S. fuel economy standards. It would be very difficult for some of these manufacturers to meet these standards. Since there are relatively few of these vehicles on the road, their effect on overall fuel consumption is negligible. Yet, these manufacturers may develop new technology which would help all of us improve fuel economy. We think they should be given the opportunity to do so, and that new manufacturers should be encouraged to enter the market. We support this amendment.

Exemption for new manufacturers: This amendment would allow manufacturers who begin production in the United States after 1975 to combine both imported and American-made cars in their fleet fuel economy averages. As the amendment is written, it applies to Volkswagen of America and any other manufacturer who begins production in this country in the future, as Honda will do very soon. It would exclude General Motors, Ford, Chrysler, and American Motors.

We must oppose this amendment because it places us at a competitive disadvantage. In a moment, we will discuss another amendment which would allow Volkswagen and Chrysler to count a limited number of imports in their fleets, and which we support.

Three-year carryforward and carryback: This amendment would allow a company to earn credits in the years in which it exceeds the mileage standards and apply those credits to years in which it falls short. Between now and 1985 Chrysler will introduce new vehicles as frequently as we can. But we cannot bring a completely new car or engine to the market every year. In years with completely new cars—like our 1981 K-cars—our fuel economy figures will increase sharply. In years without introduction of new cars, the improvement will be small. In fact, we may fall below the standard in some years. Even so, the total fuel savings of our fleet will be above that called for by the standards, all the way to 1985.

Let me give you some examples of why we have some sharp rises and plateaus. In 1981, the standards go from 20 to 22 miles per gallon, an increase of 2 miles per gallon. If we convert one of our six plants to new fuel-efficient cars, we gain 1.4 miles per gallon; in 1981 we need 2 miles per gallon. To get to 2, we must convert another plant. That gets us 2.8 miles per gallon and means that we convert two out of our six plants, one-third of our total production facilities, in 1 year.

That takes a great deal more capital than we would have otherwise spent, and it is part of the reason that we have a cash shortage at the moment. Larger companies have more plants, can convert only as many plants as necessary, at much less financial burden.

This amendment will help us over the rough spots. It is essentially an accounting procedure that does not affect our products or their performance. And most important, it has no impact on overall fuel consumption.

We have a product plan that will make Chrysler competitive and profitable. We intend to carry out those plans and justify the support which the Congress has extended to us. We can do that if this amendment is adopted. If it is not, we may have to change our

production schedules, scrap parts of our product plan, waste scarce capital, and jeopardize thousands of jobs. We don't think anybody wants us to do that.

Legal penalties: We support the amendment which makes it clear that using the carry-forward/carry-back provision to meet the standards in any given year is not a violation of the law. We think this was what Congress had in mind when it adopted the 1-year carryforward/carryback provisions.

Includable imports: This amendment would permit companies that manufacture fewer than 300,000 vehicles a year to include imports in calculating fleet average fuel economy. It applies only to American Motors and excludes Ford, Chrysler, and General Motors. I can assure you including imports would help Chrysler too. We will support such an amendment if we are included; we will oppose it if we are not.

We would like to modify this amendment to allow Chrysler Corp. to include up to 150,000 imported vehicles in its fleet. This change would allow Volkswagen of America to import a substantial number of larger cars. It would allow American Motors to include Renault vehicles in its fleet and thus meet future fuel economy standards, and it would allow Chrysler to continue importing a limited number of vehicles into the United States.

By importing some vehicles, we have been able to provide a full range of products from family size to subcompact—and a full line of trucks and vans—with only a limited amount of capital.

In this way, our dealers have been able to offer products like Dodge D50 and Plymouth Arrow small pickup trucks, and Dodge Colt and Plymouth Champ—the most fuel efficient gasoline engine cars on the market today. The resources that would have gone for these subcompacts were freed for development of the new front wheel drive cars with new four cylinder engines that we will introduce only 9 months from now.

The ability to count imported vehicles in our fleet average will give us similar advantages in future years. Our dealers will continue to have a full range of products, and we will have the capital we need to bring other new cars and trucks to market.

We also recommend that the language of the amendment be changed from "150,000 passenger cars" to "150,000 motor vehicles." Importing a number of small trucks in 1982 could be critical to meeting the proposed 1982 light truck fuel economy standards.

To reach all these goals, we need the flexibility to allocate capital efficiently as conditions change. We need the flexibility to assign our manpower to the most important problems and to respond to the ever changing preferences of our customers. The amendments we endorse—includable imports and a 3-year carry-forward and back—will give us some of this flexibility. At the same time they will help us offer a full line of products, keep U.S. factories open and U.S. workers on the job, and give our dealers cars which appeal to all segments of the market.

Mr. Chairman, thank you again for the opportunity to discuss these amendments with you, and now I'd be glad to answer any question you may have.

Senator STEVENSON. Thank you, sir.

Mr. Secrest, in your statement, you said, and I quote: "The Volkswagen amendment would enable VW to avoid the investment required to bring its Audis and Porsches up to the U.S. economy standard."

We are having some difficulty understanding that. The present law doesn't put any such pressure for investment on Volkswagen. Volkswagen can refrain from making the investment to increase its U.S. Rabbit value-added above the 75 percent level and import all Porsches and Audis it can sell now, can it not, regardless of whether this amendment is approved?

Isn't that your understanding of the law?

Mr. SECREST. Well, that point is well taken, Mr. Chairman. I guess what I mean to say is that there are two economic options now available to a company in Volkswagen's situation. One is to continue the status quo and that probably has unattractive economic consequences in terms of the relative costs of raising U.S. production versus continuing imports from Germany. And if they are motivated for economic reasons to increase their U.S. value added, then they would under the current law also have to invest in improving the fuel economy of their German imports if they wish to continue importing them.

So it seems to me that while under the status quo they could continue doing what's been done to date, there is an economic impetus for changing that.

Senator STEVENSON. There is an economic impetus to add value to the domestic manufactured vehicles.

Mr. SECREST. That's right, and I think that economic impetus should be balanced by a similar economic impetus to improve the fuel economy of their imported vehicles if they wish to continue to import.

Senator STEVENSON. Let me ask you, Messrs. Potter and Kennedy, what the effect of the Volkswagen amendment, if approved, would be on the corporations that you represent. How would the mix of Volkswagen products be affected, and what would the effect be on your corporations?

Mr. POTTER. I think that the most likely effect of such an amendment would be that VW would then import some of the less fuel efficient high performance cars that have a rather limited market in this country, but nonetheless there is such a market, and that insofar as they satisfy those markets with the imported cars, that restricts the market available to the domestic manufacturers.

All three of the companies represented here have entries into that market segment and we would simply then find that a piece of that market segment had been taken by a foreign manufacturer who was not meeting our fuel economy standards.

Mr. KENNEDY. I can only concur with that. Capital formation is critical for us and anything which reduces it is a problem.

We think we should have the same opportunity as other manufacturers to help ourselves.

Senator STEVENSON. We discussed, or I discussed first with Ms. Claybrook and then Mr. Secrest brought up the proposal to apply the 75 percent rule to the entire mix of companies' sales, imported, domestically manufactured. How do you, Mr. Potter, feel about that proposal?

Mr. POTTER. I think that there are two remarks to make on that. First, any abrupt change in rules like that require some time to condition one's activities to accommodate them. It is not a 1-month proposition to turn around and to look at that regulation, which is quite different from the present and to arrange your business affairs to take that into account.

So, I think in the short-term period, there can be very little impact on my corporation insofar as our model mixes are concerned. That does seem to me to be an unfair situation—when a regulation was proposed some years ago, well understood by the industry, and most of us then went about our business to take into account that regulation—to change it at the last moment, when we are at this point past taking a turn in our own path. It does not seem to me to be proper.

But if I can now go to the long-term, get around the next year or two and then ask for the long-term impact. That, I think, is a matter of national policy. If it really had been the intention of the Congress to save energy, even by the mechanism of encouraging the importation of foreign produced vehicles, that is a matter of national policy. To me, it doesn't make sense.

I think the balance-of-payments argument that Senator Riegle commented on during his comments on Ms. Claybrook's remarks is quite to the point here, that if you do this—if that be the law of the land, and if we accommodate our fuel economy standards by importing foreign produced vehicles—we certainly have not helped our balance of payments problem.

And it would seem just unwise to offer a special incentive to our manufacturers to import. That does not seem to me to be a reasonable course of action.

Senator STEVENSON. How about you, Mr. Kennedy?

Mr. KENNEDY. I think we view that somewhat differently. The regulations, of course, are written in a language which applies equally to all of us. The effect of the regulations has proven to be quite different for Chrysler than for General Motors. We believe that the amendments under consideration, including perhaps the 75 percent local content agreement which Mr. Secrest made reference to, would relieve unequal treatment which was never intended.

And to the extent that this gets us back to the equal footing we enjoyed before the regulations were put into effect, we think that is wise.

Senator STEVENSON. What would the effect of this proposal be on domestic production and employment?

Mr. Secrest, do you want to take a whack at that?

Mr. SECREST. Well, Mr. Chairman, I should perhaps reiterate that we are not advocating this particular action. We are simply trying to suggest a mechanism that might accommodate some of these problems without introducing what we think would be new discriminations.

I concur with Mr. Potter's comment that a change in the short run—because it would change the basis of all of the planning that our corporation has been doing—would not have any significant effect on Ford. In other words, it would probably provide benefits

to companies whose plans really are dependent upon a change of this kind, and would not have a short-term impact on Ford.

However, it would enable us over the longer range to consider in our array of possible strategic actions to deal with the energy situation a judicious use of some imported vehicles or components. We just closed a plant in Los Angeles about a week ago, or rather we announced that we would close it next month. I would have liked to have had the option of being able to put into that plant some Fiestas that we would import from Germany and assemble there with less than 75 percent content. I don't know whether we would have done it or not.

I don't know if we would ever do it in the future, but I frankly can see no reason or validity to extending import rights of one kind or another to some companies and not extending them to other companies. I can't see why a job in Kenosha or a job in Westmoreland is any different than a job in a Ford plant city, or why a company, American owned, with overseas affiliates, should be treated perhaps less well than a company that is partly owned by the German Government or a company that is partly owned by a firm owned in turn by the French Government.

So if there are to be changes, we think that these may not be the best ones, but that there ought to be ways to allow everyone the same flexibility.

Senator STEVENSON. Mr. Potter, do you want to respond to that?

Mr. POTTER. Only the perhaps almost trivial observation that if a company takes advantage of the allowance to import or to have 25-percent foreign content in a total fleet, it is clear that that 25 percent then went overseas. The only possible effect can be the transportation of jobs overseas—otherwise it has no beneficial effect on the company doing it. So, certainly reduced to the elements, yes indeed, we will transport jobs overseas.

Now, that is not necessarily bad, and I'm not saying that that is the wrong thing to do, but it should be a matter of national public policy that relates to the overall economy and our balance of payments and what we intend to do in the trade business. So I think that really would be our concern.

We have seen the effects of the elimination of foreign imports from the fleet average in our own situation. In the truck situation, we did have foreign import trucks that were allowed last year and not allowed this year, and we have arranged our plans accordingly so that we can meet the fuel economy standards of the United States with U.S. production.

Senator STEVENSON. Mr. Kennedy?

Mr. KENNEDY. Mr. Chairman, in the case of Chrysler importing a limited number of foreign cars, probably will increase domestic employment. By importing these very fuel efficient cars we can increase the fleet average fuel economy of our entire fleet and allow us to sell larger numbers of family sized domestically produced automobiles which otherwise would have to be restricted to meet that standard.

We think, then, by having this mix of fleet we can preserve the ability to sell U.S. automobiles produced in this country—and increase U.S. employment.

Senator STEVENSON. Thank you. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman. First, let me compliment the witnesses for their very thoughtful and helpful statements. It really begins to enable the committee to lay out this problem in all its dimensions. These are very hard questions and it is not easy to make a fair and balanced judgment. And as you all well know, it is not absolute.

I am certain that it is the committee's desire to want to evaluate all of the ramifications and possible impacts on each company, so that we can end up acting in a way that is fair, balanced and is as sensible as we can make it.

That problem is made more difficult by the fact that these automobile manufacturers demonstrate how we are caught in an extraordinary transition. Our strategic national interests are directly involved in the balance of payments area, the job area, the whole question of draining wealth out of the United States, how long and in what ways we might somehow get it back, and meeting other requirements in terms of fuel economy goals for the country to reduce dependence on foreign oil. All of these matters are occurring at the same time.

Before us is a major reindustrialization problem just in terms of modernizing plants and facilities apart from the kinds of cars that will be built in the plants. I was in a Chevrolet manufacturing facility in Flint about 2 weeks ago. Half the plant is old and not energy efficient and has to be rebuilt using all the new, more modern techniques of both process and building design and heating engineering. In fact, it was the site of the original sitdown strikes many years ago when the UAW was organizing.

But at the same time, the business has to go on. So side by side there is a major reconstruction of existing facilities with part of the facilities shut down, and literally 2 feet away there is a whole production operation that has to continue as they go through the process of rebuilding their automobile product line.

And I'm sure it is the same—in fact, I know it is—with Chrysler in plant shutdowns and alterations. And Mr. Secrest has just mentioned the closing out in California of a major Ford facility.

I think it is clearly the desire of the committee, and the Congress, to try to understand these new realities—and they are in some major respects “new realities”; to try to assimilate these facts and to make sense out of them; to try to construct sound national policy, that can settle in in a fair and an effective way, and not unduly injure or create differential advantages for any of the companies.

Frankly, it's not easy to do, and I want to say to each of the witnesses at the table now that certainly I am going to do my best to help us find what constitutes that kind of fair and practical balance, and that meets the final test of the national interest.

So I am available and will continue to be available to meet privately with each of you to try to work these things through, and see what we can develop.

Just in terms of a broad philosophy, we should think about writing in special features that accommodate a particular problem that faces a particular firm at this time.

To the extent we find it necessary to do that, we could have two other conditions in mind to attach: one is that those special ar-

rangements be limited in time and be to accommodate a particular problem that is self-correcting; in other words, that it would be something aimed to enable somebody to get through a difficult transition and then get back on a footing that puts them on the same ground as the rest of the industry; and second, that we try to do that in such a way that no real strategic damage is done to a competitor. And what I mean to say in that area is that neither one shot assistance or a buildup of special arrangements end up being of a size and consequence that they permanently damage a competitor.

If we're helping one company directly at the expense of another, then I don't think that we can justify that kind of action, nor should we try.

Those will be the two tests that I will try to use in working a way through to a helpful balance.

There are ways to do that. I'm sensitive to the point that Ford makes in its position. Looking out the Ford window it may seem that if something is done in this case, and something is done in that case for somebody else, that pretty soon when you add it all up any one situation might not be that damaging competitively, but maybe all of them together are.

I think that is a fair argument and one that we will have to consider. By the same token, we have been through the Chrysler case very recently and I think we are all quite familiar with the facts in that instance, and the desire on the part of the country to want to respond to the problem.

We've talked earlier about the American Motors situation, and of course General Motors, being the leading company in terms of size and sales in the industry, obviously has to wonder—and correctly so—about things that are done to help others and strengthen the ability of others to compete, that may not be available to it.

Obviously this is something that has to be a valid concern to them.

By the way Mr. Chairman, when we were in the midst of our Chrysler hearings in the Banking Committee I sometimes thought that the opposition we got from certain persons—including Ralph Nader—is designed to shrink the industry in order to target General Motors for an antitrust action.

But I would like to see us to come back in 5 years and still have all three companies represented at the table; in strong viable shape, being able to earn and retain the kind of capital you need for future expansion, to have modernized facilities, to be offering permanent employment opportunities, to be meeting the real transportation needs of the country, and in ways that are sound.

I think we can accomplish that. I think it is going to involve tailoring some special arrangements to get through this crunch period, but I think we can get through it. It is not going to be easy and it is going to take a lot of cooperation from the Government. I want to say again that I was pleased today to hear that the tone from the Department of Transportation, is a more constructive one in recent days and it is one that is designed to lessen some of the adversary nature of the relationship in the past and to try to let us work out arrangements that are fair.

I know other members of the committee and myself will weigh carefully what each of you has said here. It may be that no one will be perfectly happy with what balance is finally struck. That is often the case. But I think if we can find a balance among these items, and we do have consensus on carryforward/carryback, and maybe one other item, that we can find a balance with respect to all of the items that are helpful to the industry as a whole, and help enable everybody to get through and end up on level ground, competing head-on in the future.

That would be a major piece of work and that's certainly what I'm going to bend my efforts to try to accomplish. So again, I appreciate your testimony today very much.

Senator STEVENSON. Let me just ask one more question, prompted by Senator Riegle. Volkswagen and Mitsubishi will save General Motors from the Department of Justice. You can thank them for that, Mr. Potter, but what is Mitsubishi doing for Chrysler? Can you tell us anything about the implications of its reported decision to cut off its arrangement with Chrysler?

Mr. KENNEDY. Yes. I can tell you that that has not happened. The report of 2 days ago seemed to be somewhat exaggerated. The boat which was embargoed in Japan with 2,000 Mitsubishi automobiles on it has left today. We have reached an arrangement with Mitsubishi for financing of those cars, and we plan to continue in the future.

Senator STEVENSON. No truth to these reports that it is trying to terminate its agreements with its supply of those small automobiles to Chrysler?

Mr. KENNEDY. Mitsubishi has said that they plan to cooperate with us for the foreseeable future. As with every other agreement it is subject to renegotiation. That is what we are doing, and we are confident that the arrangement will continue.

Senator STEVENSON. It is being renegotiated but you think it will be renegotiated on an acceptable basis that continues to supply Mitsubishi manufactured automobiles to Chrysler?

