TESTIMONY OF

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LEGISLATIVE DIRECTOR

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AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

on the subject of

PENDING CORPORATE AVERAGE FUEL ECONOMY (CAFE) LEGISLATION

before the

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

UNITED STATES SENATE

May 3, 2007

**SUMMARY STATEMENT OF
UAW LEGISLATIVE DIRECTOR ALAN REUTHER**

The UAW strongly opposes the pending CAFE bills, S. 357, S. 183, S. 767 and S. 1118.

First, the UAW is deeply concerned that the stringent fuel economy improvements mandated by these bills would impose enormous retooling costs on the auto manufacturers, and disproportionate burdens on GM, Ford and DCX. Because of their serious financial conditions and large retiree health care legacy costs, GM, Ford and DCX cannot afford these costs.

GM, Ford and DCX have posted shattering loses in recent years, resulting in the closing of numerous facilities and the loss of almost 90,000 jobs. At the same time, GM, Ford and DCX currently spend over $5 billion each year to provide health care to about 550,000 retirees and their families. In contrast, Japanese, German and Korean competitors have been making large profits and expanding their facilities in this country. Their U.S. operations have very few retirees, and health care costs in their home countries are heavily subsidized through national health care systems.

Thus, it is abundantly clear that we do not have a level playing field in the U.S. auto industry. The CAFE increases proposed in the pending legislation would severely aggravate this situation, by imposing huge, disproportionate retooling costs on GM, Ford and DCX. As a result, the pending CAFE bills could force them to shutter more facilities, destroying tens of thousands of jobs and weakening the economic base of many communities across this country. This legislation could also force them to reduce or completely eliminate health insurance coverage for their 550,000 retired workers and their families. The UAW believes that this economic and human toll is unacceptable.

Second, the pending CAFE bills contain a number of structural problems. In particular, imposing a much higher flat mpg requirement on the combined passenger car and light truck fleets would discriminate against auto companies whose product mix is more oriented towards light trucks. Furthermore, authorizing NHTSA to adopt an attribute-based CAFE system for passenger cars, without establishing an adequate anti-backsliding rule, would jeopardize small car production and jobs in the United States.

The UAW shares the growing national concerns about climate change and energy security. We believe these serious challenges can best be addressed through an economy wide cap-and-trade program that limits greenhouse gas emissions, along with additional performance standards that require reductions in the carbon content of fuels and improvements in vehicle efficiency. This type of approach can also help to provide various industries, including struggling auto manufacturers, with the resources needed to make investments in the advanced technologies that will provide significant reductions in greenhouse gas emissions and oil consumption.

Mr. Chairman, my name is Alan Reuther. I am the Legislative Director for the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents over one million active and retired workers across the country. Many of these UAW members work or receive retirement benefits from auto manufacturers and parts companies. The UAW appreciates the opportunity to testify before this Committee on the subject of pending Corporate Average Fuel Economy (CAFE) legislation. This includes the "Ten-in-Ten Fuel Economy Act" (S. 357), sponsored by Senator Feinstein; the "Improved Passenger Automobile Fuel Economy Act of 2007" (S. 183), sponsored by Senator Stevens; the "Fuel Efficiency Energy Act" (S. 1118), sponsored by Senator Dorgan; and the "Fuel Economy Reform Act" (S. 767), sponsored by Senator Obama.

The UAW strongly opposes these CAFE bills for several reasons. First, we are deeply concerned that the stringent fuel economy improvements mandated by these bills would impose enormous retooling costs on the auto manufacturers. GM, Ford and DCX cannot afford these costs because of their serious financial conditions and large retiree health care legacy costs. The net result is that the bills could lead to further plant closings and job loss, as well as cut backs in or the elimination of health insurance coverage for 550,000 retirees and their families.

Second, the CAFE increases in some of these bills contain severe structural problems. Imposing a much higher flat mpg requirement on the combined car and light truck fleets would discriminate against auto companies whose product mix is more oriented towards light trucks. Furthermore, authorizing NHTSA to adopt an attribute-based CAFE system for passenger cars, without establishing an adequate anti-backsliding rule, would jeopardize small car production and jobs in the United States.

