

TESTIMONY OF

**ALAN REUTHER
LEGISLATIVE DIRECTOR**

**INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)**

on the subject of

**H.R. ___, A BILL TO AUTHORIZE THE NATIONAL HIGHWAY TRAFFIC
SAFETY ADMINISTRATION (NHTSA) TO SET PASSENGER CAR FUEL
ECONOMY STANDARDS**

before the

COMMITTEE ON ENERGY AND COMMERCE

U. S. HOUSE OF REPRESENTATIVES

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

The UAW has repeatedly emphasized two points about the CAFE program. First, we have urged that the structure of the CAFE program be modified to eliminate discrimination against full line producers based on their product mix. Second, we have emphasized the importance of retaining both the fleet wide averaging and the two-fleet (domestic and foreign) components of the passenger care CAFE structure. The combination of these two provisions ensures that full-line auto manufacturers must maintain small car production in North America. This protects the jobs of over 17,000 American workers who are currently employed in U.S. assembly plants that produce small passenger cars, and almost 50,000 workers who produce parts for these vehicles.

The UAW supported the rules that NHTSA recently promulgated establishing a new attribute based CAFE system for light trucks. Because these rules only dealt with light trucks, not passenger cars, there was no threat to small car production and jobs in this country.

The UAW believes that NHTSA already has the authority to raise the flat MPG requirement in the current CAFE standards for passenger cars. But it does not have the authority to change the structure of the passenger car CAFE system to an attribute-based system.

The UAW recognizes that establishing an attribute-based CAFE system for passenger cars similar to the new light truck system would have the benefit of eliminating the current discrimination against full line producers. But it would also have the major down side of enabling auto manufacturers to offshore all of their small car production and jobs.

The UAW strongly urges Congress to impose an "anti-backsliding" requirement on any new CAFE rules that NHTSA would be authorized to promulgate for passenger cars. This would allow us 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. It would also prevent the companies from up-sizing or up-weighting their passenger cars, resulting in worse overall fuel economy. The UAW would strongly oppose any legislation authorizing NHTSA to establish an attribute-based CAFE system for passenger cars, unless it contains this type of "anti-backsliding" provision.

The UAW also urges Congress to specify that new passenger CAFE rules should only take effect in 2012 or later, after the new light truck CAFE rules have been implemented. We oppose the adoption of any credit trading system in the CAFE program, since this could also jeopardize the continuation of small car production and jobs in the United States.

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 appreciates the opportunity to testify before this Committee on the draft legislation authorizing the National Highway Traffic Safety Administration (NHTSA) to set new passenger car fuel economy standards.

The UAW represents 1.1 million active and retired workers across the country, many of whom work or receive retirement benefits from auto manufacturers or auto parts companies. We were deeply involved in the original enactment of the Corporate Average Fuel Economy (CAFE) program, and continue to have a very strong interest in this program because of its major impact on automotive production and employment in this country and the jobs and benefits of our members.

The UAW strongly supported the establishment of the CAFE program, and we support continuation of this program as an essential mechanism for improving fuel economy and reducing our dependence on foreign oil. We have previously stated, and continue to believe, that modest increases in the CAFE standards over time are technologically and economical feasible.

However, the UAW has repeatedly emphasized two critically important points about the CAFE program. First, we have urged that the structure of the CAFE program be modified to eliminate discrimination against full line producers based on their product mix. In our view, all companies should be required to make similar efforts to improve fuel economy across their entire line of vehicles. Because of this, we have strongly opposed legislative proposals that would have a discriminatory impact on full line producers, and therefore jeopardize the jobs and benefits of tens of thousands of active and retired workers.

Second, we have consistently emphasized the importance of retaining **both** the fleet wide averaging and the two-fleet (domestic and foreign) components of the passenger car CAFE structure. The fleet wide averaging requirement provides important flexibility to automotive manufacturers, while ensuring that the CAFE standards produce an overall improvement in fuel economy. Furthermore, the combination of fleet wide averaging and the two-fleet requirement 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.

As a matter of national energy policy, we believe it is vital that the U.S. retain domestic production of smaller, more fuel efficient passenger cars. As we have all witnessed, sharp increases in gas prices can lead to shifts in consumer demand towards smaller, more fuel efficient vehicles. Unless we retain domestic

production of such vehicles, consumers interested in this segment of the market could be forced to purchase foreign-made vehicles.

Over 17,000 American workers are currently employed in seven U.S. assembly plants that produce small passenger cars. This includes GM, Ford, DCX, Mitsubishi and NUMMI plants in Lordstown (Ohio), Wilmington (Delaware), Spring Hill (Tennessee), Wayne (Michigan), Belvidere (Illinois), Bloomington (Illinois) and Fremont (California). Almost 50,000 American workers produce parts for these vehicles. The jobs of these workers would be directly threatened by any CAFE proposals that undermine fleet wide averaging and/or the two-fleet rule for passenger cars. In addition, the loss of these jobs would inevitably have a negative ripple effect on the rest of the economy.