Mr. KENNEDY. Absolutely. Both of us believe that.

Senator STEVENSON. Both of you, you and Mitsubishi?

Mr. KENNEDY. That's right.

Senator STEVENSON. And Mr. Iacocca, too? I thought I heard him suggest the other night on television that there was some concern about the future.

Mr. KENNEDY. I think that concern is largely behind us. I have a statement which I will submit for the record, from Mitsubishi, in support of continued working arrangements with Chrysler.

Senator STEVENSON. Well, let's have it, and we will decide later whether to put it in the record. I don't want to put it in the record if it is not related to the subject matter here.

Mr. KENNEDY. As you wish.

Senator RIEGLE. Would you yield at that point, Mr. Chairman?

Senator STEVENSON. Of course.

Senator RIEGLE. I think you raise an important matter. It is not necessarily directly in line of our earlier discussions here this morning, but it is nonetheless directly related to the larger questions that we've been discussing.

Frankly I have some concern about it and in fact will be saying something about it tomorrow. But the committee record in the Banking Committee is very clear. As you will recall, when the Mitsubishi representatives were there, and the Japanese banking interests were present before our committee, they were very explicit and very positive in terms of their future commitment to stay with the Chrysler arrangement and to help Chrysler work through this difficulty.

So, I have reviewed that committee record and I will just say that there was absolutely no suggestion on their part of any backing away, either in terms of the financing arrangements or the import arrangements in terms of vehicles.

I for one would take a very dim view of any change on their part now, particularly in light of the fact that those statements were covered in such great detail and were very specific. That particular issue with respect to Chrysler has to be viewed in the larger context of the invasion of Japanese cars in the United States which has just gone on at an incredible pace.

You might be interested to know that in the last 5 years the increase in foreign imported cars in the United States has been very substantial in the aggregate, but about 98 percent are Japanese vehicles. In other words, they are the only nation that really has taken advantage of a one-way trade relationship here in terms of flooding our market with their cars.

So, that I think it is essential at this time that Mitsubishi particularly follow through on statements that were made. I am pleased to hear what you say, and my understanding was that the issue is being resolved. But should further problems arise, then I think we would have to deal with that in a very direct way, because that was part of the representation that was made by them in the course of our hearings and judgment. It is important that they stand by those commitments.

I not only fully expect them to do so, but I would see that it was done.

Senator STEVENSON. Thank you. Thank you very much, gentlemen.

We must keep pushing now. Our next witnesses are: Mr. Philip Hutchinson, director for government and industry relations of Volkswagen of America; Mr. Saburo Hori, vice president for engineering of Checker Motors; and Mr. Marvin Stucky, vice president, governmental affairs and corporate planning of American Motors.

We will follow the same procedure, if there is no objection: Proceed with the statements, and then return with questions to the panel. If you can summarize the statements, we would be happy to enter the full statements in the record and perhaps save some time for questions.

Mr. Hutchinson?

STATEMENT OF PHILIP A. HUTCHINSON, JR., DIRECTOR, GOVERNMENT AND INDUSTRY RELATIONS, VOLKSWAGEN OF AMERICA, INC.; ACCOMPANIED BY GERHARD RIECHEL, CORPORATE LEGAL STAFF

Mr. HUTCHINSON. Thank you, Mr. Chairman.

I am Philip Hutchinson. I'm the director of government and industry relations for Volkswagen of America, Inc. Accompanying me is Gerhard Riechel from our corporate legal staff. My testimony today is limited to section 3 of S. 2010, which VW supports.

Volkswagen of America is a U.S. corporation, headquartered in Michigan, and is both a domestic manufacturer and an importer of automobiles. In 1978, we completed an assembly plant in Westmoreland, Pa. This plant will produce approximately 200,000 Rabbits and 24,000 light pickup trucks in 1980. Over 5,000 workers are employed at our Pennsylvania plant, which has a weekly payroll of \$1.5 million.

The diesel Rabbit and diesel pickup truck are the most fuel efficient vehicles produced and sold in the United States, with EPA highway ratings of 56 and 53 miles per gallon, respectively. VW's Charleston, W. Va., plant supplies sheet metal parts and body stampings for U.S.-built Rabbits and pickups. Our Fort Worth, Tex., plant supplies air-conditioners, radiators, and plastic parts.

In addition to our domestically produced vehicles, VW imports other VWs, Porsches, and Audis. This full range of vehicles permits Volkswagen of America and its dealers to compete successfully in the U.S. market and to provide the service and parts that consumers demand. An additional 50,000 workers are employed in VW sales and service.

For 1979, total VW sales in the United States were 292,017 vehicles. This represents about 2.01 percent of the U.S. market. Just by way of comparison, GM captured 59.07 percent, Ford 25.64 percent, and Chrysler 11.33 percent. So while we believe we are an able competitor in this market, clearly we are small by comparison to the Big Three.

One of our main goals in building cars here is to make maximum use of U.S. labor and components. Unfortunately, existing law will penalize VW, insofar as calculating fuel economy is concerned, if our U.S.-built cars contain more than 75 percent domestic content.

Beginning with the 1980 model year, Volkswagen's fleet average for fuel economy purposes is calculated by considering whether the vehicles are considered to be domestic or imported. Whether these two classifications of vehicles are averaged together or separately depends upon the domestic content of VW's built in the United States.

If VW's produced at our Pennsylvania plant contain less than 75 percent United States or Canadian value-added content, our fleet average will be the sales weighted average of all Volkswagens, Porsches, and Audis for that particular model year sold in the United States. Even though our Rabbits are built in Pennsylvania by UAW workers, the law says they are imports if they contain less than 75 percent domestic content. If U.S. produced VW's exceed 75 percent U.S. content, we would be dealing with two fleet averages for fuel economy purposes.

In this case, our most fuel efficient cars, the "domestically manufactured" VW Rabbits, would comprise one fleet and would also have the highest sales volume. Our imported cars, which would comprise the other fleet, would have a lower fuel economy average. The availability in the United States of these imported cars could

be jeopardized with adverse implications for our dealers who require a full model line to be competitive.

In order to avoid this situation, it would be necessary for VW to restrict its use of U.S. components to below the required 75 percent domestic content level in order to average our domestic and imported fleets to meet fuel economy requirements. Incidentally, the projected corporate average fuel economy for 1980 for all domestically produced and imported VW's, Porsches, and Audis is 31.8 miles per gallon, well above the 1985 standard mandated by law.

Presently, U.S.-built Rabbits contain approximately 60 percent domestic content, with the pickup truck slightly higher at 61 percent. Domestic content is rising rapidly due to competitiveness of U.S. suppliers compared to those in Europe. This is a consequence of the dollar/D-mark relationship. As we wish to continue to buy in America, we fear that purchases may be hampered when we further approach the 75-percent barrier.

We believe that Congress, in establishing those provisions in the act which separate "domestically manufactured" fleets from imported fleets for the purpose of fuel economy standards, had in mind that situation where a domestic manufacturer might want to offset the lower fuel economy average of a fleet of U.S.-made cars by the higher fuel economy average of cars imported from its foreign subsidiary. We do not believe that Congress envisioned the opposite case—such as Volkswagen's—where cars formerly imported would in the future be built in the United States.

Section 3 of the bill would permit a manufacturer to average U.S. assembled automobiles with its imports if U.S. production began after the act was passed, December 22, 1975. VW believes that enactment of section 3 of S. 2010 would encourage foreign automobile manufacturers locating in the United States to build their best selling, most fuel efficient cars here, a positive contribution to the U.S. energy and balance of trade situations. This amendment would also encourage other companies, like Volkswagen, who decide to build cars in the United States, to make maximum use of American labor and suppliers.

Mr. Chairman, we are encouraged by the fact that the Departments of Transportation and Labor, the Office of Management and Budget, the United Auto Workers, and many Members of Congress have expressed support for section 3 of S. 2010. While there are other approaches that could have solved this domestic content dilemma, VW believes section 3 is a reasonable solution that merits adoption by the Congress.

Mr. Chairman, I have attached four charts to my statement. The first chart shows the dramatic increase of U.S. sales as opposed to imports. The second chart illustrates VW's impact on American labor and how our employment in the United States is increasing rapidly. The third chart illustrates our increasing use of U.S. components, which since 1978 has grown rapidly. And the final chart shows VW of America's average fuel economy and illustrates the problem that we have today.

The top line on this chart shows that, from this year on, our fuel economy for all of the cars either produced domestically or imported will be approximately 32 miles per gallon. Incidentally, the implication was made that the imports are not fuel-efficient cars. I

would like to point out that on this chart it shows where the import fleet would be if it was averaged by itself, and as you can see, today it is well above the standards.

I would also point out that these individual cars, when compared to their counterparts in the United States, are very fuel-efficient vehicles.

Mr. Chairman, that completes my statement. I thank you for the opportunity to appear.

[The charts follow:]

CHART ILLUSTRATES THE YEARLY
INCREASE IN VW'S DOMESTIC SALES

CHART 1

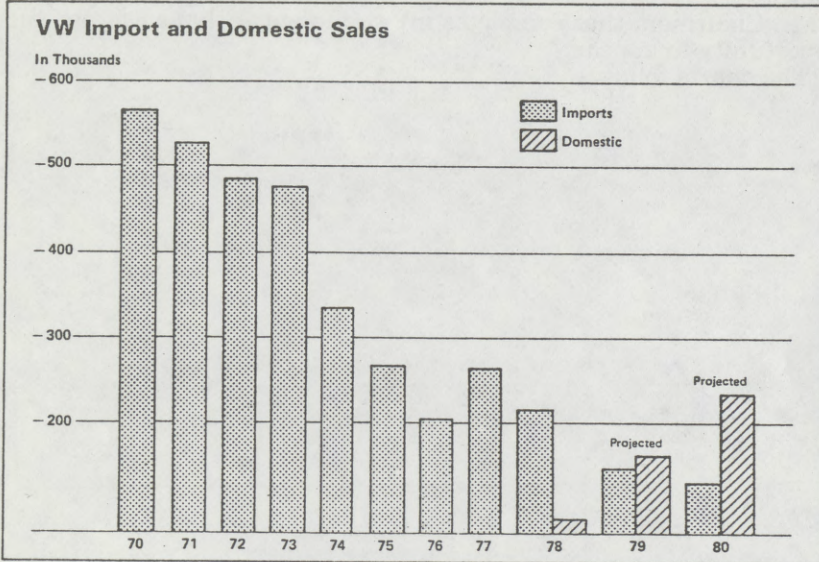


CHART ILLUSTRATES VW'S
DIRECT IMPACT ON AMERICAN LABOR

CHART 2

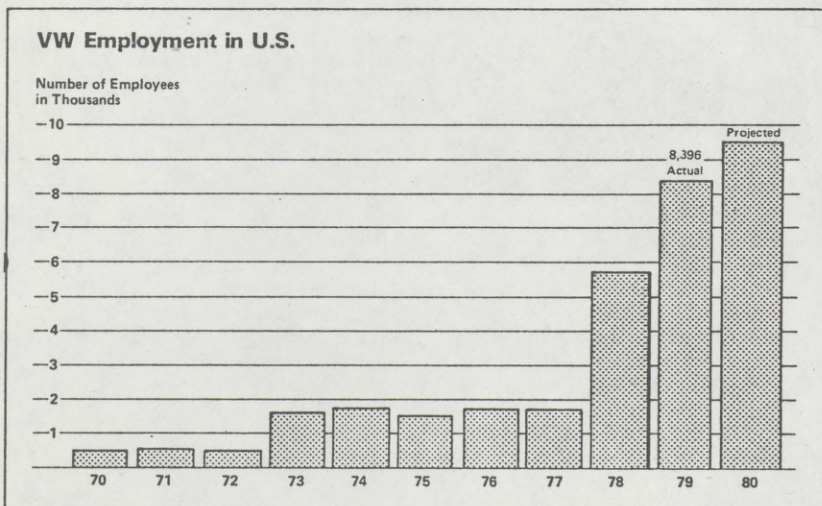


CHART ILLUSTRATES VW'S INCREASING
USE OF U.S. COMPONENTS

CHART 3

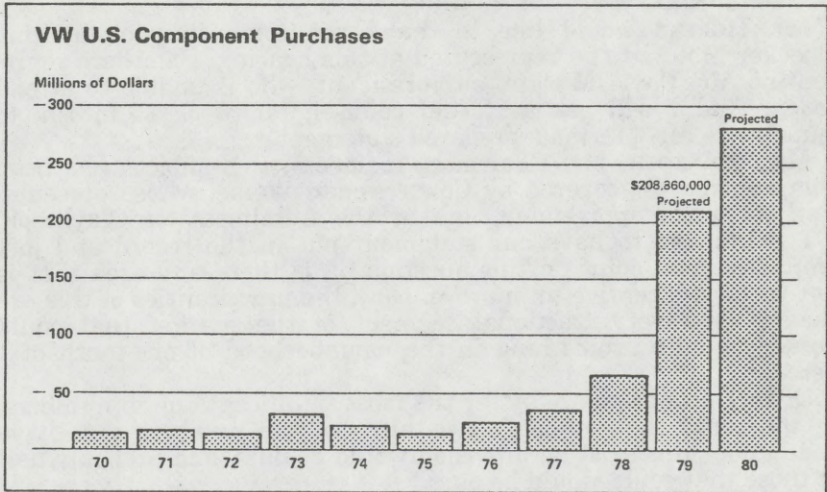
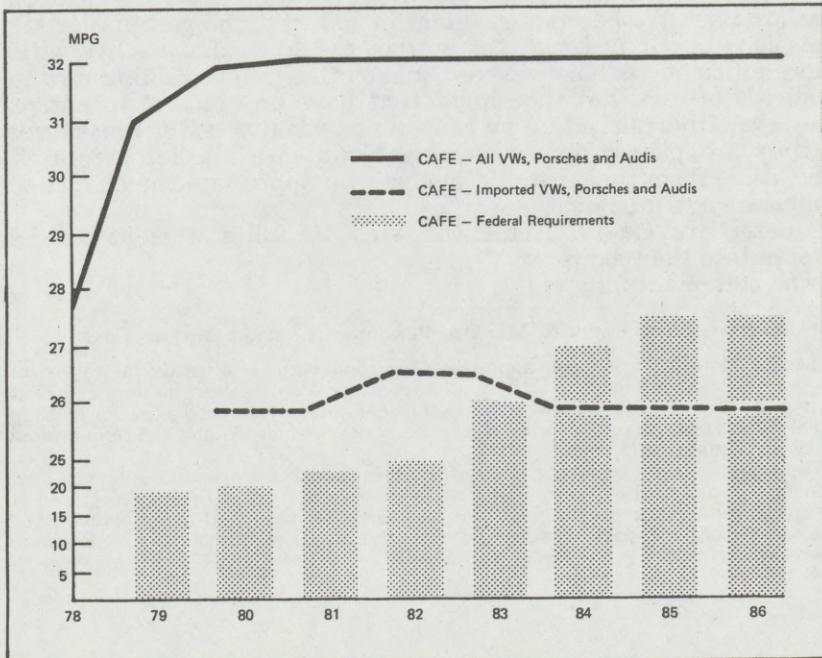


CHART ILLUSTRATES VW'S INABILITY TO MEET
THE FEDERAL CAFE STANDARD FOR 1984 AND
BEYOND IF DOMESTIC AND IMPORTED FLEETS
ARE AVERAGED SEPARATELY FOR CAFE PURPOSES

CHART 4

VW Corporate Average Fuel Economy (CAFE)



Senator STEVENSON. Thank you.
Mr. Hori?

STATEMENT OF SABURO HORI, VICE PRESIDENT, ENGINEERING, CHECKER MOTORS CORP.; ACCOMPANIED BY ROBERT JOHN MCINTOSH, LEGAL COUNSEL

Mr. HORI. I would like to thank the committee for inviting Checker Motors to be represented at this hearing. I am here representing Mr. David Markin, our president, who is unable to attend today. And I will ask our legal counsel, Mr. Jack McIntosh, to summarize Mr. Markin's prepared statement.

Mr. MCINTOSH. Mr. Chairman, members, this subject has been comprehensively covered by Congressman Wolpe, whose presentation we much appreciated, and by the Administrator Claybrook.

I would like to have our statement put in the record and just emphasize one point on this question of, is there any area that is left without incentive to improve. Now, the practicalities of this are that it is a very fractional segment of the market that could possibly qualify, something in the neighborhood of one-tenth of 1 percent.

Of that group, we are by far the most significant one in numbers, in the sense that probably two-thirds of the numbers that have gone under this existing provision would be ours, and probably half of those that could would be ours.

Now, in our particular position, we are selling a commercial vehicle. We are selling 95 percent of our product to people who are running cost accounting records, who buy our vehicle when it is the most cost-efficient vehicle to serve their purpose. So, we have massive market pressures, so that incentive is not involved in this particular point as far as we're concerned.

Second, almost all of the companies to my knowledge that would be potentially involved in this have been picked up under the regulations of the gas guzzler tax. In our instance, we are clear on that for 1980. We become marginal in 1981. So, the gas guzzler tax provisions in our instance, the market pressures that we live with, where efficiency is how we exist, means that you're talking now in hundreds of cars, not thousands, that have any lack of incentive. They are either picked up by gas guzzler penalty tax or procedures or they are picked up, as we are, by intense market pressures.

So, aside from that, I would just say we appreciate the chance to emphasize our problems.

Senator STEVENSON. Thank you, sir. The full statement will be entered into the record.

[The statement follows:]

STATEMENT OF DAVID R. MARKIN, PRESIDENT, CHECKER MOTORS CORP.