The UAW shares the growing national concerns about climate change and energy security. We believe these serious challenges can best be addressed through an economy wide cap-and-trade program that limits greenhouse gas emissions, along with additional performance standards that require reductions in the carbon content of fuels and improvements in vehicle efficiency. This type of approach can also help to provide various industries, including struggling auto manufacturers, with the resources needed to make investments in the advanced technologies that will provide significant reductions in greenhouse gas emissions and oil consumption.

Economic Feasibility

There is no dispute that the improvements in fuel economy mandated by the pending CAFE bills would necessarily entail enormous retooling costs for the auto manufacturers. The Bush administration has estimated that to comply with a 4 percent rate of increase in the CAFE standards that would save 8.5 billion gallons of oil by 2017, all of the automakers would have to incur retooling costs of $114 billion. However, these costs would not be distributed uniformly among the companies. GM, Ford and DCX would have to incur $85 billion, or about 75 percent of these costs.

The UAW is deeply concerned that the magnitude of these costs, and their disproportionate impact on GM, Ford and DCX, would inevitably lead to calamitous results in the auto industry. GM, Ford and DCX are already facing extremely serious financial situations. In the past two years they have posted shattering losses. In response, they have announced unprecedented plans to downsize their operations, involving the closing of numerous automotive facilities and buy-out programs that could result in the loss of almost 90,000 jobs. Speculation continues about further industry restructuring that could lead to even more plant closings and job loss. In contrast, Japanese, German and Korean competitors have been making large profits and expanding their operations.

At the same time, GM, Ford and DCX face much heavier retiree health care legacy cost burdens than their competitors. GM has about 3½ retirees for every active worker; Ford and DCX have over 1 retiree for each active worker. Together these three companies spend over $5 billion each year to provide health care to about 550,000 retirees and their families Many of these retirees are younger than 65, and thus are not covered under Medicare. In contrast, the Japanese, German and Korean operations in this country are relatively new, and thus have very few retirees. And the health care costs from facilities in their home countries are heavily subsidized through national health care systems.

Thus, it is abundantly clear that we do not have a level playing field in the U.S. auto industry. The CAFE increases proposed in the pending legislation would severely aggravate this situation, by imposing huge, disproportionate retooling costs on GM, Ford and DCX.

The stark reality is that GM, Ford and DCX do not have the ability to shoulder these additional, discriminatory costs. If they are forced to do so, they will be placed at a further competitive disadvantage. Something will have to give. The most likely result is that these companies will be forced to shutter more facilities, destroying jobs for tens of thousands of additional workers and weakening the economic base of many communities across this country. They will also be pressured to reduce or completely eliminate health insurance coverage for their 550,000 retired workers and their families.

The UAW believes that this economic and human toll is unacceptable. Accordingly, we strongly urge this Committee and Congress to insist that any legislation requiring improvements in fuel economy must be accompanied by measures to provide assistance to struggling auto manufacturers and to level the playing field in the industry. Because none of the pending CAFE bills include adequate measures to achieve these objectives, the UAW urges you to reject these bills.

Structural Problems
in Pending CAFE Bills

The UAW remains skeptical about the magnitude of the CAFE increases proposed in the pending bills. We do not believe the study by the National Academy of Sciences in 2001 supports increases of this magnitude. However, we also are deeply concerned about several structural problems in the pending CAFE bills.

First, the "Ten-in-Ten Fuel Economy Act" (S. 357) would combine the passenger car and light truck fleets under the CAFE program, and impose a flat 35 mpg fuel economy requirement on the combined passenger car-light truck fleet. This is often referred to as closing the "SUV loophole."

This approach would greatly increase the magnitude of the proposed fuel economy increase, since light trucks are starting from a lower base line. Even worse, this approach would have a severe discriminatory impact on GM, Ford and DCX, because their product mix is much more oriented towards light trucks than other companies. In effect, GM, Ford and DCX would be required to make their passenger car fleets meet extremely high mpg standards in order to balance out their much larger fleets of light trucks. Or, they would be forced to curtail production and/or close many of their light truck operations.