NHTSA recently released final rules establishing new CAFE standards for light trucks. These rules require modest improvements in light truck fuel economy, and also establish a sized-based CAFE system for light trucks. The UAW supported these rules for several reasons. We believed the magnitude and timing of the proposed increases in light truck fuel economy were feasible. We were also very pleased that the size-based CAFE system eliminated the discriminatory impact on full line producers. At the same time, because the old light truck CAFE standards did not contain any two-fleet rule, there was no threat to the continuation of small truck production and jobs in the United States. Furthermore, because the new rules only dealt with light trucks, not passenger cars, and did not change the definitions of what is a "passenger car" and what is a "light truck", there was no threat to small car production and jobs in this country.

The draft legislation that is the subject of this hearing would authorize NHTSA to set new CAFE standards for passenger cars. The UAW believes that NHTSA already has the authority to raise the flat MPG requirement in the current standards, and that legislation is not needed to enable it to go forward in this manner.

However, in his recent letters to Congress, Secretary Mineta made it clear that the Department of Transportation also wants Congress to give NHTSA the authority to change the structure of the passenger car CAFE system to an attribute-based system similar to the new structure that has been implemented for light trucks. There is general agreement among the various stakeholders in the fuel economy issue that NHTSA does not currently have this authority, and that authorizing legislation would be required before such structural changes in the passenger car CAFE program could be adopted.

The UAW recognizes that establishing an attribute-based CAFE system for passenger cars similar to the new light truck system would have the benefit of eliminating the current discrimination against full line producers. We would strongly applaud this development.

However, it would also have the major down side of enabling auto manufacturers to offshore all of their small car production and jobs. This would happen due to the elimination of the two-fleet rule. But even if this rule was retained, the companies would still be able to offshore their small car production and jobs due to the shift from a uniform, flat MPG fleet wide requirement for all companies to a pure attribute-based system.

Some commentators have tried to dismiss concerns about the loss of small car production by arguing that the companies will simply substitute large car production at these facilities, leaving the overall production and employment levels unchanged. This ignores the harsh reality that there currently is significant over capacity in the auto industry. The UAW submits that the real world impact is that certain companies would take advantage of the change in the CAFE rules to further downsize their operations. The net result is that small car facilities would be closed, and tens of thousands of automotive jobs would be lost, without any compensating replacements with large vehicle production and jobs.

Fortunately, the UAW believes 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 CAFE rules that NHTSA would be authorized 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). This "anti-backsliding" benchmark should be increased in line with the overall fuel economy improvements required under any attribute-based passenger car CAFE system.

The adoption of this type of "anti-backsliding" requirement would prevent companies from offshoring all of their small car production and jobs. This would help protect the jobs of tens of thousands of American workers. It would also guarantee that we continue to maintain domestic production capacity for smaller, more fuel efficient vehicles.

This type of "anti-backsliding" requirement also would ensure that the auto manufacturers cannot subvert the objective of any new CAFE system by "up-weighting" or "up-sizing" many of their vehicles, resulting in worse overall fuel economy. It would guarantee that the companies will actually improve fuel economy across the entire range of their passenger cars, and that consumers and our nation will indeed receive the benefits of more fuel efficient vehicles.

The imposition of this type of an "anti-backsliding" requirement would not be burdensome for the auto manufacturers. If the companies are genuinely taking steps to improve fuel economy across their entire range of passenger vehicles,

and if they do not shift small car production overseas, they should easily be able to meet this requirement.

Thus, the UAW would support legislation that authorizes NHTSA to establish an attribute-based CAFE system for passenger cars similar to the recently promulgated rule for light trucks, **provided** this is coupled with an “anti-backsliding” requirement that protects small car production and jobs in this country and prevents up-weighting or up-sizing of cars. If this type of “anti-backsliding” requirement is not included, then we would vigorously oppose such legislation.

In addition to imposing an "anti-backsliding" requirement on any new passenger car CAFE rules, the UAW urges Congress to specify that such rules should only take effect in 2012 or later, after the new light truck CAFE rules have been implemented. In light of the serious economic difficulties currently facing certain auto manufacturers, we believe it is important to avoid placing undue regulatory burdens on the industry. The auto companies will have to make significant investments to meet the challenges posed by the new light truck CAFE rules. In our judgment, these burdens should not be compounded by simultaneously requiring changes in passenger car CAFE rules. By delaying the effective date of any new CAFE rules for passenger cars, NHTSA can gain the benefit of valuable experience in the implementation of the size-based CAFE system for light trucks. This will also ease the financial burdens on the auto manufacturers.