Checker Motors Corporation appreciates this opportunity to testify in support of the proposed amendment to Title V of the Motor Vehicle Information and Cost Savings Act which would exempt automobile manufacturers producing fewer than 10,000 vehicles per year both from the fuel economy standards and the semi-annual reporting requirements.

When the Senate Commerce Committee developed the Corporate Average Fuel Economy concept of the Energy Policy and Conservation Act of 1975 it recognized at the drafting stage that "averaging" was impossible for the small manufacturer, and that some other approach was necessary to give small manufacturers a chance to survive.

As early as December of 1974, Senator Magnuson, in a letter assuring us that the committee recognized the small manufacturer's problem, said that:

"The range of values contained in 504(c) of the staff working draft were computed with major auto makers in mind, where a great deal of flexibility exists to improve fuel economy."

It is our understanding that the 10,000 unit limit and the "maximum feasible standard" test was adopted, in preference to a somewhat higher production limit and a total exemption, in order to avoid any competitive advantage and to assure reasonable efforts by the marginal producers.

After several years experience the Department of Transportation last spring recommended exempting small manufacturers (fewer than 10,000 vehicles per year) from the economy standards and the semi-annual reporting requirements.

In the analysis submitted to the Senate by the Secretary of Transportation in support of this recommendation last month, he said:

"Administration of this provision is burdensome, both for the Department and the low volume manufacturers, and contributes little to the achievement of the goal of fuel savings."

We agree with the Secretary of Transportation.

In the 10,000,000 vehicle per year U.S. market, this amendment will effect less than 1 vehicle out of each 1,000 sold. Of the vehicles effected, Checker will market over 50 percent or about 1 vehicle of each 2,000 sold. Avanti will sell one of each 50,000 sold.

Of the 8 to 10 companies that may qualify for this exemption, most produce 200 or 300 units per year and provide vehicles for that small segment of the public which will pay some premium for a "different", "unique", or "classic" car. A few of our cars are sold in this market. I wish we could sell more.

However, over 95 percent of our production is marketed each year to a group of unsentimental businessmen—the cab fleet operators in the large cities of the U.S. They are under extreme cost pressures. They buy our cabs when their analysis of their operating needs convinces them that they can move more people and generate more revenue, at a lower cost per passenger with our vehicle than any alternative.

For this specialized service, we believe that Checker is the most cost efficient vehicle available—and I believe Urban Mass Transit Administration data tends to confirm this. This is increasingly important as the "shared ride" concept is adopted in more communities.

We manufacture vehicles which can carry 8 or 9 passengers. Our standard cab, with jump seats, handles 5 passengers in the rear compartment. Our cabs have heavy-duty components, are classified as "mid-size" cars and on M.P.G., compare favorably with six passenger standard sedans. We make a commercial vehicle for commercial use and survive because we are cost efficient in the marketplace. We have done so for over 55 years and hope to continue.

If the standard American sedan could provide the capacity and durability required for service in big city fleet operations, we would not be in business. (Many fleet operations put as much as 6,000 very tough miles on a car in 30 days' time).

We have no complaints about the present provision or its administration, but we do agree with the Secretary of Transportation that it is a unnecessary burden both on the manufacturer and the government.

We realize that some of the major manufacturers expressed opposition to this exemption when the D.O.T. recommendation was issued last year. We understand their concern for the principle of equal treatment. The American auto manufacturers effected by this may, by legal definition, be manufacturers, but we do not see ourselves, or this exemption, as having any identifiable impact on the automobile market or fuel supplies.

In a 10 million car market where the largest company makes 5 million cars and the 6th largest manufacturer makes less than 5,000 cars, we believe that a practical distinction can be made without adversely effecting the principle of equal treatment among competitors. The principle will still be 99.9% intact.

Discussion of this subject is sometimes confused by the Rolls Royce situation. The tiny market for cars in the \$50,000 to over \$100,000 price range is served by Rolls and various customizers. This is a never-never land as far as we are concerned. Whether a person buys a Rolls Royce, a stretched Fleetwood, or a customized Continental, is in fuel economy impact, totally immaterial.

The Corporate Average Fuel Economy provisions had no direct impact on the large luxury car market—Fleetwoods and Continentals were averaged in, and Rolls met the maximum feasible effort test. The proposed exemption will not change this result.

To provide further constraints on this market, Congress adopted the Energy Tax Act of 1978, assessing a substantial graduated excise tax on lower-mileage cars.

In the Energy Tax Act of 1978, a maximum feasible fuel economy determination, comparable to 502(c), was established for small manufacturers under the gas guzzler tax provisions. It requires a determination by the Secretary of Treasury, after consultation with the Secretary of Energy, Secretary of Transportation, and other appropriate Federal officers, of the maximum feasible fuel economy level attainable by the small manufacturer.

Our vehicles all clear this provision in 1980, but from 1981 on, we will be marginal on some vehicles. For us, the proposed exemption eliminates duplication of regulation, but leaves us with both market pressures and regulatory supervision to insure the maximum feasible mileage improvements.

The remaining companies, as Senator Cannon has indicated, market 200 or 300 cars each. Most of them will join us under the Secretary of Treasury, and the 1978 act. The energy impact of the proposed exemption is minimal. The savings for the small manufacturer and the government are substantial. We urge that committee to approve the recommendation of the Secretary of Transportation.

Specialized vehicles such as taxicabs and other para-transit vehicles will play a critical role in the expansion of public transportation capabilities in our urban centers.

The necessary passenger capacity, including wheel chair access, and the heavy duty construction required, preclude the possibility of such vehicles meeting future passenger car fuel economy standards. We believe that such vehicles should be regulated under separate fuel economy standards, as a commercial vehicle, not a passenger car.

Pending such classification, this exemption will also enable Checker and other low volume manufacturers to attempt the development of a new generation of para-transit vehicles, for limited production, without facing possible penalties under Corporate Average Fuel Economy Standards.

We appreciate, as I am sure all small companies do, the concern for our problems expressed by this committee and its staff in past years as well as the courtesy and assistance that has been extended to us by the Department of Transportation.

Senator STEVENSON. Mr. Stucky.

STATEMENT OF MARVIN W. STUCKY, VICE PRESIDENT, GOVERNMENTAL AFFAIRS AND CORPORATE PLANNING, AMERICAN MOTORS CORP.; ACCOMPANIED BY FRED STEWART, VICE PRESIDENT FOR GOVERNMENTAL AFFAIRS; AND KEVIN TIGHE, WASHINGTON COUNSEL

Mr. STUCKY. Mr. Chairman, distinguished members of the subcommittee, my name is Marvin Stucky, vice president for governmental affairs and corporate planning of American Motors Corp. With me today is Fred Stewart, vice president for governmental affairs, and Kevin Tighe, our Washington counsel for American Motors.

As you requested, I would like to summarize the statement which we had submitted to the committee in greater detail.

I am pleased to have the opportunity to present our company's views on proposed amendments to EPCA which are under consideration by this subcommittee. The issues involved are of vital importance to American Motors and decisions made on these matters will have a direct effect on our ability to execute our corporate plans designed to take us into the decade of the 1980s and beyond as a part of the competitive worldwide auto industry.

American Motors is the smallest of the four major domestic manufacturers, accounting for about 2 percent of the units sold in the United States. Approximately 30,000 people are directly employed by American Motors, and our 2,200 dealers employ an additional 45,000 people. This means that about 75,000 people are directly dependent on American Motors for their livelihood.

Even though American Motors Corp. is not a small company by most standards, our relative size is quite small in an industry which is highly capital intensive and populated by giants. Despite the problems of scale and the obvious limitations of resources, we are committed to remaining a viable manufacturer of passenger cars and other transportation products.

Recent examples of this commitment include a progressive program of introducing new product lines in the smaller, fuel efficient end of the market, and discontinuing our least fuel efficient car lines. The result is that our cars are now all positioned to compete in the 50 percent of the market populated by smaller cars, and that includes imports.

In addition to these relatively short-term changes, the new management team has also focused on the inherent structural disadvantages of a company the size of American Motors and developed a plan to assure continuity and active participation in the more highly concentrated worldwide automobile industry of the future.

The first requisite for such a plan was to obtain access to an advanced technological base and at the same time leapfrog several years of time and several billion dollars investment cost. Clearly, the most expeditious way to accomplish this was to develop an affiliation with a large worldwide company which possessed the needed advanced technology, but one that also needed a strong American partner with access to the large U.S. market.

After many months of discussions, it became clear that Renault of France and American Motors were an ideal fit, the strengths of each complementing those of the other. These negotiations resulted in a series of agreements between the two companies.

The first agreement, announced on January 10, 1979, provided for mutual distribution of products. American Motors assumed responsibility for the distribution and marketing of Renault automobiles in the United States and portions of Canada. In turn, Renault assumed similar responsibilities for Jeep vehicles in parts of Europe and South America.

After further negotiations, a manufacturing agreement was announced on October 12, 1979. This agreement provides for American Motors to manufacture high technology, fuel efficient, front-wheel drive cars based on Renault technology in its Kenosha, Wis., facilities starting in 1982.

Additionally, Renault will provide \$150 million in financing, consisting of an equity interest in common stock, convertible subordinated debt and subordinated debentures. Ultimately, this could represent a 22.4-percent interest in American Motors Corp. by Renault. Renault will also make available \$50 million in supplier credits and other arrangements for working capital requirements.

While AMC's future prospects for meeting the EPCA standards on a total corporate fleet basis are assured, there are some near-term problems which must be addressed. The AMC domestic nameplate cars have consistently exceeded the EPCA fuel economy standards to date. However, our projections indicate that this group will fall short of compliance starting with the 1982 model.

This group of cars, considered relatively small and energy efficient by today's standards, will still be very competitive with cars of comparable size and weight in the mid-1980s. Nonetheless, it is

essential that a substantial number of small highly energy efficient cars be added to this fleet in order to improve our corporate average fuel economy performance.

This issue is pointed out in a chart that we have up here on your left, which shows in the graph that our domestic nameplate vehicles fall below the EPCA standards in 1982—that is the bottom line on the chart—and continue below the standard on through 1985. This is obviously the basis of our problem. While they are fuel efficient vehicles, while they are competitive vehicles, they are only two nameplates and therefore they are not a full line car line mix and therefore do not have a means to get themselves back up to the standards. That is the message that comes on the chart as far as domestic nameplate vehicles, and that's what we're talking about.

In order to solve the problem, this is where the Renault cars come in. But there is a problem.

Because of technicalities existent in the present law related to the definition of domestically manufactured and nondomestically manufactured passenger cars, the inclusion of the Renault cars in the American Motors corporate fleet will not be possible before 1985; perhaps it could be the 1986 model year. This would leave a number of model years starting in 1982 in which our corporate fleet could be judged to be in noncompliance, with the attendant exposure to the assessment of fines and penalties as provided by present law.

When EPCA was enacted in 1975, the 75 percent domestic content requirement was included to preclude the major domestic manufacturers from including their high-volume captive imports in their corporate fleets, in order to ease the burden of meeting the standards. The overriding concern as expressed by the UAW was the possibility of an upsurge of foreign manufactured cars coming into the United States, at the expense of domestically manufactured cars, thus effectively resulting in the exportation of jobs.

While this concern was valid, it was little noted at the time that this provision cuts both ways and that it also discourages the establishment of new manufacturing operations in this country utilizing foreign technology, and thus discourages the creation of new jobs for U.S. workers. This point is recognized by the UAW, resulting in their very clear expression of support for S. 2035.

Due to resource limitations, AMC's engineering efforts are devoted primarily to the application of technology developed elsewhere. This is the very essence of the manufacturing agreement with Renault. Being cast in this role usually introduces an added element of lead time. In other words, it frequently requires additional time to adapt and apply externally developed technology to one's products and facilities.

This has been recognized by the Federal Government in the past, for example, in the Clean Air Act Amendments of 1977, which provided additional time for small manufacturers such as American Motors to meet some of the more stringent and difficult emission standards.

I would like to emphasize that the total fleet as shown in the upper line of cars over here of American Motors will meet the fuel economy standards for each of the years through 1985 as estab-

lished by EPCA. The performance of this fleet could well be the best of any manufacturer.

We are not suggesting or seeking a change in the fuel economy standards. S. 2035 complies with the spirit of EPCA, if not the letter of the present law.

After considering many possible alternatives, AMC is requesting a modest change in the law that recognizes the facts of life related to starting a new manufacturing operation in this country based on foreign technology. It is clearly going to take at least 2 to 3 years from an initial start until 75-percent domestic content can be achieved.

To this end, we are strongly supporting an amendment introduced by Senator Gaylord Nelson identified as S. 2035.

Let's consider some of the alternative solutions which have been suggested. We are aware of the provisions in the current law which authorize the Secretary of Transportation to grant relief from penalties resulting from certain causes beyond a manufacturer's control or to prevent bankruptcy or lessening of competition. We submit that such remedies are not a suitable or proper basis for a corporation to formulate future plans and would prove to be disastrous in the marketplace.

DOT's third annual report to Congress last January proposed amendments to EPCA that would extend to 3 years the present 1-year carryforward/carryback provisions related to penalties and credits. In addition, DOT proposed that the 75-percent domestic content requirement be modified by substituting the start of a new manufacturing entity after December 22, 1975, enactment date of EPCA as the criterion.

American Motors supported these proposals. However, these proposals do not solve our current problem. The 3-year carryforward/carryback still requires the manufacturer to violate the law, which is unacceptable in our case. Our company is perceived by the public to be a builder of smaller sized cars that give good gas mileage.

During the transitional period while getting started with the manufacturing of Renault cars in this country, regardless of the fact that our domestic cars are fully competitive with other vehicles of their size, our corporate average will be below the EPCA standards. This would be a severe competitive disadvantage of sufficient magnitude to endanger continued viable volume sales.

Even if this were not the case, the 3-year provision, if it were to solve our problem, would require that we have a minimum 75-percent domestic content in our Renault vehicles produced in our Wisconsin plants for the 1985-86 models. Achievement of the 75-percent content level is our target. It is our plan. To do so is in our own best interest.

It should be emphasized, however, that this is a precise level by a date certain as cast in the law. Failure to meet the requirement by the narrowest of margin exposes a company to substantial economic penalties, and more importantly severe competitive disadvantage.

DOT's proposal to support a calendar date for the 75-percent domestic content requirement is not applicable to American Motors' situation in view of the final organizational form our

agreements with Renault have taken. No new manufacturing entity is involved, since AMC will be the manufacturer.

DOT's proposal also contained in S. 2010—has the stated objective of protecting jobs and enhancing employment opportunities in the United States as well as reducing petroleum consumption. American Motors supports these objectives.

The provisions of S. 2035, which we also support, are consistent with these same objectives. In fact, we believe that S. 2035, by encouraging new production of new fuel efficient cars in the United States, with U.S. labor, rather than abroad with foreign labor more nearly fulfills these objectives than does the DOT proposal.

In addition to encouraging new U.S. production, the DOT proposal also permits the continued importation of less fuel efficient cars built abroad with foreign labor. American Motors strongly recommends favorable consideration of S. 2035 by the subcommittee.

Briefly the bill provides the following. Application is limited to a manufacturer who in 1978 produced less than 300,000 passenger automobiles worldwide; second, permits qualified manufacturers to include up to 150,000 nondomestic passenger cars in his corporate fleet for compliance purposes. Third, to qualify a manufacturer must show to the satisfaction of the Secretary of Transportation its ability to meet the standard depends upon the use of outside technology—the manufacturer lacks the ability to have a reasonably practical technology. And finally, it expires as a terminal point after model year 1986.

S. 2035 is not a major revision to EPCA. Rather it carries forward the original policy of allowing the inclusion of a certain number of nondomestic cars in a qualified manufacturer's corporate fleet. It does not establish a new precedent, since it follows closely the rationale of the 1977 Clean Air Act Amendments. It is not open ended, in that each year the manufacturer must apply, and the provisions of the amendment expire after model year 1986.

With the plans we have made, based upon our agreements with Renault, we are confident we can make available to the public fuel efficient cars in the spirit of EPCA. At the same time, we can stabilize employment, create jobs for our own people. We also believe that our plans will have a net positive effect on the international balance of payments.

Respectfully and earnestly, we request your favorable consideration of S. 2035 in order that our plans for the future may become a reality.

Thank you.

[The statement follows:]

STATEMENT OF MARVIN W. STUCKY, VICE PRESIDENT, GOVERNMENTAL AFFAIRS
AND CORPORATE PLANNING, AMERICAN MOTORS CORP.

Mr. Chairman and distinguished members of this subcommittee, my name is Marvin W. Stucky, Vice President, Governmental Affairs and Corporate Planning, American Motors Corporation. I am very pleased to have this opportunity to present our company's views on the proposed amendments to the Energy Policy and Conservation Act (EPCA) which are under consideration by this Subcommittee. The issues involved are of vital importance to American Motors, and decisions made on these matters will have a direct effect on our ability to execute our corporate plans designed to take us on into the decade of the 1980's and beyond as a part of the competitive worldwide automobile industry. These plans have been very carefully

crafted and we believe they are a good example of free enterprise responding to national goals, societal needs and worldwide economic facts of life. In the words of our Chairman of the Board, Gerald C. Meyers, "Every automobile company in existence today has to make a choice—lay out the battle plan or perish." We have laid out the battle plan and with your understanding and help we expect American Motors to have a strong future in the evolving worldwide automobile industry which we foresee narrowing to about a dozen independent automobile manufacturers by the end of the 20th Century.