This problem is not ameliorated by the fact that S. 357 gives NHTSA the authority to do an attribute-based CAFE program for passenger cars, as well as light trucks. This bill still mandates that every company must meet the flat 35 mpg standard for its combined passenger car-light truck fleet, and thereby imposes a much larger burden on GM, Ford and DCX.

The UAW submits that this discriminatory approach is fundamentally unfair. In our judgment, all companies should be required to improve the fuel economy of their entire fleets in a comparable manner. Fuel economy requirements should take account of the significant product mix differences between the companies, so that any requirements are even handed and do not impose disparate costs and technological burdens on certain companies.

Second, all of the pending CAFE bills would allow or require NHTSA to promulgate an attribute-based CAFE system for passenger cars, as well as light trucks. But these bills do not appear to contain an adequate anti-backsliding rule, or else would allow credit trading between manufacturers. As a result, these bills would jeopardize the continuation of small car production and jobs in the United States.

Under the existing passenger car CAFE program, the combination of the fleet wide averaging and the two-fleet (domestic and foreign) requirements ensures that full line auto manufacturers must maintain small car production in North America. This is because the production of smaller, more fuel efficient vehicles is needed to offset the production of larger, less fuel efficient vehicles. However, if NHTSA is authorized or required to promulgate an attribute-based CAFE system for passenger cars, this would undermine the fleet wide averaging requirement, and would therefore enable the auto manufacturers to offshore all of their small car production and jobs.

Over 17,000 American workers are currently employed in five U.S. assembly plants that produce small passenger cars. This includes GM, Ford, DCX, and NUMMI plants in Lordstown (OH), Spring Hill (TN), Wayne (MI), Belvidere (IL), and Fremont

(CA). Almost 50,000 American workers produce parts for these vehicles. The jobs of these workers would be directly threatened by the pending CAFE bills because they would allow or require NHTSA to promulgate an attribute-based system for passenger cars, and therefore would undermine the fleet wide averaging requirement. The loss of these jobs would inevitably have a negative ripple effect on the rest of the economy.

As the UAW has previously testified, there is an easy way to obtain the benefits of moving to an attribute-based CAFE system for passenger cars, while avoiding the down side of losing our small car production and jobs. Specifically, the UAW urges Congress to impose an "anti-backsliding" requirement on any new attribute-based CAFE rules that NHTSA would be authorized or required to promulgate for passenger cars. This requirement should specify that both the domestic and foreign passenger car fleets for each auto manufacturer would still have to meet or exceed the CAFE standard under the current system (i.e., the 27.5 flat mpg fleet wide standard). To be effective, this "anti-backsliding" benchmark must be increased in line with the overall fuel economy improvements required under any attribute-based passenger car CAFE system.

The establishment of this type of "anti-backsliding" requirement would prevent companies from offshoring all of their small car production and jobs. It also would ensure that the auto manufacturers cannot subvert the objective of any new attribute-based CAFE system by "up-sizing" many of their vehicles, resulting in worse overall fuel economy.

Unfortunately, S. 1118 does not contain any anti-backsliding provision. Although S. 357 and S. 183 do contain versions of an anti-backsliding rule, these provisions are poorly drafted and would not be effective in protecting small car production and jobs. Because S. 357 combines the passenger car and light truck fleets, the benchmark set forth in its anti-backsliding rule is set too low to be effective. Similarly, because S. 183 merely adopts the existing 27.5 mpg standard as the benchmark for its anti-backsliding rule, and does not increase this in line with overall improvements in fuel economy, this also would not be effective.

In addition, S. 357 and S. 767 would establish a "credit trading" system that would allow auto manufacturers to buy and sell CAFE credits for passenger cars and/or light trucks. This would also have the effect of undermining the two fleet rule and/or fleet wide averaging. As a result, it would inevitably jeopardize the continuation of small car production and jobs in this country.