AMERICAN MOTORS' POSITION IN THE AUTOMOBILE INDUSTRY

American Motors is the smallest of the four major domestic manufacturers, accounting for approximately 2.0 percent of the units sold in the United States. Within that 2.0 percent of the industry sales are two lines of small, fuel efficient passenger cars, a diversified line of Jeep four-wheel drive utility vehicles and light trucks. Through our AM General subsidiary, we are the largest supplier of tactical wheeled military vehicles to our U.S. Armed Forces and certain allies. In addition, through other subsidiaries we also build and sell lawn and garden tractors and injected molded plastic parts.

Approximately 30,000 people are directly employed by American Motors and our 2,200 dealers employ an additional 45,000 people. This means that a total of approximately 75,000 people are dependent upon a strong and vibrant American Motors for their livelihood.

American Motors is owned by more than 150,000 stockholders who have faith and confidence in what we are all about. They have given our new management team and future plans and programs a strong vote of confidence.

Even though American Motors is not a small company by most standards, our relative size is quite small in this industry which is highly capital intensive and populated by giants. Despite the problems of scale and the obvious limitation of resources, we are committed to remaining a viable manufacturer of passenger cars and other transportation products. To meet this commitment in the face of what at times appear to be overwhelming challenges requires a high degree of dexterity, dedication to purpose and, yes, even boldness in trying new approaches in solving tomorrow's transportation problems.

Recent examples of the dexterity and boldness to which I refer include a progressive program of introducing new product lines in the smaller, fuel efficient segment of the market and discontinuing our least fuel efficient car lines. The result is that our cars are now all positioned to compete in the 50 percent of the market populated by small cars, including imports. We are convinced this is where the action is, and the action is going to intensify. We at American Motors are eagerly responding to this challenge.

This reshaping of our product offerings also presented profit opportunities, such as utilizing freed productive capacity to augment existing Jeep vehicle production, particularly the smaller Jeep for which consumer demand is strong. Part of this available manufacturing capacity was also utilized for the bold move of introducing the Eagle four-wheel drive passenger automobile. This new vehicle concept fills a significant need and a unique niche in the marketplace, as evidenced by the fact that the Eagle has been extremely well received by the consuming public.

These moves all involved the deployment of resources which serve the dual purposes of satisfying the demands of the marketplace, as well as the dictates of mandated government fuel economy requirements. In addition, a rigid system of cost controls and maximization of cost saving opportunities has been successfully superimposed over all of these activities.

In addition to these relatively short-term changes, our new management team focused on the inherent structural disadvantages of a company the size of American Motors and set about to develop a plan to assure continuity and active participation in a more highly concentrated worldwide automobile industry as visualized for the future. The first requisite of such a plan was to obtain access to an advanced technological base and at the same time "leapfrog" several years' time and several billion dollars investment cost. Clearly, the most expeditious way to accomplish this goal was to develop an affiliation with a large worldwide company which possessed the necessary advanced technology, but one that also needed a strong American partner with access to the large U.S. market. Such an affiliation did eventually emerge.

After many months of careful negotiations it became clear that Renault of France and American Motors were an ideal match, with the strengths of each complementing those of the other. These negotiations resulted in a series of agreements between the two companies.

RENAULT/AMC AGREEMENTS

The first agreement, announced on January 10, 1979, provided for mutual distribution of each company's products. American Motors assumed responsibility for the distribution and marketing of Renault automobiles in the United States and parts of Canada. In turn, Renault assumed similar responsibilities for Jeep vehicles in parts of Europe and South America.

After further negotiations a manufacturing agreement was announced on October 12, 1979. This agreement provides for American Motors to manufacture high technology, highly fuel efficient, front-wheel drive passenger automobiles based on Renault technology in its Kenosha, Wisconsin facilities commencing in 1982.

The October 12, 1979 agreement further states that Renault will provide American Motors with 150 million dollars in financing, consisting of an equity interest in common stock, convertible subordinated debt and subordinated debentures. Ultimately, this could represent a 22.4 percent interest in American Motors Corporation. In addition, Renault will make available 50 million dollars in supplier credits and other arrangements as part of the working capital requirements.

We believe this affiliation between American Motors and Renault of France to be the boldest move made by any two automobile companies in recent times as a means of meeting the needs and challenges of the future. The acquisition of an equity interest in American Motors by Renault is a ringing vote of confidence in our company and the U.S. economy as a whole. Clearly, the underlying reasons for the agreement are to ensure that American Motors will remain a vigorous competitor in the small car segment of the market and to ensure that American Motors will comply with the future corporate average fuel economy standards mandated by EPCA.

While our future prospects for meeting the EPCA standards on a total corporate fleet basis are excellent, there are some near term problems which must be addressed. The American Motors domestic nameplate cars have consistently exceeded the EPCA fuel economy standards to date; however, our projections indicate that this group will fall short of compliance starting with the 1982 model. This trend will continue at an accelerated rate since the stringency of the federally mandated fuel economy standards increases at a much faster rate than that for any possible fuel economy improvements. This group of cars, while considered relatively small and energy efficient by today's standards, will be very competitive with cars of comparable size and weight in the mid-1980's. However, it is essential that a substantial number of small, highly energy efficient cars be added to this fleet in order to improve our corporate average fuel economy performance. This is clearly illustrated in the attached chart, Exhibit I. In addition, this would round out the total fleet from a merchandising standpoint, making it a very viable offering to the public.

This is where the Renault cars come in * * * but there is a serious problem.

THE PROBLEM

While the agreements with Renault call for the importation of a relatively small number of assembled cars into the U.S. starting with the 1980 model, the main thrust of the agreements provide for the manufacturing of the high technology, highly energy efficient, front-wheel drive passenger cars in American Motors' plants commencing with the 1983 model. Because of technicalities existent in the present law related to definition of domestically manufactured and non-domestically manufactured passenger cars, the inclusion of the Renault cars in the American Motors corporate fleet will not be possible before the 1985 or more likely, the 1986 model year. As a result, this would leave a number of model years starting in 1982 in which our corporate fleet could be judged to be in noncompliance with the standards, with the attendant exposure to the assessment of fines and penalties as provided by present law.

Existing law defines but two kinds of passenger cars, namely, domestically manufactured and non-domestically manufactured passenger cars. Each category is considered to be a separate fleet for the purpose of calculating fuel economy, and each must meet the standard. In order to qualify as a domestically manufactured passenger car, 75-percent of its value as represented by the cost of the car to the dealer must be of domestic U.S. content.

When EPCA was enacted in 1975, the intent of Congress in establishing the 75-percent domestic content requirement was directly related to the preservation and enhancement of U.S. jobs. As such, this provision was incorporated into the law at the behest of the United Auto Workers (UAW). The purpose of the provision was to preclude the major domestic manufacturers from including their high volume cap-

tive imports in their corporation fleets in order to ease the burden of meeting the standards. The underlying concern was the possibility of an upsurge of foreign manufactured cars coming into the U.S. at the expense of domestically manufactured cars, effectively resulting in the exportation of jobs. While this concern may well have been valid at the time, it was little noted that this requirement would not suit the Congressional intent of job preservation in all circumstances, for example, the American Motors/Renault manufacturing operations. Since 1975, it has become apparent that the 75 percent domestic content requirement has not achieved its intended effect of protecting and enhancing employment opportunities in this country. In fact, the opposite is true. In the intervening years since 1975, what has become clear is that the 75 percent requirement has had the unintended effect of discouraging the establishment of new manufacturing operations in this country utilizing foreign technology and thus discouraging the creating of new jobs for U.S. workers. This fact has been recognized by the UAW, and therefore, they have given the amendment which was introduced by Senator Gaylord Nelson, identified as S. 2035, their unqualified endorsement and support.

While American Motors has enjoyed a good reputation as a builder of cars of sensible size, of good intrinsic value, and capable of delivering excellent fuel economy, it cannot be considered to be a technological innovator. To be on the cutting edge of the field of automotive technology requires massive resources beyond those available to us. For this reason, our engineering efforts are devoted primarily to the application of technology developed elsewhere. This is the very essence of the manufacturing agreement with Renault. Yet, being cast in this role is not necessarily an easy way to go, since it usually introduces an added element of lead-time. In other words, it frequently requires additional time to adapt and apply externally developed technology to one's facilities, and hence to one's products. This fact has been recognized in the past; for example, the Clean Air Act Amendments of 1977 providing additional time for small automobile manufacturers such as American Motors to meet some of the more stringent and difficult emission standards.

I must emphasize at this point that the total fleet of cars with which American Motors will be concerned will meet the fuel economy standards established by EPCA for each of the model years through 1985. The performance of this fleet will probably be the best of any manufacturer. We do not suggest, nor do we seek, either a change in the fuel economy standards or a means by which those standards may be waived. Such requests would be wholly inconsistent with our efforts to comply with federal law and to satisfy the demands of the marketplace by manufacturing energy efficient passenger automobiles.

After considering many possible alternatives, we are requesting a modest change in the law which simply recognizes the facts of life related to commencing a new manufacturing operation in this country, based on foreign technology. It is clearly going to take at least two to three years from initial start until 75 percent domestic content can be achieved. To this end, we are strongly supporting Senator Gaylord Nelson's amendment to EPCA, S. 2035, which I will discuss in detail later.

But first, let's consider some of the alternative solutions which have been suggested to see if they represent viable solutions to the problem confronting American Motors.

ALTERNATIVE SOLUTIONS

It has been suggested that administrative authority under existing law would be sufficient to mitigate the problem. Such authority granted to the Secretary of Transportation permits the Secretary to compromise, modify or remit a penalty for the following reasons:

1. If it is necessary to prevent the insolvency or bankruptcy of the manufacturer.
2. If the manufacturer can show that violation of the standard resulted from an act of God, strike or fire.
3. If the FTC determines that a modification is necessary to prevent a lessening of competition.

We submit that all of the above administrative provisions are either inapplicable or are merely escape hatches to avoid the dire consequences of violating the law, and as such are not suitable or proper as bases upon which a corporation should formulate its plans for the future. Furthermore, we find the very act of violating the law to be repugnant, and that act, coupled with the remedies provided, would prove to have disastrous consequences in the marketplace. Therefore, we submit that the administrative authority under the law does not represent a viable solution to our problem, and as such is a solution which American Motors cannot and will not pursue.

In their Third Annual Report to Congress of last January, the Department of Transportation (DOT) proposed amendments to EPCA which would extend to three years the present one year carry-forward/carry-back provisions related to penalties and credits. In addition, it was proposed that the 75 percent domestic content requirement, which defines a domestic car, be modified by substituting the start of a new manufacturing entity after the December 22, 1975 enactment date of EPCA as the criterion.

American Motors has indicated support for both of these proposals on the grounds that they provide for some much needed flexibility in the law and would tend to promote employment through the encouragement of new manufacturing operations in this country. However, these proposals are not applicable to the solution of American Motors' present problem.

The three year carry-forward/carry-back still requires the manufacturer to violate the law, which is totally unacceptable, as discussed earlier. Relying on this provision could well place a manufacturer in an untenable position in the marketplace. Our company is perceived by the public as a builder of smaller size cars that give good gas mileage. During the transitional period while commencing the manufacture of the Renault cars in this country, it would become public knowledge that regardless of the fact that our domestic cars are fully competitive, our corporate average fuel economy would be below the EPCA standards, and that in fact, American Motors was in the position of being assessed a penalty. This would be a severe competitive disadvantage of sufficient magnitude to endanger continued viable volume sales.

The efficacy of this provision presupposes that we will have at a minimum 75-percent domestic content for 1985 model year Renault vehicles produced in our Wisconsin plants. I would like to emphasize that in all our deliberations the 75-percent content level is our target and our plan, but the following must be recognized:

(a) The 75-percent content level is a precise number established by law and any shortfall, regardless of amount, would preclude the use of the carry-forward/carry-back provision of the law.

(b) While our plan is to meet the 75-percent domestic content requirement by model year 1985, numerous external factors beyond our control could affect this level and result in the content level being slightly over or slightly under 75-percent. Some examples include:

(i) vehicle pricing assumptions made now and used in the calculation may not be valid later;

(ii) component sourcing assumptions made now may not be valid later; and

(iii) fluctuations in international currency exchange rates may be unfavorable.

Should we fail to reach the 75-percent content level by the 1985 model year, we will incur substantial penalties for our domestic vehicle fleet, as illustrated by the table, Exhibit II. With a shortfall in our 75-percent requirement and with three year carry-forward/carry-back, American Motors would face a penalty assessment of \$18.9 million by model year 1985 under the \$5 per 1/10 mile per gallon penalty provision. Should the penalty rate be increased to \$10 per 1/10 mile per gallon, which the Secretary of Transportation has the administrative authority to do, our potential penalty assessment becomes \$37.8 million by 1985.

The proposal to substitute a calendar date for the 75-percent domestic content requirement is not applicable to American Motors' problem in view of the way the affiliation with Renault has evolved. As discussed earlier, Renault now has an equity interest in American Motors and thus no new legal corporate identity is involved. As a result, the 75-percent domestic content requirement remains applicable even though the undertaking involves the launching of a new manufacturing operation, requiring time for local sourcing of parts and components.

Although the DOT proposal to substitute a calendar date for the 75-percent domestic content requirement does not offer a solution to American Motors' problem, a very significant point must be noted. The effect of the DOT proposal, and the effect of S. 2035 are, in reality, the same. Both pieces of legislation will result in the enhancement of future job opportunities in this country. By removing the obstacle of the fleet separation requirement, the DOT proposal will encourage foreign manufacturers to commence the domestic production of passenger cars, thereby enhancing employment opportunities.

Likewise, by allowing American Motors to remain a viable domestic manufacturer, and by allowing us to give full effect to our agreements with Renault, S. 2035 will also have the effect of enhancing domestic employment opportunities. In addition,

tion, another similar effect of the two bills be the production of highly fuel efficient passenger automobiles in this country.

One notable difference in the two bills is that S. 2035 encourages the production of new fuel efficient cars in the United States with United States labor, rather than abroad with foreign labor.

This more nearly fulfills the national objectives than does the DOT proposal, which as a by-product of encouraging new United States production, also permits the continued importation of less fuel efficient cars built abroad with foreign labor.

As a final comment to this section, it should be noted that the Renault-American Motors manufacturing operation is multi-national in nature, thus making it subject to the vagaries of the present and future volatile and tenuous nature of the international economic climate. These conditions make it difficult for a corporation to plan to reach 75 percent domestic content at any date certain, even though it is in its own best interest to reach or exceed this level as soon as possible.

THE SOLUTION

American Motors strongly recommends favorable consideration of S. 2035 by this Subcommittee. It is this legislation which provides the relief American Motors needs to meet the federal fuel economy standards until we can achieve the level of 75 percent domestic content on the Renault passenger cars which we will produce.

Briefly, S. 2035 provides that commencing in model year 1980, a manufacturer, who in calendar year 1978 produced less than 300,000 passenger automobiles worldwide, may have the EPA Administrator include in its domestic CAFE the manufacturer's total number of nondomestic passenger automobiles for the applicable model year, or 150,000 whichever is the lesser figure. However, in order to have these vehicles included, the manufacturer must apply to the Secretary of Transportation for a determination that:

(1) the ability of the manufacturer to meet the average fuel economy standard for the model year for which the application is made, is primarily dependent on reasonably selected technology, including vehicle design, developed by, and obtained from, other manufacturer; and

(2) a reasonable and economically practicable technology is not within the ability of the manufacturer to develop.

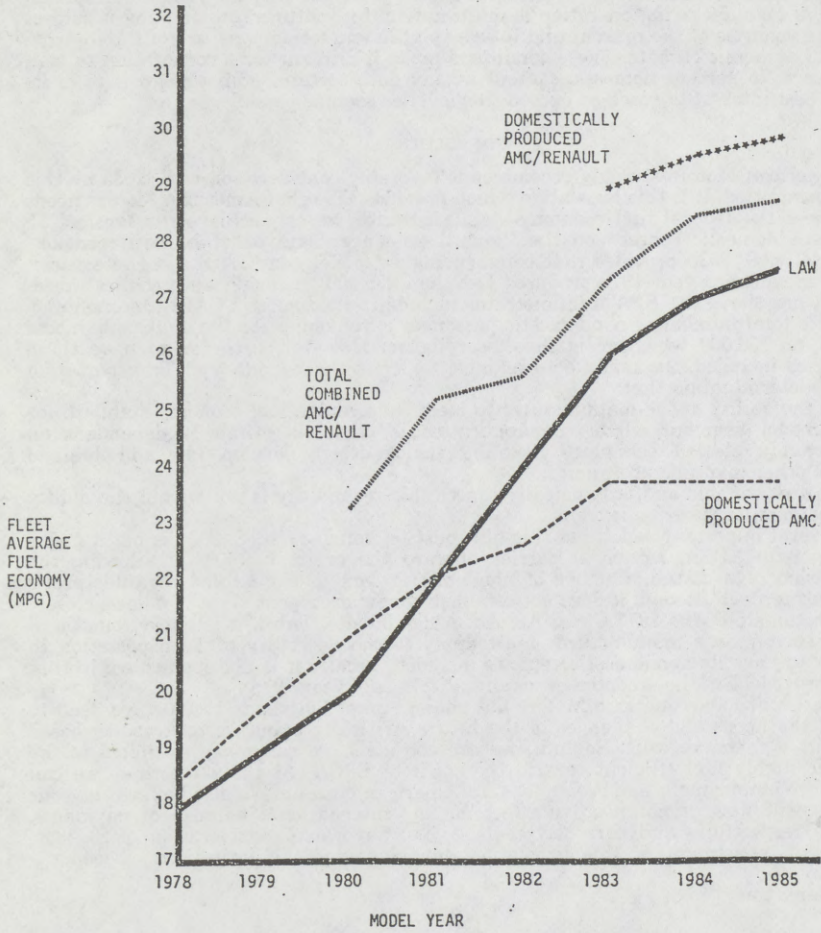
Several important aspects of this bill must be noted. First, S. 2035 is not a major revision to EPCA, rather, it carries forward the original policy of allowing the inclusion of a certain number of nondomestic cars in a qualified manufacturer's corporate fleet. Second, it does not establish a new precedent since it follows closely the rationale of the 1977 Clean Air Act Amendments. Third, it is not automatic in that each year a manufacturer must apply to the Secretary of Transportation in order to have its nondomestic vehicles included. Finally it is not open-ended in that the provisions of the amendment expire after model year 1986.

Mr. Chairman, American Motors has gone to great lengths to restructure itself to meet the needs and challenges of the future. With the plans we have made, based on our agreements with Renault, we are confident we can make available to the public highly fuel efficient cars in the spirit of EPCA. At the same time, we can stabilize employment and create jobs for American citizens. We also believe that our plans will have a net positive effect on our international balance of payments.

We respectfully and earnestly request your favorable consideration of S. 2035. Through enactment of this legislation our plans for the future may become a reality.

Thank you.

EXHIBIT I

1980 - 1985 AMC CAR FAFE

CREDITS/(PENALTY)
CARRYFORWARD/CARRYBACK
(IN \$ MILLIONS)

Model Year	Carryforward/Carryback			
	One Year		Three Year	
	Penalty Per \$5	.1 Mile \$10	Penalty Per \$5	.1 Mile \$10
1979	N.A.	N.A.	5.3 (a)	10.6 (a)
1980	N.A.	N.A.	5.8	11.6
1981	-0-	-0-	-0-	-0-
1982	(5.3)	(10.6)	(5.3)	(10.6)
1983	(6.9)	(13.8)	(6.9)	(13.8)
1984	(8.3)	(16.6)	(8.3)	(16.6)
1985	(9.5)	(19.0)	(9.5)	(19.0)
Total	<u>\$ (30.0)</u>	<u>\$ (60.0)</u>	<u>\$ (18.9)</u>	<u>\$ (37.8)</u>

- (a) 1979 Total credits are \$6.6 million at \$5 penalty and 13.2 million at \$10 penalty. However, only \$5.3 million and \$10.6 million can be used to offset future penalty.

[From the New York Times, Dec. 11, 1979]

A WAY TO PRODUCE SMALL CARS FASTER

There are good ways and bad ways to bend the rules for automakers. Chrysler, for instance, needs money desperately. One bad way to help would be for Washington to guarantee it billions of dollars with few strings attached. American Motors, on the other hand, needs a waiver of the rule that counts only those cars produced largely in the United States in calculating the average mileage per gallon for an automaker's fleet. The company would like to include in its average a new, small Renault-designed car that will be assembled in the United States from parts that for a short time will be imported mostly from France. We think the Government would be wise to give the waiver. It will provide more high-mileage cars in 1982 and 1983, and more jobs in American assembly plants.

Present law requires that at least 75 percent of a car, measured by the value of its parts, be made in the United States before it can figure in a company's average mileage. This rule was meant to insure that multi-national manufacturers like Ford and General Motors would build small cars here rather than selling more cars that they produce abroad.

But since the legislation was passed, the danger has almost disappeared. The United States is not a relatively cheap place to build cars, with wages and production costs below those of northern Europe. Volkswagen is already producing here, the Japanese are studying the possibilities, and Ford and G.M. are rushing to build their own domestic small cars. American Motors wants to get into the act quickly.

The company does not want to evade the 75 percent rule for long. It plans to reach that level of American made parts by 1984. Considering the cost of French parts, it would probably be delighted to reach the goal sooner. But it cannot get French-designed parts built that fast in the United States.

American Motors found a creative answer to the urgent problem of building small cars when it teamed up with Renault. If the cars that result are included in the company's average mileage figures, American Motors will meet the standard of 24 miles to the gallon in 1982 and the 26-mile standard in 1983. Washington should be equally creative in releasing the company from the 75 percent rule for a few years.

Senator STEVENSON. Thank you, sir.

If AMC did meet the 75-percent level with domestically produced cars by 1985, what would the figure then be for the net civil penalty or credit in that year?

Mr. STUCKY. If we met the 75-percent content level with model year 1985 Renault vehicles produced in Wisconsin, the credit that we would receive would exceed the value of the penalties incurred the previous couple of years, so the point is quite true in 3-year carryforward/carryback from a simple arithmetic, if in 1985 you meet the 75-percent content, it does eliminate the penalties.

That is not the fundamental problem as it relates to 1985 and 75 percent, though. As you had noticed, we would have gone through 1982, 1983, 1984, incurring sizable penalties each of those model years with our domestic nameplate vehicles and with no opportunity to pick up in the market or to match the EPCA line.

The effect of that in the marketplace would be very severe and to the point that I think it would have a very disastrous effect, and that is a very fundamental concern as to what would happen with those nameplates, because without a full line mix—in this case, it is only two nameplates—it is very clear which cars are identified that do not meet the standards, and with the interest and with the added attention that is going to be coming on fuel economy, there is no way an individual carline can be singled out as having an apparent fuel economy problem.

Now all of this is at the time when these vehicles are competitive, and I would say that if the vehicles weren't competitive we wouldn't have to worry about it because we can't sell them anyway. But it is going to be a very competitive market as it relates to fuel economy.

So our problem at that point is having a competitive vehicle and then being perceived in the marketplace as being noncompetitive.

Senator STEVENSON. Well, based on Volkswagen's support for the so-called Volkswagen amendment in the testimony, it is getting pretty close to that 75-percent level. It had to start in the United States from scratch with no domestic production facilities. That being so, why can't AMC with the combined resources of itself and Renault do it in a longer period?

Mr. STUCKY. That's a very difficult question to answer from the standpoint that I'm not familiar at all with the VW situation. In fact, I really didn't know what their content was until it was told here this morning, but I am aware of what I believe is one very fundamental difference between our two situations.

As I understand it, when VW started production in the United States, they started with the production of a vehicle that was essentially being produced in Germany at that time.

Mr. HUTCHINSON. That's correct. This was the Rabbit model that we produced in Germany, and we produced the same car here in the United States.

Mr. STUCKY. In our case, the vehicle we are starting production with is a new vehicle—totally new in design. It is not in production at this point, will not be in production for several more years. And therefore, it has to go all the way through the design, all the way through the tooling from scratch, and therefore the leadtime inherently will be several more years—2 to 3 years it would have to be versus a situation like occurred at VW.

I would put one other point just to elaborate. We have every incentive, as I commented in our testimony, to get the highest level content we can here, so there is nothing that is inhibiting, nothing that is reserving us from trying to do this. We have the incentive and we are working very aggressively to maximize that content level.

Senator STEVENSON. Mr. Hutchinson, could you respond to the complaints by the representatives of GM, Ford, and Chrysler that the so-called Volkswagen amendment would put them at an unfair disadvantage in the marketplace because of the imports of the high-priced cars?

Mr. HUTCHINSON. Yes, sir. The thing that we need to keep in mind is Volkswagen's product in the United States will be essentially the same, whether the amendment is adopted or not. The only effect that this amendment will have is to permit us to buy more here in the United States. We don't plan any change in our product line if, in fact, the amendment is adopted, so we are a little—we find it difficult to understand how anybody is going to be competitively disadvantaged.

We will sell Porsches and Audis if the amendment is not adopted. If the amendment is adopted, we will sell Porsches and Audis, the difference being that we will increase our Rabbit content significantly.

Senator STEVENSON. Senator Riegle?

Senator RIEGLE. Thank you, Mr. Chairman.

Just a few comments. First I want to say that I welcome the move by Volkswagen to locate manufacturing facilities in the United States. I think that is a positive step. I am sorry they are in Pennsylvania, not in Michigan. I trust that will be remedied soon when you open your next plant.

Mr. HUTCHINSON. Senator, we are presently looking at new plantsites, including the State of Michigan, and in the next 60 days we will announce the opening of a new plant which will be roughly comparable in size to the one in Pennsylvania, producing an additional 200,000 cars here in the United States with an additional 5,000 workers directly employed and with the following spinout of additional employment in the supplier industries.

Senator RIEGLE. Well, I have both plants and workers in Michigan, and in light of the fact that you already have ties in Michigan, we would certainly love to have you.

Senator STEVENSON. What's the matter with Illinois?

Mr. HUTCHINSON. We are looking at your State, too, Senator. We haven't yet made our decision.

Senator RIEGLE. At any rate, the decision by Volkswagen to become an American producer onshore with American components, workers, jobs, is a constructive step. The major objection I have to the wholesale invasion of Japanese imports is that they have clear-

ly not chosen to take that route. There is some talk now of a very modest beginning, in perhaps a year or two. I am encouraged to learn that you are on the verge of announcing the construction of a new facility with an expanded capacity that will provide jobs and American product. That is to your credit.

Let me just say that I am very sympathetic to the AMC problem. As you know, we've discussed this before, and just speaking for myself, I want to be helpful to you in resolving the matter. Your coproduction arrangement is a novel one. It is a very intelligent adaptation to the transition problems that are facing everybody, but it is adapted to the scale and character of your particular company.

The fact that you have a plan and that you intend to facilitate the transition and get on a comparable footing with everybody else in the industry is a very compelling and useful point.

I also want to say that I am very sympathetic to the Checker situation.

You have a strong case to make, both in the sense that we're talking here about domestic production and also the fact that you are in a specialized form of the mass transportation business. If one looks at the ultimate effect of fuel economy in terms of the number of persons using the vehicle, one can make the argument that there is an energy efficiency there.

I think it can be seen that there is a fuel saving. I must say I am harder put, Mr. Chairman, to feel the same degree of justification or sympathy for the very expensive, luxurious, low-mileage foreign cars that come in from abroad and create a double standard for those who are traveling down the road in a car that has been lightened and made less comfortable in order to get Government-mandated fuel economy, and also just to be able to drive, given the high prices. To have somebody else in a very expensive foreign import with all kinds of luxury and very low miles per gallon, does create a double standard that is going to become so accentuated that I'm really hard pressed in my mind to be able to justify that.

But that is separate and apart, from the different case that Checker has to make as a domestic company that is providing a specialized mass transportation vehicle, where I think the requirements are such that they justify a treatment here that can work.

Again I would look forward to meeting and talking with all of you. I am available to take you through Dodge Main in Hamtramck at your convenience.

Senator STEVENSON. If there are no further questions, thank you very much.

Mr. STEWART. Mr. Chairman, I can't resist. I can't possibly sit through a hearing without saying a word, so if I may, I would like to make a comment that may be appropo, and that is, I think American Motors is the only company that has come before you today before this distinguished committee and said, as a result of the legislation that is under consideration, we are going—if it is favorably considered—we are going to create something—specifically, jobs and fuel efficient cars built in this country where none exist today.

We are bringing something to the part as a result of the legislation that is under consideration, if favorably considered by the

committee and the Congress, so I would like to emphasize the fact that this, I think, makes our situation unique to some degree and perhaps our request a little more meritorious than some of the others that have been advanced here today.

But the name of the game is jobs and saving energy, and certainly what we intend to do is all directed exactly in that direction.

Senator STEVENSON. Well, that is not too dissimilar from what Volkswagen is saying, and I sense that because the Volkswagen amendment could stimulate more investment and production of more Volkswagens and jobs in the United States, that the American manufacturers aren't too enthusiastic.

Mr. STEWART. Well, if I understood the gentleman from Volkswagen correctly, he said whether the amendment is passed or not, the same series of cars would probably be sold in this country.

Senator STEVENSON. But that's not my point. My point is there is going to be more value added in the United States, and that's going to mean more employment in the supplier industry in the United States and it ripples out, and maybe that is the reason why, not to protect the suppliers but increased production of Volkswagens at a lower cost, possibly because of the Deutsche mark value, that the American manufacturers aren't too enthusiastic about the so-called Volkswagen amendment.

But you are quite right. I'm not disagreeing with what you are saying, except to the extent that it suggested that no one was suggesting anything else would increase employment in the United States.

I don't think that is completely fair to the representative of Volkswagen.

Mr. STEWART. Thank you, Mr. Chairman.

Senator RIEGLE. Well, Mr. Chairman, would you yield just briefly at that point?

Senator STEVENSON. I just hope that some of that increased employment goes to the right State.

Mr. HUTCHINSON. I hope so too, Mr. Chairman. We have suppliers in your State. Indeed, we have them throughout the United States.

Senator STEVENSON. Anything Michigan can do, we can do better.

Senator RIEGLE. Mr. Chairman, just briefly, and with you in the chairman's chair, and with the gavel, I will not contest here and now that last comment. But if you look at the last page of the presentation by the VW witnesses, if I understand this correctly, on your graph, where you are showing the CAFE projections for all your cars that you would hope to sell, which means the domestically produced ones where you've got your best fuel economy, plus the imports, that that composite give you very high figures and you come in above what the CAFE requirements would be.

On the other hand, if we exclude the new American production, which I applaud and support and want to increase, we take that out and we just stay with the imported models, which is your broken line here, we don't see the same kind of fuel economy improvement projected, either in terms of, just an absolute improvement or as it would relate to a growing gap as against the CAFE standards as you get out into the 1984-86 period.

So apart from domestic production where I think, clearly, that is something that almost everyone would find laudatory, there is left the issue of how we treat residual production from offshore and where it falls and then how that might be done vis-a-vis other domestic companies.

I can see why, for example, Ford, GM, and Chrysler, and even AMC might come and say, look, if there is going to continue to be a market out there for the lower mileage vehicles, with high prices and so forth, and if any producer is going to have a shot at that market, we would like an equivalent shot—in other words, we would like to be able to compete head on where somebody else doesn't have a differential advantage.

So we have to try to evaluate how that might be done so that we are not conferring special arrangements and advantages that would work to the disadvantage of a domestic company.

Mr. HUTCHINSON. I understand this, Senator, and if I could respond for a moment.

There is a very good reason for the way the line goes at the present time. Take the Audi fleet, for example, which is the largest size car that we import.

That has a fleet average today of 24.5 miles per gallon.

Now the reason that that fleet is high is because fuel has always been very expensive in Europe. Today in Germany, it's \$2.50 a gallon.

Audi has taken the downsizing steps. They put radial tires on. They put on all of the things to improve fuel economy.

So we are very high up on that learning curve because we have done these things.

Now, I think that if you were to compare any of these cars with their counterparts in the United States, you would see that they are very fuel efficient cars. And our dealers need a full line to compete.

For example, we have a station wagon, a Dasher diesel station wagon, that for the first time, a station wagon is on the top 10 list of fuel efficient cars.

Now, clearly, a station wagon is designed to haul several people in a family. These are not inefficient cars. If any manufacturer were to single out his Cadillac line or his Thunderbird line or his performance line, like a Corvette or something, all of our cars are at least as fuel efficient as those cars.

So it isn't permitting us any special benefit to continue to import those vehicles.

Our dealers need to have a full model line just as other manufacturers need a full model line.

Senator RIEGLE. I hear what you are saying in terms of today's situation, and I understand what you are saying.

We're going to try to make policy decisions that affect the 1984-86 period. Because you are high on the learning curve, I gather what you're saying is you don't think there's much more fuel economy to wring out of those kinds of models.

So you are sort of at a plateau. Presumably, the domestic manufacturers are now going through that transition, gearing to expensive gas, which is now the new reality here. They are in the process of downsizing, taking weight out and aerodynamically redesigning.

So when they get out into this period, they will presumably, have comparable fuel efficiency, unless they can find some way to get beyond it.

We want to be careful that we structure things in such a way that we don't confer any special sort of lasting advantages that would accrue to one manufacturer that is a mix between foreign and domestic versus one that is essentially or perhaps completely all domestic.

That is my concern, and I just want to make sure that we keep our eye on that.

Mr. HUTCHINSON. I think that's a very valid point. And to underscore your point, the Audi, we project that in 1980, at 24.5, has the same CAFE in 1985.

In other words, it is 24.5 in 1985, so that there is no—it is not that we are building Audis that somehow go way down in fuel economy scale. It is essentially the same type of model mix that we have today.

Senator STEVENSON. I might just point out that AMC has an exhibit, exhibit 1, that indicates that the fuel efficiency of its domestically produced automobiles levels off at the same time, but at a lower level of efficiency than for the imported more expensive Volkswagen cars.

Senator RIEGLE. Does diesel account for that at all?

Mr. HUTCHINSON. Yes. I think that if you will note the rise on the dotted line on the chart, that is the increase in diesel sales and that is why the chart jumps up. As other manufacturers catch up and bring diesels into the market, our percentage of the diesel market would drop off again as those sales are picked up by competitors.

So the line, the dotted line that you see is both fuel economy, but it is on a sales-weighted average, depending upon what your sales are for particular models.

Senator RIEGLE. You've decided to produce the high fuel economy cars in the United States, the Rabbit. Let me just ask, if I may, if there is any thought to producing the Audis or the other cars in the United States as well?

Mr. HUTCHINSON. Well, that is a good question. We are hampered somewhat by the volume of production. At the present time, we are importing on the order of 45,000 Audis. We figure, productionwise, we need about 200,000 vehicles to be viable.

And therefore, until there was a market of that scale, it wouldn't be prudent to build those cars here. You just wouldn't have the scale of economies of production to justify it.

Senator RIEGLE. Thank you very much.

Senator STEVENSON. Thank you, gentlemen.

Our next and final witness is George C. Nield, president of the Automobile Importers of America.

STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA, INC., ARLINGTON, VA.; ACCOMPANIED BY DAVID BUSBY

Mr. NIELD. With your permission, I would propose to summarize my remarks, providing the complete text can be made a part of the record.