The UAW is concerned about a number of other problems in the pending CAFE legislation. A number of the bills would expand the CAFE program to cover heavier vehicles (above 8500 lbs.), thereby substantially increasing the stringency of the overall program and making it even more difficult and costly for the auto manufacturers to comply with the proposed standards. Similarly, S. 1118 would eliminate the flex fuel CAFE credit. This also represents a back door means of increasing the stringency of the overall program, as well as the compliance costs for the companies. Both of these proposed changes in the CAFE program would have an especially negative impact on GM, Ford and DCX, because their fleets contain more heavier and flex fuel vehicles.

Two of the pending CAFE bills, S. 1118 and S. 767, would require the auto manufacturers to improve the fuel economy of their passenger car and light truck fleets by 4 percent per year. Although the bills purport to give NHTSA the discretion to allow a more reasonable rate of increase, the findings that it would have to make in order to do this are so stacked that it would be impossible for the agency to ever make such a determination. In effect, the so-called "off-ramps" are illusory.

Because of the foregoing structural problems in the pending CAFE bills, the UAW urges the Committee to reject these measures, and instead to explore better approaches for addressing the pressing problems of climate change and energy security.

Need for Better Approach to Reduce Greenhouse Gas Emissions and Our Dependence on Foreign Oil

The UAW shares the growing national concern about climate change. Scientific studies have confirmed that human use of fossil fuels is contributing to global warming. These studies underscore the major environmental challenges posed by global warming, including rising sea levels, changes in climate patterns and threats to coastal areas. To avoid these dangers, the growth in greenhouse gas emissions must be reduced, and ultimately reversed.

The UAW is also concerned about the national security implications of our nation's dependence on foreign oil. Currently, 28 percent of the world's oil is produced in the Persian Gulf. Although less than 11 percent of the oil used by the U.S. comes from this volatile region, disruptions in this oil supply can still create serious problems for our economy. As a result, in recent years our nation has become entangled in deadly, costly conflicts in the Middle East. In our judgment, the long range economic and national security interests of the U.S. would better be served by implementing policies to reduce our dependence on foreign oil.

The UAW believes that climate change and energy security are serious problems that need to be addressed by Congress and the Bush administration. We urge Congress to pursue initiatives that will deal with these issues in an integrated and balanced manner that protects jobs and benefits for American workers and retirees.

It is important to recognize, however, that these problems cannot be solved through measures such as the pending CAFE bills. Light duty vehicles (both passenger cars and light trucks) account for approximately 16 percent of greenhouse gas emissions and 42 percent of oil consumption in the United States. The CAFE program only affects new vehicles sold each year, which represent about 7 percent of the total vehicle stock on the road. It takes about 14 years for the U.S. vehicle fleet to completely turn over. Furthermore, because of the long lead time needed to retool vehicles, any changes in the CAFE program will necessarily have a delayed impact.

Thus, it is apparent that the proposals in the pending legislation to increase the stringency of the CAFE program would only have a very modest impact in the short term in reducing greenhouse gas emissions and oil consumption.

In addition to these shortcomings, there are a number of other reasons why focusing on the CAFE program does not represent the best approach for addressing the problems of climate change and energy security. The CAFE program does nothing about the fuels that go into vehicles. It is not integrated with any broader economy-wide cap-and-trade program to limit greenhouse gas emissions. Historically, the CAFE program has been subject to gaming by the auto companies. And it does not generate any revenue that could be used to assist struggling auto manufacturers in doing the retooling needed to meet stiffer vehicle efficiency requirements.

To address the problem of global warming in a meaningful way, the UAW believes we need a broad, comprehensive policy. In our judgment, this policy should require all sectors of the economy to come to the table and help to reduce our nation's greenhouse gas emissions. This includes all mobile sources, not just light duty vehicles. It also includes stationary sources, such as power plants and factories. And, of course, it includes our fossil fuels such as coal, oil and natural gas. Each sector should be required to contribute to the reduction of greenhouse gases in a proportionate manner. No sector should enjoy a free ride. No sector should be required to bear a disproportionate burden, or to shoulder costs that would have a devastating impact on its operations or employment.