Senator STEVENSON. Thank you, sir. The complete statement will be entered into the record.

And I'm going to have to excuse myself, for which I apologize. But we have a Democratic policy committee meeting and I'm going to have to leave in a few minutes.

Senator Riegle will remain behind.

Before I go, let me say that we will keep the record open for additional comments. I can't be certain how long we will be able to keep it open, but for at least 2 or 3 more weeks, I would expect.

Please proceed, sir.

Mr. NIELD. Yes, Mr. Chairman. My remarks will take about 7 minutes to complete.

We appear in response to your invitation to comment on that part of the administration's proposal as contained in S. 2191, which would amend the present law to exempt manufacturers of less than 10,000 automobiles annually worldwide from the corporate average fuel economy standards and reporting requirements.

Although some of our member companies would be eligible to benefit from this proposed provision, it should be noted that 5,500 of the 7,484 vehicles produced under an exemption to date were produced by Checker Motor Corp.

And I endorse the testimony of Checker at this hearing.

This morning, we would like to make one simple point. The present law puts a burden on the technical resources of both the Government and the applicants, which is not justified in terms of fuel savings.

Present law requires NHTSA to determine the maximum feasible average fuel economy level for the petitioner and to set an alternative CAFE standard at that level before granting the exemption.

In determining the maximum feasible average fuel economy level, NHTSA is required to consider technological feasibility, economic practicability, and the effect of other Federal motor vehicle standards on fuel economy and the need of the Nation to conserve fuel.

The regulations implementing the act require the petitioner to provide detailed and voluminous information regarding the technical aspects of its vehicles and its efforts to improve fuel economy.

Mr. Chairman, we have attached the regulations to show what a low-volume manufacturer must go through to be exempted. A part of these regulations are quoted in our statement and I will not take the time to read this. But the overwhelming complexity of these requirements is what we want to be sure is apparent.

Since the enactment of the CAFE requirements, seven companies have requested statutory exemptions. Five of these have been granted and two have not yet been acted upon.

There are two other companies who have indicated that they may file in the future.

Obviously, any estimate of additional fuel consumption by these low-volume manufacturers must be rough. However, the Department of Transportation has stated, and I quote in part:

The additional fuel consumption by all low volume manufacturers who have petitioned for exemption in the 1978 model year will amount to about 62 barrels of

fuel per day. This total represents about .0013 percent of daily passenger car fuel use and it is an insignificant amount.

Now that's the end of my quotation of NHTSA.

Without belaboring the point, it should be self-evident that these worst case losses are literally a drop in the bucket compared with the daily fuel usage in the United States of 17 million barrels a day, 5 million barrels of which is attributable to passenger automobiles.

In its January 1979 report to the Congress on the automotive fuel economy program, NHTSA discussed the administrative burdens imposed by section 502(c) of the act.

And, again, let me quote in part from that text:

Experience in administering this section of the statute demonstrates the time consumed in the process of setting an alternative standard, especially the information gathering, by both the manufacturer and NHTSA is not justified by the possible fuel economy gain.

The process is particularly burdensome to small manufacturers because of the effort necessary to gather or develop required data and information to support their exemption petitions.

No significant fuel savings can be obtained from low volume manufacturers.

Based upon this conclusion, the most logical alternative appears to be to exempt these companies from the provision of the statute.

This is the end of my quotation.

We are informed that NHTSA devotes about 4,000 man-hours each year to the processing of applications for exemption.

This diversion of NHTSA's resources would seem to be completely unjustified since the savings is less than 150 barrels of fuel per day against a total consumption of more than 17 million barrels per day.

We can only estimate in a rough way that this burden must be at least as severe on the executive and engineering staff of the companies as it is on NHTSA.

We urge this subcommittee to take into account the real world experience during the past 3 years.

This tells us that whatever concerns Congress may have had in enacting statutory safeguards around the low-volume manufacturer exemption, these concerns have not been justified in the marketplace.

Very few manufacturers have requested exemptions and those that have have been very small manufacturers, indeed.

The total number of vehicles exempted has been insignificant. The worst case amount of extra gasoline consumed has been negligible. In the meantime, fuel shortages and the so-called gas guzzler tax have given all manufacturers, including the low-volume manufacturers, incentives to improve fuel efficiency, regardless of the availability of the exemption.

Mr. Chairman, we appreciate your invitation to join the subcommittee in reviewing the operation of this statutory provision.

We strongly support the administration's proposal as recommended by NHTSA that low-volume manufacturers be exempted from the CAFE standards.

We think that it is obvious that the burdens outweigh the benefits. The burdens to NHTSA and the low-volume manufacturers cannot be justified by the negligible savings of fuel.

Thank you for your attention. I will try to answer any questions you may have.

Senator RIEGLE [presiding]. Well, thank you for your statement.

It is very well presented and we're pleased to have it. I would just like to engage you on one item. That was the item I raised earlier that I'm sure you heard. Because we've identified fuel economy as a national goal and objective, we have passed laws to move products and their use in the direction of greater fuel efficiency. This obviously creates something of an inconsistency when we say, we're going to have certain rigid requirements in some areas, but we will have a side door here and if you are low enough in size and scale, you get an exceptions treatment and you don't have to meet the same standards that everybody else meets.

My thought is that someone is riding down the road in 2 or 3 years from now in a smaller, more fuel-efficient car that perhaps doesn't have the same comfort and esthetics that somebody else has in a very elegant, very expensive, custom-type car of low volume, that doesn't have the fuel economy saving.

How do we reconcile these two things? How do we establish a way of viewing this, and explaining it, that is fair for both people traveling down the road at the same time.

What we're trying to mandate here is the saving of fuel, even if the fuel saving is infinitesimally small.

As a quantitative factor you are still caught with the fact that you have a contradiction, and there sits the contradiction. You have one driver saying, why am I forced to go through the situation where this condition is imposed on me; whereas, somebody else basically gets a different kind of treatment.

And I am wondering how you deal with that when that arises? And also, if we should have some absolute minimum that we might establish that says, look, you either get x number of miles per gallon, period, or we are not going to allow any further sales of those cars in this country, no matter who builds them or where.

Mr. NIELD. It may be that the distinction isn't quite as apparent as it would seem in that there are other luxury cars that perhaps don't meet any better fuel economy level individually for that model, as do some of those that would benefit from this provision. However, they are produced by a manufacturer of large enough size to permit a range of vehicles, including small ones. Thus he can average the fuel economy of the small and luxury end of his line. The small volume manufacturer, obviously, cannot have more than one line and cannot benefit from averaging.

There are perhaps other considerations that should be noted. Some of the vehicles that do not achieve the high fuel economy levels are produced to meet some other public need. The Checker Cab, I think, is an excellent example of this. Even the so-called superluxury car, the Rolls-Royce type, offers a standard of excellence to be sought by lower cost vehicle manufacturers in their future year designs.

I would also note that the discussion today regards an amendment to an exemption that already exists.

We merely wish to simplify the application of this exemption to minimize the time that we feel is wasted, both on the part of the manufacturer and the part of the Government, in going through

the necessary studies and paperwork to arrange for the granting of the exemption.

Senator RIEGLE. In the area of passenger cars, apart from the Checker-type exemption, there are cars, are there not, that are being sold and imported in the United States today that would, say, get maybe less than 10 miles to the gallon?

Mr. NIELD. Yes, sir.

Senator RIEGLE. Don't you think that sort of makes it tough, just in terms of the way one puts the arguments to the public in terms of the need to save on fuel economy, and everybody has to do their part?

If somebody is rolling down the road in a car that gets 10 miles to the gallon because we have crafted an exemption for them, doesn't this really pose some very serious contradictions in terms of what else we're saying, that we're trying to develop a national attitude of conservation, and everybody having to undergo some sacrifice?

I don't pick 10 miles per gallon as a magic figure, or even 15. But it seems to me as long as we've got this massive effort going on in terms of the Federal Government trying to wring out fuel economy, that it really becomes hard to justify an exemption that says a car that gets 8 miles a gallon is OK, if you can afford it.

I don't think I would want to have to be in a debate and have to make the argument that a car that gets 8 miles to the gallon is all right and that we ought to just accept that in the larger sense as part of what's got to happen, even though there aren't many people who can afford to have them.

Mr. NIELD. That is a very valid question, Senator.

I would note, however, that there is still the gas-guzzler tax, which is not affected by this provision. That would still apply and would have to be posted on the vehicle so that the purchaser would realize when he buys this car, he is paying this penalty for the privilege of buying this car.

And again, I think that it sort of turns on the freedom of the public to decide how they want to spend their money. The large house uses more fuel to heat than a small house. If a small house is adequate, should a person be allowed to have a large house?

Mr. BUSBY. Senator, my name is David Busby and I'm counsel to the Automobile Importers. May I add just one comment?

Senator RIEGLE. Yes.

Mr. BUSBY. If the Congress wants to, in effect, outlaw luxury cars, it certainly can do so. It should not use this bill, which is basically a housekeeping, bookkeeping bill, to accomplish that purpose.

As you know, there have been introduced in the Congress such bills. The domestic industry has strongly objected to the outlawing of luxury cars. And the only difference here is that our companies cannot average the way the domestic companies can average.

Senator RIEGLE. Well, there are other avenues. There are affiliation avenues and other steps that could be taken to deal with that problem. You are right, if one stays as a separate entity and produces just a very specialized limited line, that hits a certain restricted market.

I don't pose the question here with the thought in mind that our discussion will arrive at an answer, but in terms of the overall effort to construct a national policy in this area which is a very real matter these days and which all of us are trying to deal with.

I think finding an answer to that question becomes a part of this larger discussion. I think that issue is more apt to come up for more attention rather than recede and become something that no one is interested in.

I think it is an issue that we are going to have to think about and deal with one way or another because in this country, we have been used to inexpensive gas and big comfortable cars. They are nice if everything accommodates that.

Now that the energy supply situation and cost situation is changing and the law is imposing its restrictions, we're moving away from that and people are going to find that cars in the future are going to be very different.

And so I guess what I'm saying is these comparisons that we are going to find 2, 3, 4 years from now are going to be more pointed than they are today.

And so, to somebody who is riding down the road in maybe a rather small, cramped vehicle with 4 or 5 kids, and he or she is wedged in there and they are looking out as somebody goes by in a luxury car that's getting maybe 8 miles to the gallon, I think that it is going to create some ill-will of the kind that is part of what our problem is in the country today in terms of people thinking that the system isn't fair, or not rational, or it's imposing sacrifices here but not there.

I don't want to belabor the point except to say that I think it poses questions that certainly would appear contradictory and we're going to have to find a way to resolve them.

And certainly, in the business you're in, you are going to have to be part of helping to construct a way for people to work their way through these questions.

In any event, we appreciate having you today and we appreciate your testimony.

And that concludes our witness list today. And the committee will stand in recess.

[The statement follows:]

STATEMENT OF GEORGE C. NIELD, PRESIDENT, AUTOMOBILE IMPORTERS OF AMERICA, INC.

Mr. Chairman, and members of the Subcommittee, my name is George C. Nield. I am president of the Automobile Importers of America, Inc. (AIA). With me is our special counsel, David Busby. We appear in response to your invitation to comment on that part of the Administration's proposal—as contained in S. 2191—which would amend the present law to exempt manufacturers of less than 10,000 automobiles annually, worldwide, from the corporate average fuel economy (CAFE) standards and reporting requirements.

AIA is an association of automobile importers, including those of all major foreign manufacturers of imported cars except Volkswagen and Mercedes-Benz. A list of these companies is attached to this statement.

We assume the reason you invited AIA to testify is because one of our members, Rolls-Royce, was granted a Low Volume Manufacturer (LVM) exemption for the 1978 model year and others, such as Lotus and DeLorean, may make applications for LVM exemptions in the future. Note, however, that the majority of the 7,484 vehicles affected by LVM exemptions that have been granted thus far are U.S. produced. The bulk of these were produced by the Checker Motor Corporation.

This morning, we would like to make one simple point—the present law puts a burden on the technical resources of both the Government and the applicants which is not justified in terms of fuel savings.

THE STATUTE

Under present law, section 502(c) of the Motor Vehicle Information and Cost Savings Act (the Act) permits very small manufacturers—those making less than 10,000 vehicles per year, worldwide—to file petitions with the National Highway Traffic Safety Administration (NHTSA) for exemption from the CAFE standards. Such an exemption may be granted only where the applicable CAFE standard is found to be “more stringent” than the petitioning manufacturer can achieve. The Act requires NHTSA to determine the “maximum feasible average fuel economy” level for the petitioner and to set an alternative CAFE standard at that level before granting the exemption. In determining the “maximum feasible average fuel economy” level, NHTSA is required to consider technological feasibility, economic practicability, the effect of other Federal motor vehicle standards on fuel economy and the need of the nation to conserve energy.

REGULATIONS

The regulations implementing section 502(c) of the Act are attached. A glance at these indicates the data needed by NHTSA to make sure that the “maximum feasible average fuel economy” requirements of the Act are met. The petitioner must provide detailed and voluminous information regarding the technical aspects of its vehicles and its efforts to improve fuel economy. The following quotation excerpts just one part of one section of the Regulations indicating information to be submitted:

“ * * * The petitioners annual total production and production mix * * * Its passenger automobile production capacity * * * Its efforts to comply with that average fuel economy standard * * * Anticipated consumer demand * * * Maximum overall body width, overall length, and overall height * * * Vehicle curb weight * * * Designated seating positions and interior volume index * * * Engine type, displacement, and SAE net horsepower * * * Fuel metering system * * * Drive train configuration and ratios * * * Emission control system * * * a fuel economy value for each vehicle configuration * * * base level, and model type of the petitioner's passenger automobiles to be manufactured in that affected model year * * * an average fuel economy figure for the petitioner's passenger automobiles to be manufactured in that affected model year * * * a description of the technological means and marketing strategies selected by the petitioner for increasing the fuel economy of each vehicle configuration * * * A chronological description of the petitioner's past and planned efforts to implement the means and strategies * * * A discussion of the effect of other Federal motor vehicle standards on the fuel economy of the petitioner's passenger automobiles * * * a discussion of the alternative and additional means and strategies considered but not selected * * * a discussion of why no weight reduction, straight line acceleration reduction, technological improvements, or shifts in production mix are being considered.”

The Regulations contain further elaborate requirements especially with respect to the processing of petitions by NHTSA.

FUEL CONSUMPTION EXPERIENCE TO DATE UNDER SECTION 502 (C)

Since the enactment of the CAFE requirements, seven companies have requested statutory exemptions. Five have been granted; two have not yet been acted upon. There are two other companies who have indicated that they may file in the future. Obviously, any estimate of additional fuel consumption by these low-volume manufacturers must be rough because they must be based on the number of units sold and the number of miles each is driven. However, the Department of Transportation in its final decision granting Excalibur an exemption stated:

“The additional fuel consumption by all low volume manufacturers who have petitioned for exemption the 1978 model year achieving their maximum feasible average fuel economy levels rather than the generally applicable standard of 18.0 mpg will amount to about 64 barrels of fuel per day. (sic) This total represents about .0013 percent of daily passenger car fuel use, and is small enough for this agency to conclude that it is an insignificant amount. More important, setting standards above these manufacturer's (sic) maximum feasible levels would not result in additional fuel savings.” (44 Fed. Reg. 3709, January 18, 1979.)

We think that this estimate is “worst case.”

The following chart summarizes the estimates contained in the Federal Register Notices of NHTSA rulings on the only five petitions on which it has taken action.

CALENDAR YEAR 1978

Company	Sales in United States, number cars/year	Estimated maximum average feasible fuel economy (MPG)	CAFE standards (MPG)	Estimated extra consumption of petroleum (barrels/day)
Avanti (United States)	174	16.1	18.0	0.74
Checker (United States)	5,500	17.6	18.0	18.12
Excalibur (United States)	210	11.5	18.0	4.30
Maserati (Italy)	400	12.6	18.0	6.21
Rolls-Royce (United Kingdom)	1,200	10.7	18.0	29.67
Total	7,484			59.04

We attach a more complete chart which includes similar estimates for 1979 and 1980, indicating extra consumption of petroleum of 136.52 and 128.11 barrels per day, respectively. These include Aston Martin and Lamborghini which also have requested exemptions. Their combined losses are estimated at less than 5 barrels per day during 1979 and 1980.

Without belaboring the point, it should be self-evident that these "worst case" losses are literally a drop in the bucket compared with daily fuel usage in the United States of 17 million barrels per day, 5 million of which is attributable to passenger automobiles, according to the NHTSA (44 Fed. Reg. 3738, January 18, 1979).

THE BURDENS IMPOSED ON NHTSA AND ON LOW VOLUME MANUFACTURERS BY SECTION 502 (C)

In its January 1979 Report to the Congress on the Automotive Fuel Economy Program, NHTSA discussed the administrative burdens imposed by section 502(c) of the Act:

"Experience in administering this section of the statute demonstrates:

"1.—The time consumed in the process of setting an alternative standard (especially the information gathering), by both the manufacturer and NHTSA, is not justified by the possible fuel economy gain. The process is particularly burdensome on small manufacturers because of the effort necessary to gather or develop required data and information to support their exemption petitions.

"2.—Small manufacturers have been less able to predict future fuel economy improvement than large manufacturers because their technical expertise is very limited and their dependence on suppliers makes them unable to control their access to advanced technology.

"3.—Low volume automobile manufacturers typically do not have the engineering or financial resources for changing current methods of operation.

"No significant fuel savings can be obtained from the low volume manufacturers. Alternate standards, set at the maximum feasible level, impose a heavy regulatory burden on small business, and use NHTSA's resources on tasks that conserve little fuel.