Specifically, the UAW strongly supports the establishment of an economy-wide mandatory tradable-permits program that will slow the growth of, and then reduce greenhouse gas emissions in the United States. We believe this type of "cap-and-trade" program should be done on an "upstream" basis in order to minimize regulation and to ensure that all sectors of the economy participate in a proportionate manner. We also believe this program should include a "safety valve" cost cap to ensure that no sector is hit with unacceptable burdens that would have a negative impact on economic growth and jobs. In addition, this program should include measures to ensure that our businesses and workers are not placed at an unfair competitive disadvantage with U.S. trading partners and developing countries.

The UAW believes that this type of "cap-and-trade" program can make a major contribution to reducing greenhouse gas emissions. It would ensure that such reductions are accomplished in an economically efficient manner. Because of the ripple effect of higher oil prices throughout the economy, it would also help to reduce oil consumption.

To adequately address the problems of global warming and energy security, the UAW recognizes the need for <u>additional</u> measures to deal with the automotive sector. To be effective, we believe it is critically important that these measures address the fuels that go into vehicles, as well as the efficiency of the vehicles themselves. Furthermore, any auto sector policies should recognize that it is much more expensive to achieve reductions in greenhouse gas emissions from light duty vehicles than from other sectors. In our judgment, the best way to address this disparity would be to integrate any auto sector policies with economy-wide efforts to reduce greenhouse gas emissions. At a minimum, the federal government should provide assistance to the auto industry to offset this much higher compliance cost.

A). Auto Carbon Limits

Instead of becoming mired in the old dead-end debate over the CAFE program, the UAW urges Congress to explore the feasibility of establishing an additional carbon control policy that would require reductions in the carbon emissions of light duty vehicles sold in the United States, as well as reductions in the carbon intensity of the fuels that go into these vehicles. This two-pronged approach could make a direct, major contribution to reducing greenhouse gas emissions. At the same time, it also could contribute enormously to a reduction in oil consumption.

Under this approach, auto manufacturers would have a strong incentive to improve the efficiency of their vehicles. But there also would be a strong incentive to increase the availability and use of alternative fuels. This approach could be integrated with an economy-wide cap-and-trade program, thereby increasing the overall efficiency of efforts to reduce greenhouse gases and oil consumption. It could also avoid the gaming and other complications that have arisen in connection with the CAFE program. Significantly, through the allocation of allowances, this approach could help to generate the revenues needed to provide assistance to struggling auto manufacturers and to level the playing field in the auto industry.

Obviously, there are many details that would have to be worked out in order to establish this type of carbon system for the auto sector. The UAW is prepared to work with this Committee and the entire Senate to fashion this type of system.

B). Alternative Fuels

There are a range of other initiatives that Congress could pursue to promote the use of alternative fuels in motor vehicles. These initiatives could make an enormous contribution to reducing greenhouse gas emissions and our reliance on foreign oil.

Obviously, there is a need to promote the production of vehicles that are capable of running on alternative fuels. The technology required to make vehicles flex fuel capable is relatively inexpensive - about $150 per vehicle. GM, Ford and DCX have already voluntarily committed to making 50 percent of their fleets flex fuel capable by 2012. The UAW would support legislation mandating that certain percentages of all vehicles sold in the U.S. by each automaker must be flex-fuel capable by specified dates. Meanwhile, to avoid any counterproductive disincentive, the CAFE credit for flex fuel vehicles should be extended and expanded to cover bio-diesel.

To increase the use of alternative fuels, there also is a need to overcome technical hurdles facing cellulosic ethanol and bottlenecks in distribution networks. Thus, the UAW supports the continuation of existing incentives for the production of bio-fuels. We also support additional incentives or mandates relating to the conversion of existing filling stations so they have the capability to distribute alternative fuels.

The UAW welcomes the Bush administration's proposal to increase the renewable fuels mandate. We also believe the fuels carbon cap recently proposed by Governor Schwarzenegger represents a thoughtful approach that is worth examining on a federal level.