"Based upon this conclusion, the most logical alternative appears to be to exempt these companies from the provisions of the statute. * * * Therefore, the Department recommends that automobile manufacturers producing fewer than 10,000 vehicles per year be exempt from both the fuel economy standards and the statute's semianual reporting requirements."

We are informed that NHTSA devotes about 4,000 manhours each year to the processing of applications for exemption for low-volume manufacturers as follows: one full-time engineer and one-quarter of the time of four other persons—an economist, an engineer, and two attorneys. This does not include the support and review activities. This diversion of NHTSA's resources would seem to be completely unjustified since the saving is less than 150 barrels of fuel per day against a total consumption of more than 17 million barrels per day.

Each of the eligible low-volume manufacturers is, by definition, very small by automotive industry standards and can ill-afford the diversion of engineering capacity required by the statute. We, of course, do not have available information from

the various companies and can only estimate in a rough way that this burden must be at least as severe on the executive and engineering staff of the companies as it is on the NHTSA.

One of our members, for example, has determined that its engineering staff spent nearly 500 manhours in preparing each of its two petitions for exemption, preparing supplementary information and complying with the semiannual reporting requirements. For the small companies that would be covered by this exemption, 500 manhours constitutes a major diversion of the total available professional time for compliance with safety, emissions, and fuel economy standards.

We urge this Subcommittee to take account of the "real world" experience with section 502(c) during the past three years. This experience tells us that whatever concerns Congress may have had in enacting statutory safeguards around the LVM exemption, these concerns have not been justified in the marketplace. Very few manufacturers have requested exemptions. Those that have, have been very small. The total number of vehicles exempted has been insignificant. The "worst case" amount of extra gasoline consumed has been negligible. In the meantime, fuel shortages and the so-called gas guzzler tax have given all manufacturers, including the LVMs, incentives to improve fuel efficiency, regardless of the availability of the exemption.

CONCLUSION

In conclusion, Mr. Chairman, we appreciate your invitation to join the Subcommittee in reviewing the operation of this statutory provision. We strongly support the Administration's proposal, as recommended by NHTSA, that LVMs be exempted from the CAFE standards.

We think that it is obvious that the burdens outweigh the benefits. The burdens to NHTSA and the LVMs cannot be justified by the negligible savings of fuel.

Thank you for your attention. I will try to answer any questions that you may have.

ESTIMATED WORST CASE EXTRA CONSUMPTION OF PETROLEUM DUE TO POTENTIAL EXEMPTIONS UNDER SECTION 502(c) OF THE MOTOR VEHICLE INFORMATION AND COST SAVINGS ACT DURING MODEL YEARS 1978, 1979, AND 1980

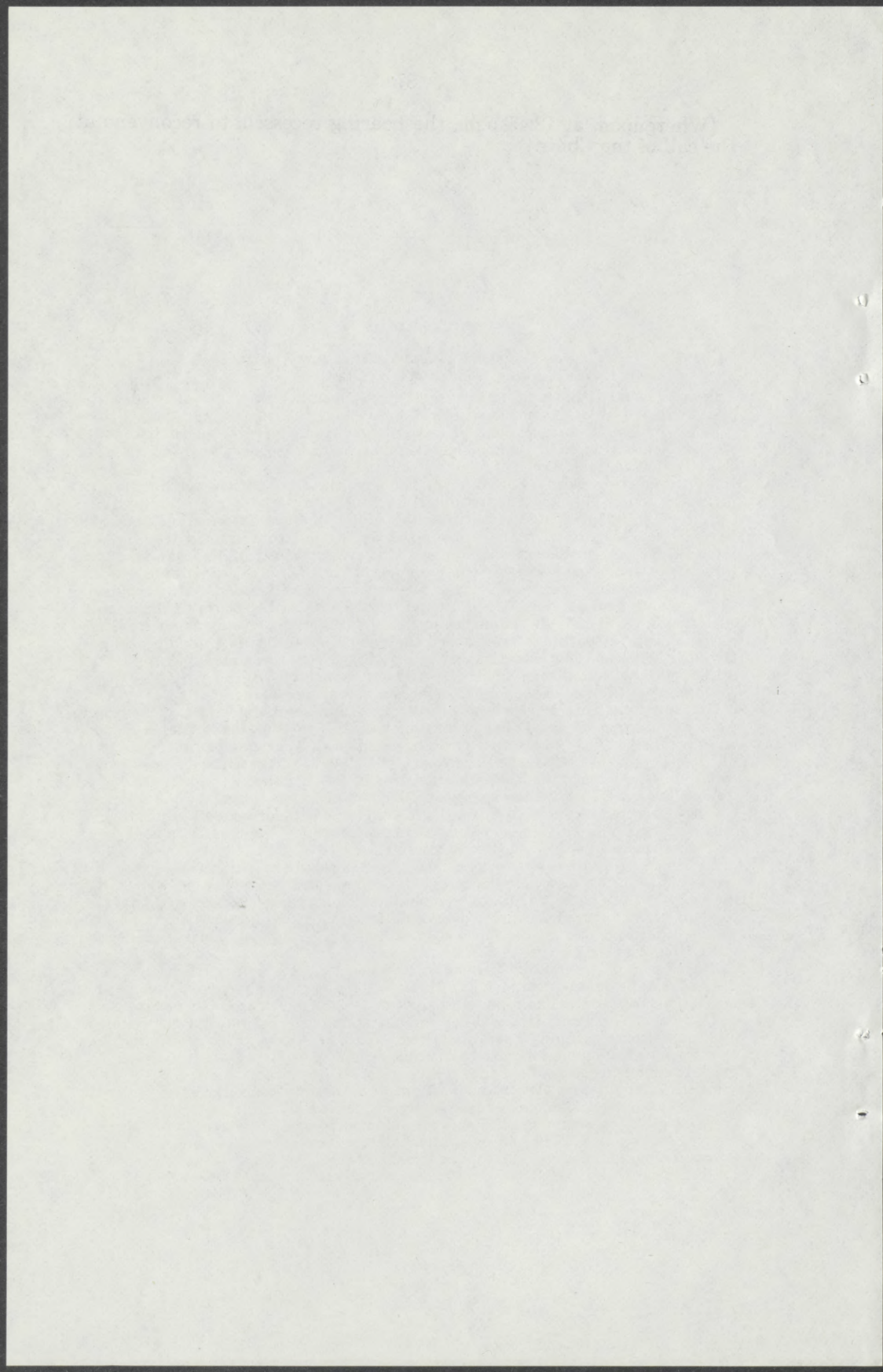
Company	Sales in United States No. cars per year			Estimated maximum feasible fuel economy average (MPG)			Cafe standards (MPG)			Estimated extra consumption of petroleum (barrels per day)		
	1978	1979	1980	1978	1979	1980	1978	1979	1980	1978	1979	1980
Aston Martin United Kingdom.....	70	70	70	10.9	11.5	12.5	18.0	19.0	20.0	1.65	1.57	1.37
Avanti United States.....	¹ 174	190	200	16.1	16.1	17.1	18.0	19.0	20.0	0.74	1.17	1.11
Checker United States.....	15,500	5,500	5,500	17.1	17.6	18.6	18.0	19.0	20.0	18.12	60.08	54.01
Excaltur United States.....	¹ 210	210	210	11.5	11.5	14.1	18.0	19.0	20.0	4.30	4.70	2.87
Lamborghini (Italy).....	120	120	120	11.5	11.5	12.0	18.0	19.0	20.0	2.46	2.69	2.61
Maserati (Italy).....	¹ 400	1,600	1,600	12.6	11.0	11.4	18.0	19.0	20.0	6.21	39.95	39.37
Rolls-Royce United Kingdom.....	¹ 1,200	1,200	1,200	10.7	10.9	11.2	18.0	19.0	20.0	29.67	30.62	30.75
Total barrels per day loss, for each model year.....										63.17	140.78	132.09

¹Exemption granted.

Comment: This is based on data from the Federal Register Notices regarding all petitions filed to date under section 502(c) of the Act. The Estimated Maximum Feasible Fuel Economy Average (MPG) is that established by the National Highway Traffic Safety Administration (NHTSA), if any, or that requested by the petitioner. The estimated extra consumption of petroleum (barrels per day) is calculated by comparing the petroleum consumed by the vehicles sold if exempted and if not exempted, the assumed usage is 40,000 miles per year for Checker vehicles and 10,000 per year for all others.

NHTSA indicates in the Federal Register Notices that U.S. daily petroleum consumption for all purposes is 17,000,000 barrels per day, of which automobiles account for 5,000,000.

[Whereupon, at 12:45 p.m., the hearing recessed, to reconvene at the call of the Chair.]



ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C., December 13, 1979.

Hon. HOWARD W. CANNON,
*Chairman, Committee on Commerce, Science, and Transportation,
Dirksen Senate Office Building, Washington, D.C.*

DEAR HOWARD: I am writing to express my support for Section 3 of S. 2010, the bill you have introduced to amend the Motor Vehicle Information and Cost Savings Act. By correcting an oversight in current fuel economy regulations that would needlessly dissuade foreign automobile manufacturers from increasing the extent of their production and purchasing in this country, this section of the bill will significantly benefit American labor. If left unchanged, these regulations could damage a promising source of new job opportunities for American workers.

In certain unanticipated situations, the Motor Vehicle Information and Cost Savings Act has proved to have consequences far different from what Congress intended. Title V of this act was intended to prevent domestic automobile manufacturers from including so-called "captive imports" in their total corporate fleets for purposes of meeting corporate average fuel economy (CAFE) standards by requiring that a manufacturer's domestic and imported fleets must be separated for calculations of CAFE. It defines the domestic fleet as comprised of only those cars that have at least 75% of their value-added content produced in the United States and Canada. This provision was designed to discourage American manufacturers from importing large numbers of small fuel-efficient cars simply in order to meet CAFE standards—at the cost of the jobs of American automobile workers.

Unfortunately, this provision also discourages foreign automobile manufacturers from establishing or expanding production facilities in the United States and increasing their use of American labor. For example, Volkswagen of America manufactures one of its most fuel-efficient cars, the Rabbit, in the United States, while continuing to import its less efficient cars. If the U.S. value added content of Rabbits exceeded 75%, Volkswagen would have to divide its fleet in two to calculate CAFE, and would be unable to meet CAFE standards without severely restricting its imported line. The only economically-sensible option for Volkswagen would be to limit the American value-added content of its Rabbits.

To remedy this unwelcome "backlash", the Department of Transportation has proposed to permit any manufacturer who commenced production in the United States after December 22, 1975, to combine its domestically-produced and imported lines in a single corporate fleet for calculating CAFE. I think that this proposal, which is incorporated in Section 3 of S. 2010, is the simplest and most effective means of achieving the results desired.

Volkswagen of America now employs 5,000 people at its Pennsylvania plant, and it has created countless spin-off jobs through its American suppliers. Without this legislation, companies like Volkswagen would be dissuaded from increasing their utilization of American labor. Other foreign automobile manufacturers would be dissuaded from beginning operations here. With or without this legislation, the average fuel economy of the cars sold in this country will likely be the same. The only question is whether those cars will be made by Americans or not.

This is, therefore, legislation that will not lead to reduction in the energy-efficiency of the automobiles on our roads; the only reductions it will produce will be in the growing ranks of unemployed American automobile workers. I repeat my support for this section of S. 2010 and my hope that it will meet with the approval of the Committee on Commerce, Science, and Transportation.

Sincerely,

JOHN HEINZ,
U.S. Senate.

U.S. GOVERNMENT,
SMALL BUSINESS ADMINISTRATION,
Washington, D.C., January 25, 1980.

Hon. HOWARD W. CANNON,
Chairman, Committee on Commerce, Science, and Transportation,
U.S. Senate, Washington, D.C. 20510

DEAR MR. CHAIRMAN: I am writing this letter to express my support for S. 2021, your proposed amendment to the Motor Vehicle Information and Cost Savings Act. This amendment would exempt automobile manufacturers producing fewer than 10,000 vehicles per year from both the fuel economy standards and the semiannual reporting requirements.

The Office of Advocacy, as you know, is charged with advocating the views of small business in the formation of federal policies. The proposed exemption for low-volume manufacturers from these fuel economy requirements is a very appropriate response to the need for balancing the cost of compliance to small businesses with the benefits to be achieved. Considering the fact that the average small vehicle manufacturer produces less than 300 vehicles annually (except for Checker Motors and Rolls-Royce, which produce respectively about 5,000 and 3,500 annually), the cost per vehicle of meeting these requirements is far out of proportion to the gasoline potentially saved. In addition, the Department of Transportation would be relieved from the task of reviewing requests for exemptions from these manufacturers. This amendment is a fine example of how the application of the concept of regulatory flexibility results in better government. Such legislation highlights the importance of the small business regulatory flexibility bills presently being considered by Congress: H.R. 4660 with 248 cosponsors and S. 299 with 28 cosponsors.

Thank you for this opportunity to express my views. I would request that this letter be made part of the record of your hearing on this amendment.

Sincerely,

MILTON D. STEWART,
Chief Counsel for Advocacy.

STATEMENT OF THE AVANTI MOTOR CORP., SOUTH BEND, INDIANA

We at Avanti Motor Corporation are certainly supportive of the government's concern about excessive energy consumption and the resulting emphasis on automobile fuel economy. We feel, however, that regulations governing mileage per gallon requirements should not be applied to small manufacturers such as Avanti Motor Corporation.

Our annual production is approximately 175 units per year. Even with the increases which we plan to make in the next few years, we have no anticipation of ever building in excess of 225 cars per year.

Since we are a low volume producer, it is cost prohibitive for us to design, develop, engineer and produce our own power plant. We therefore purchase our engines and transmission from a major manufacturer. The need to acquire engines and transmissions on the outside means that we are also dependent upon outside technology for efficient engines.

Short of vast assistance from the government for research and development, only the major auto manufacturers are in a position to solve gasoline economy problems through the development of more fuel efficient engines.

We firmly believe that the engineering skill of the major manufacturers will ultimately provide answers to the fuel consumption challenge. In fact, these answers are already being provided as evidenced by the improvements made in fuel economy in recent years.

Even with a dependency upon outside technology, our own mileage figures are now and always have been equal to or better than cars in our competitive class. However, we make only one car model and not several models as do the larger automobile manufacturers; thus, we do not have the advantage of corporate averaging when trying to satisfying the government's requirements.

Corporate average fuel economy standards have the effect of qualifying some model cars offered by major manufacturers that perhaps are less fuel efficient than others made by a smaller manufacturer that does not also make a small four cylinder automobile.

Further, even with a differential between our average miles per gallon and the federal standard, the impact of this difference is such that our entire production would hardly use in additional fuel the amount of gasoline pumped by one corner gas station during an average month.

Therefore, because of:

1. Our Extremely Low Production Volume,
2. Our Dependency Upon The Technology of Others, and
3. Simple Common Sense;

we would encourage amending Title V of The Motor Vehicle Information And Cost Saving Act To Exempt Small Manufacturers From Complying With The Fuel Economy Standards And The Semi-annual Reporting Requirements.

We have appreciated the opportunity to offer these comments for your consideration.

STATEMENT OF KENNETH W. CLARKSON, PROFESSOR OF ECONOMICS, LAW AND ECONOMICS CENTER AND UNIVERSITY OF MIAMI SCHOOL OF LAW, CORAL GABLES, FLA.

In recent months, the financial plight of Chrysler Corporation has focused public attention on the future of the automobile industry in this country. The proposal of the failure of one of the nation's largest companies and the resulting loss of jobs was a primary force behind the direct government aid to the troubled automobile maker. Contributing to Chrysler's problems and significantly affecting all automobile manufacturers has been the millions of dollars of additional investment required to meet government safety, pollution and fuel efficiency regulations. Up to now, however, few have argued that these regulations should be reevaluated or at least reexamined to determine whether some components could be changed to provide some relief for financially troubled manufacturers without significantly sacrificing the objectives stated in the acts.

The three bills now under consideration appear to be at least steps in the right direction because they represent a realization that more flexible fuel economy standards may help smaller automobile manufacturers while still maintaining the basic goals of conserving energy and maintaining American jobs. The discussion that follows will show that going beyond S. 2035, which would aid only American Motors Corporation, and repealing Section 503(b) of the Energy Policy and Conservation Act of 1975 (EPCA) to allow the mileage of foreign imports to be included in calculating corporate average fuel efficiency standards (CAFE) may actually help save American jobs.

Section 503(b) of the EPCA specifies the rule for computing minimum fuel economy standards for each manufacturer's production of passenger automobiles sold in the U.S. This regulation was included in the EPCA to save American jobs and the National Highway Traffic Safety Administration has indicated that the "[c]ongressional intent of this provision was to discourage domestic manufacturers from importing large numbers of fuel efficient vehicles to the detriment of employment in the U.S. automobile manufacturing industry." An evaluation of this section suggests that modification of the law would not have a major effect on the Act's objectives while it would help financially troubled firms. It would also have the desired effect of providing some relief to employees that would be affected by production shutdowns and layoffs.

When EPCA was passed in 1975, motor vehicle manufacturers were required to meet specified CAFE standards. The standards must be applied to each manufacturer's entire fleet of passenger automobiles sold for use within the United States. Through model year 1979, imports that were built for and sold by domestic manufacturer's dealers ("domestic sponsored imports") were included in CAFE. As of 1980 model year, domestic sponsored imports may not be included in the fleet fuel economy average. For the big three domestic automobile manufacturers the effect of this regulation is to lower CAFE since the average fuel economy rating of domestic sponsored imports is greater than the average rating for cars produced in the U.S.