C). Assistance to Encourage Domestic Production of Advanced Technology Vehicles

The federal government currently provides tax credits to consumers who purchase certain advanced technology (hybrid, diesel, fuel cell) vehicles. These incentives are designed to encourage consumers to purchase more fuel-efficient vehicles. However, the tax credits are available regardless of where the vehicles and their key components are built. They are not tied to domestic production. Unfortunately, many advanced technology vehicles currently are assembled in other nations. Even worse, virtually all of the key components (hybrid electric motors; diesel engines) for these vehicles are built overseas, including the key components for vehicles assembled in this country, as well as those assembled in other countries. As these advanced technology vehicles gain a larger share of the market, this means we are replacing vehicles that have higher levels of domestic content with vehicles that have much lower domestic content. As a result, the consumer tax credits are effectively subsidizing the movement of automotive jobs overseas. For this reason, we believe it would be a major mistake for the federal government to rely solely on these consumer tax credits to encourage the expansion of advanced technology vehicles. Certainly, these tax credits should not be expanded by increasing the amounts or lifting the cap on the number of qualifying vehicles.

Instead of this flawed approach, the UAW urges Congress to provide incentives to encourage **domestic production** of advanced technology vehicles and their key components. As was demonstrated by a November, 2004 study conducted by the Office for the Study of Automotive Transportation (OSAT) of the University of Michigan Transportation Research Institute, and commissioned by the bipartisan National Commission on Energy Policy, this type of approach would help to maintain and create tens of thousands of automotive jobs in this country. At the same time, it would help to accelerate the introduction of these advanced technology vehicles, and thereby reduce global warming emissions and our dependence on foreign oil. Moreover, in light of the highly competitive nature of the U.S. auto market, any savings realized by the auto manufacturers and parts companies would inevitably be translated into cost reductions for consumers, and thereby encourage sales of these more efficient vehicles. Significantly, the OSAT study indicated that the increased tax revenues for federal, state and local governments generated from the jobs created for American workers would more than pay for the costs of such manufacturer incentives.

The UAW is pleased that proposals for a manufacturer's tax credit to encourage domestic production of advanced technology vehicles and their key components were included in a number of bipartisan bills in the last Congress, and that a similar proposal is included in one of the pending CAFE bills, S. 767. However, because of the current financial situations of GM, Ford and DCX, such tax credits would be of limited value to them. Thus, the UAW urges this Committee look at other mechanisms for providing assistance to auto manufacturers to encourage domestic production of advanced technology vehicles and their key components. This could include proposals for federal loan guarantees and/or tax exempt status for any bonds issued to cover such investments. It also could include allowing auto manufacturers to monetize banked R & D and/or AMT credits that they have accumulated, provided the funds are used for such investments.

D). Leveling the Playing Field in the Auto Industry

As previously indicated, to make it economically feasible for GM, Ford and DCX to shoulder the retooling costs associated with any improvements in vehicle efficiency, Congress needs to help level the playing field in the auto industry relating to retiree health care legacy costs. There are a number of ways Congress could do this. This includes allowing auto manufacturers to use federally guaranteed and/or tax exempt bonds to help fund retiree health care benefits, or to buy their early retirees into the Medicare program or a catastrophic reinsurance program. It also includes expanding the existing 65 percent refundable, advanceable health care tax credit so it applies to early retirees of older manufacturing companies that have large numbers of retirees. The UAW is prepared to work with this Committee and the entire Senate to craft these or other proposals so they will help the struggling auto manufacturers and level the playing field in the auto industry. We believe it is essential that such proposals accompany any legislation that would impose stiffer vehicle efficiency requirements on the auto manufacturers.

Conclusion

In conclusion, the UAW appreciates the opportunity to testify before this Committee concerning the pending CAFE legislation. We look forward to working with this Committee and the entire Senate to fashion new policies that will enable the U.S. to make significant progress in reducing greenhouse gas emissions and oil consumption, while protecting jobs and benefits for American workers and retirees.

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