Over the past two decades, many consumers have concentrated their purchasing dollar on characteristics of cars other than fuel consumption. This is not surprising since the real constant dollar price (in 1979 dollars) of gasoline had fallen from \$.87 per gallon in 1955 to \$.82 per gallon in 1977. Even with today's \$1.00 per gallon prices, a 10-mile-a-gallon automobile driven 10,000 miles would translate into a yearly increase from the cost in 1955 of only \$130 when expressed in 1979 dollars.

The major full line manufacturers faced with these market conditions pursued different strategies for maximizing the returns to their individual corporations. Rising gas prices in the mid-1970s did prompt increased offerings of smaller automobiles but all three manufacturers initially started by offering domestic sponsored imports. GM, for example, offered the Opel, and Ford the Cortina at their respective dealerships.

With increased volumes and projected continued demands for smaller cars, Ford and GM each introduced its own domestically produced smaller car. In 1971, General Motors offered the Vega, and Ford the Pinto. Subsequently, GM and Ford used different strategies to fill the high mileage demand. Ford chose to offer a domestic sponsored import (the Fiesta) and GM chose to produce the Chevette in the United States. Through this period, Chrysler relied more heavily on domestic sponsored imports including the Cricket (1971-1972), Colt, and Arrow, but has recently produced the Horizon and the Omni, both of which are powered by imported engines. An examination of this strategy seems to reveal that the domestic manufacturers initially offer foreign imports until a sufficiently large (and continued) volume is expected.

This strategy also appears to be the least costly. Only three domestic automobile assembly plants produce less than 100,000 cars annually, and more than half of all plants produce more than 200,000 vehicles. This suggests that the efficient scale of operation must lay somewhere between 100,000 and 200,000 units. Domestic sponsored imports have never exceeded 225,000 units (or about 2 percent of total sales) and the peak for a model—a domestic sponsored import—was the Ford Fiesta (76,145) in 1978. Thus it is not surprising that U.S. companies have relied on overseas operations to satisfy the initial demands for a fuel economy (or any specialized) vehicle.

A review of the legislative history of EPCA reveals at least some members of the Senate were originally in favor of including imports in the CAFE calculations. In the original 1975 bill (S. 1883) "each manufacturer [would be required] to comply with the applicable minimum average fuel economy . . . of all automobiles or light trucks . . . produced and imported for sale in the United States by the manufacturer in a given model year." The house version of the bill (H.R. 7014), however, required separate CAFE calculations for passenger automobiles manufactured in the U.S. or Canada and for those manufactured outside the U.S. or Canada. In the Senate-House conference, it was resolved that the two part calculation would prevail except for model years 1978 and 1979. (A percentage of domestic sponsored imports could be included in the calculation of the overall fleet average in these model years.)

It is interesting to note that Chrysler, who has been the hardest hit by the regulation excluding domestic sponsored imports from the CAFE calculation, would benefit the most from revising it. As the table below shows, Chrysler sold over 50 percent of the domestic sponsored imports in 1977 and 1978.

DOMESTIC SPONSORED IMPORTS

	1978	Percent total	1977	Percent total
Plymouth Arrow	26,825	13.2	47,345	22.2
Champ	1,471	0.7		
Sapporo	11,737	5.8	1,406	0.7
Dodge Colt	44,066	21.7	70,679	33.1
Colt Hatchback	1,663	0.8		
Challenger	17,717	8.7	1,832	0.9
Ford Fiesta	76,145	37.6	40,549	19.0
Lincoln-Mercury Capri	4,079	2.0	22,458	10.5
Buick Opel	19,222	9.5	29,067	13.6
Total cars	202,925	100.0	213,336	100.0
Percent of total import cars		10.2		10.3
Percent of total auto sales		1.8		1.9

Source: Wards Automotive Yearbook.

General Motor Corporation estimates that a $\frac{1}{4}$ mile reduction in the CAFE would save \$1 billion in investments. Given Chrysler Corporation's current mix of U.S. produced automobiles and domestic sponsored imports, this could save Chrysler between \$100 and \$250 million each year.

Thus, the inclusion of domestic sponsored imports in the CAFE calculations would allow the objective of fuel economy to be met while helping to save American jobs by aiding Chrysler in getting back on its feet.

The proposed three-year carry-forward carry-back credit allowance in S. 2010 would also help by allowing automobile manufacturers more flexibility in planning for their compliance with the fuel economy standards.

In summary it can be said that however important the goal of fuel efficiency is, serious consideration should be given to the impacts of the specific regulations on the automobile industry. Regulation can be tailored so that its goals are achieved with the lowest cost to the industry. The inclusion of domestically sponsored imports in the CAFE calculations is one step in the right direction.

STATEMENT OF THE AMERICAN IMPORTED AUTOMOBILE DEALERS ASSOCIATION

The overwhelming requirement of the United States automotive industry today is that it greatly increase its production of small, fuel-efficient vehicles. Every industry analyst, every economist who has studied the present situation, even the daily sales reports confirm this need.

Some have attempted to interpret today's automotive market as a struggle between domestic and imported automobiles. Such an interpretation can only be made by distorting many market figures and ignoring others. The clear fact that emerges from every sales report is that the prospective automotive purchaser today is looking for fuel efficiency first, before any other consideration.

In 1979, imported automobiles attained a U.S. market penetration of 21.8 percent, the highest figure on record for imported automobile share-of-market. Total imported car sales were 2.3 million units, demonstrating conclusively that there is a large and hungry market for new cars—but that market is not interested, essentially, in the larger, less fuel-efficient automobiles that domestic manufacturers continue to offer.

That this increase in imported car sales was due to public demand for small cars, however, and not necessarily imported cars is amply proved by the fact that domestic small cars increased their share of market in 1979 to a greater degree than did imported cars. Imports increased their market share in 1979 to 21.8 percent, up from 17.7 percent in 1979, taking over an additional 4.1 percentage points.

In the same period, however, domestic small cars took over 5.2 additional percentage points, growing from 28.5 to 33.7 percent of the U.S. market.

The largest selling small car in America is GM's Chevette. Three other small domestic cars outsell the leading imported model. There are 44,000 backlogged orders for the Buick Skylark, by way of example.

For the U.S. automobile industry to prosper—with all the attendant benefits to employment, gross national product and advances for support industries—the manufacturers must increase, by a considerable dimension, the proportion of smaller cars they offer customers. It would appear that the manufacturers are making these changes as speedily as the huge volume of production permits. The required investment for such a production changeover is, of course, enormous.

It should be noted, in passing, that the criticism that has been leveled against the domestic industry for failing to anticipate the explosive growth in demand for smaller cars has been largely unjustified. In January of 1979, only a year ago, demand for larger cars was so strong, the domestic industry expressed real concern that it could not meet the Corporate Average Fuel Economy Standards unless the market for small cars expanded. Public disinterest in small cars was such that imported car sales declined by 50,000 units in 1978. In January of 1979, imported automobile stocks were at an all-time level and manufacturers were sponsoring intensive sales campaigns and discounts to reduce swollen dealer inventories.

President Carter's call, on February 27, 1979, for standby gasoline rationing authority, followed in April by the gasoline shortages on the West Coast and subsequent long lines at stations, turned the market around completely. Big cars became a drug on the market and small car sales soared. Since the imported car dealers had the most small cars available, import sales went to new highs.

Clearly, it is in the best interests of the United States for the Federal Government to encourage the production of small, fuel-efficient automobiles in the United States. The 4,500 small businessmen in America who sell and service imported automobiles and their 140,000 employees support this concept whole-heartedly. This support involves far more than just lip-service.

In 1973, the American Imported Automobile Dealers Association sent a special team to Germany, to meet with the Federal Republic Ministers of Economics and Finance, with the chairman of the Deutsche Bank, and with directors of Volkswagenwerke AG, to persuade them that a U.S. manufacturing facility for Volkswagen was essential to the future of their American dealer body. In 1978, AIADA carried out two missions to Japan, to speak with Japanese manufacturers on the same subject.

In order to assure the continued growth of small car production in the United States, the members of AIADA express their support for S2010, the "Automotive

Fuel Economy Amendments of 1979," and in particular for Section 3 of the act. Permitting a manufacturer to average U.S. assembled automobiles with imports for the purpose of calculating Corporate Average Fuel Economy, if U.S. production began after December 22, 1975, would have several beneficial effects:

1. It would enable Volkswagen of America to increase the U.S.-made content in its Pennsylvania-built Rabbits and trucks, without jeopardizing future compliance with the CAFE standards for its somewhat less fuel efficient Porsches and Audis. This would promote U.S. employment and U.S. business activity.

2. It would encourage Japanese manufacturers to accelerate plans for U.S. manufacturing and assembly operations, a step that would greatly increase U.S. production of small cars.

AIADA does not favor an across-the-boards merger, for CAFE purposes, of imported and domestic automobiles, simply because this would reduce the incentives for domestic manufacturers to increase their production of small cars in the U.S. In 1979, ten percent of all imported car sales were due to "captive" imports brought into this country by Ford, General Motors and Chrysler. Replacement of these sales with domestic product of equal efficiency and quality should be the immediate goal of the domestic auto makers. AIADA would not support an amendment that would permit Ford and General Motors to merge their domestic and imported models under the CAFE standards, simply because it would remove the urgency for these corporations to produce small cars in this country.

A special exemption for the Chrysler Corporation, extending, for a period not to exceed two years, its ability to merge domestic and imported car sales for CAFE purposes would seem to us to be a reasonable action. The condition of many Chrysler dealers is precarious and without the captive imports they now sell, their continued survival and the jobs of their employees would be jeopardized.

AIADA also would like to offer its strong endorsement of the amendment to exempt manufacturers of fewer than 10,000 vehicles annually from the Corporate Average Fuel Economy standards. Virtually no fuel saving is realized from forcing such standards on the low-volume manufacturers, but the cost in jobs and lost investment were these companies to be forced out of the U.S. market would be considerable. Below 10,000 units, such standards are neither fuel nor cost-effective. Their impact is entirely negative and such small manufacturers should be exempted from them.

STATEMENT OF THE MOTOR VEHICLE MANUFACTURERS ASSOCIATION

The Motor Vehicle Manufacturers Association of the United States, Inc., is pleased to comment on the "Automotive Fuel Economy Amendments of 1979." In particular, we would like to express support for Sections 4, 5 and 6 of S. 2010, which contain the provisions of S. 1583.

The Energy Policy and Conservation Act of 1975 (EPCA), which amends Title V of the Motor Vehicle Information and Cost Savings Act, requires automobile manufacturers to meet corporate average fuel economy (CAFE) standards. The Act established passenger automobile standards for model years 1978 through 1980 and for 1985. The Act further directed the Secretary of Transportation to set 1981-1984 passenger automobile standards, as well as non-passenger automobile (light truck) standards beginning with the 1979 model year. The Department of Transportation has since established these car standards and model year 1979-1981 light truck standards. To date, all domestic automobile manufacturers have met or projected that they will meet the prescribed fuel economy standards through model year 1980. However, manufacturers have testified publicly that meeting the progressively more stringent CAFE standards of future years will be increasingly more difficult.

In addition, EPCA imposes a severe financial penalty on any manufacturer whose corporate average fuel economy falls short of the applicable model year fuel economy standards. However, the law also provides a system for assigning credits to manufacturers whose fleet performance is superior to the prescribed standards. Such credits can then be applied against any CAFE shortfalls, and thus against the civil penalties imposed, but only in the year immediately preceeding or the year immediately following the model year in which the credits are earned (a one year "carry forward and carry back").

The "Automotive Fuel Economy Program Third Annual Report to the Congress" issued by the Department of Transportation in January 1979 stated: "The Department recommends that credits be allowed to be carried forward (or backward) for three years to enable manufacturers to benefit from their early conservation efforts and better balance future planning." The Report goes on to point out that "A number of manufacturers have raised the point that failure to meet the fuel economy

standards involves a violation of the law, regardless of whether the shortfall involves a penalty or involves the use of credits being carried forward or backward. The manufacturers have expressed a strong reluctance to engage in any corporate planning that would involve violations."

MVMA strongly endorses Sections 4, 5 and 6 of S. 2010 and S. 1583 for two reasons. The legislation, first, would provide that the credits earned by manufacturers for exceeding a particular year's fuel economy standard could be carried forward or backward for three years, rather than only one. Second, it would make clear that the failure of a manufacturer to comply with an average fuel economy standard in a given year shall not be considered "unlawful conduct" provided that the manufacturer has sufficient credits in the immediately preceding three years and in the immediately following three years to wholly offset the penalties which would otherwise accrue.

The proposed legislation will not by itself resolve the very difficult problems manufacturers will have in meeting increasingly more stringent CAFE requirements. Meeting these increasingly more stringent CAFE requirements involves greater risks in technological development, product design and market acceptance. Thus, extending the period in which credits may be earned would enable motor vehicle manufacturers to benefit from past and future conservation efforts. It would also allow these manufacturers to better balance long-term product planning.

STATEMENT OF HOWARD G. PASTER, LEGISLATIVE DIRECTOR,
INTERNATIONAL UNION, UAW

Mr. Chairman, the International Union, UAW, appreciates the opportunity to submit this brief statement for the hearing record on several proposed amendments to Title V of the Motor Vehicle Information and Cost Savings Act. We understand the Subcommittee has before it S. 1583 (Mr. Riegle), S. 2010 (Mr. Cannon), S. 2035 (Mr. Nelson), and additional recommendations from the Administration.

The various proposals raise four issues on which we would like to comment:

Three-year carry forward/carry back

This proposal, originally advanced by the Department of Transportation this time last year, would permit automobile manufacturers to use credits earned when they exceed the corporate average fuel economy (CAFE) standards for up to three years. Present law provides that such credits may be carried back or forward one year. S. 1583, S. 2010 and the Administration proposal would all change the one year carry forward/carry back to three years and the UAW supports this concept.

The purpose of establishing CAFE standards is to achieve overall fuel savings. To the extent that a manufacturer exceeds the standards in a given model year a permanent improvement in fuel efficiency for the entire fleet is realized and allowing use of the credit received for up to three years will not diminish realization of the composite fuel savings anticipated under the CAFE program. The recommendation provides some flexibility in the regulatory program without an energy penalty and we urge its adoption.

The UAW also supports a related provision as set out in S. 2010 to change the definition of "unlawful conduct" so as to ensure that manufacturers who avail themselves of the three year carry forward/carry back do not encounter unjustified legal risk. This is a necessary change to accompany enactment of the three year provision.

Domestic production by foreign manufacturers

This issue is also addressed in S. 2010 and the Administration recommendation. The purpose of the proposed change in the law is to permit foreign manufacturers who establish domestic auto production facilities to maintain a single CAFE combining their domestic and foreign production. When the original law was passed the UAW supported a provision which gradually eliminated the right of domestic manufacturers to count captive imports in their CAFEs. The purpose was to encourage domestic production of relatively fuel efficient autos.

As the situation has developed since passage of the law, Volkswagen has begun U.S. manufacture and we are hopeful other foreign auto companies will follow their lead. However, in order to encourage these foreign concerns to not only locate in the U.S. but also to achieve a high level of U.S. content in their finished products it is necessary for them to have a single CAFE combining relatively efficient, high volume models produced in the U.S. with less efficient, lower volume models produced abroad.

The fact is that this proposed change in the law will serve precisely the same goal as the original Act, i.e., to encourage domestic manufacture of relatively fuel efficient

autos. However, in the case of foreign companies it is necessary to achieve this goal with the proposed amendment. We are convinced this legislation will increase U.S. employment while increasing the availability of relatively fuel efficient autos built by U.S. workers with U.S. produced parts, steel, rubber, etc.

Renault-AMC phase-in

S. 2035, introduced by Sen. Nelson, has as its purpose the same objective as the item immediately above—domestic production of relatively fuel efficient autos—but proposes to achieve this goal in a manner which will solve a unique problem confronted by American Motors in its new relationship with Renault. The UAW supports S. 2035 because we believe it will not only keep American Motors' domestic auto production lines open in the early 1980's, but provide a necessary transition to the domestic production with domestic parts and supplies of Renaults now made in France.

To achieve the combined objectives of keeping AMC in the automobile business and encouraging U.S. production of Renaults it is necessary to provide a short-term modification in the content rules while combining the AMC and Renault CAFE's. Within a reasonable time period the Renault production will realize the 75 percent U.S. content rule and the combined AMC-Renault CAFE will then conform with present law. The Nelson bill may justly be viewed as a bill to enhance domestic auto production.

Low-volume manufacturers

This issue is addressed by Chairman Cannon's bill and the Administration, and provides an exclusion from the CAFE rules for manufacturers whose worldwide sales are less than 10,000 vehicles a year. We have no objection to this provision; the number of cars produced by the affected companies is too small to be of concern.

Mr. Chairman, on a related matter, though not raised as an explicit topic for these hearings, the UAW strongly feels that the inclusion in CAFE calculations of police cars and ambulances is an oversight that should be corrected.

First, EPCA's inclusion of police cars and ambulances in CAFE is inconsistent with subsequent U.S. government policy, which benefitted from additional consideration of the issue. The so-called "gas guzzler tax" section of H.R. 5263, for example, excludes from the tax "any vehicle sold for use and used . . . as an ambulance . . . or . . . for police or other law enforcement purposes . . ." Similarly, Executive Order 12003 of July 20, 1977 empowers the GSA Administrator to exempt automobiles "designed to be used in law enforcement work or emergency rescue work" from rules barring Executive agencies from purchasing cars that do not exceed EPCA standards for the year of purchase.

Second, for a number of reasons Chrysler Corporation's sales of police cars far exceed that company's overall share of the U.S. new car market. As a result, inclusion of these vehicles in CAFE hurts Chrysler disproportionately.

Thank you for affording us the opportunity to submit this statement for the hearing record.