The UAW recognizes that there are other important issues associated with any shift to an attribute-based system of CAFE rules for passenger cars. This includes whether this type of a system should be based on weight, size or some combination of factors. We believe that resolution of these complex issues can best be resolved through the administrative rulemaking process.

We understand that some persons have also called for the adoption of a "credit trading" system that would allow auto manufacturers to buy and sell CAFE credits for passenger cars and/or trucks. The UAW strongly opposes such proposals, and urges Congress not to give NHTSA any authority to establish this type of a credit trading system. A system for trading CAFE credits would inevitably have the effect of undermining the two fleet rule and/or fleet wide averaging, and would therefore jeopardize the continuation of small car production and jobs in the United States. It could also aggravate the uneven playing field that currently exists between foreign and domestic auto manufacturers.

The UAW believes it is important for Congress to recognize that changing the CAFE standards for passenger cars, by itself, will not solve either the immediate problem of high gas prices or the larger problems of energy security and environmental protection. Because of the long lead time needed to implement any changes in CAFE, there clearly will not be any impact whatsoever on current

gas prices. Furthermore, light duty vehicles (passenger cars and light trucks) only account for 40 percent of oil demand in 2006. Passenger cars account for less than half of light-duty vehicle sales, and new passenger cars sold each year represent a very small percentage of the total vehicle stock on the road. Thus, changing the CAFE standard for passenger cars would, over five years, only moderate demand from a source comprising less than 10 percent of our nation's oil use. In order to significantly reduce our oil usage and our dependence on foreign oil, clearly there is a need for broader national energy policies.

The UAW submits that these critically important energy security objectives do not have to be at odds with the goal of protecting and creating jobs for American workers. Indeed, we firmly believe our nation can make substantial progress in improving fuel economy and reducing our nation's dependence on foreign oil, and at the same time help make sure that we keep and expand automotive jobs in this country.

The UAW urges this Committee, the entire Congress and the Bush administration to support energy initiatives that further both of these important objectives. Specifically, we urge Congress and the Bush administration to move forward with proposals to encourage the domestic production of advanced technology vehicles and their key components. We believe great strides can be made in improving fuel economy and reducing our dependence on foreign oil by accelerating the introduction of such vehicles. But, 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, the United States will lose tens of thousands of automotive jobs unless steps are taken to encourage the domestic production of these vehicles and their components. Currently, most of the advanced technology vehicles are assembled overseas, and almost all of the key components for the hybrid and diesel vehicles are built overseas. As these vehicles gain a larger share of the market, we will inevitably lose automotive jobs unless we make sure that these vehicles are assembled in the U.S. and the main components are also built here.

We are very pleased that proposals along these lines have already been introduced by Members on both sides of the aisle, including the Kingston-Engel (H.R. 4409), Inslee (H.R. 4370) and other bills. The UAW submits that the types of manufacturer's incentives in these bills can help to create thousands of automotive jobs for American workers, while at the same time improving fuel economy, reducing global warming and our dependence on foreign oil.

The UAW also urges Congress and the Bush administration to move forward with proposals to aggressively promote the production, sale and use of alternative fuel vehicles. Several automakers are already producing vehicles that can run on a blend of 85 percent ethanol, 15 percent gas. This technology is relatively inexpensive - about \$150 per vehicle. But production and sales of flex fuel

vehicles represent only a small fraction of the market. And the actual use of alternative fuels has been hampered by bottlenecks in processing and, more importantly, the lack of a distribution network. The UAW believes these problems can be overcome by mandating that a certain percentage of all vehicles sold in the U.S. by each automaker must be flex-fuel capable by a specified date. Indeed, there's no reason why automakers can't make 100 percent of their vehicles flex-fuel capable within a reasonable time frame. We also believe that there should be additional incentives to encourage the creation of more processing plants to increase the supply of alternative fuels, and to encourage the conversion of existing filling stations so they have the capability to distribute alternative fuels. In our judgment, this combination of flex fuel policies offers the best opportunity to make progress in the near term on reducing oil consumption and our dependence on foreign oil.

In conclusion, the UAW looks forward to working with this Committee as you consider proposals to improve fuel economy. Thank you for considering our views on these important issues.

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Alan Reuther is Legislative Director for the International Union, UAW. As Legislative Director, he is responsible for supervising all aspects of the UAW's legislative program, including development of issues, presentation of testimony, lobbying Members of Congress and grass roots activities. In addition, he is responsible for managing the UAW's Washington Office.

Upon graduating from the University of Michigan Law School in 1977, Alan joined the UAW's Legal Department in Detroit, Michigan. As an Assistant General Counsel he was involved in litigation and provided legal advice to the Union.

In 1982 Alan transferred to the UAW's Washington Office to handle legislative matters in a variety of areas, including taxes, social security, health care, and pensions. He became Legislative Director for the UAW in 1991.

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House Committee on Energy and Commerce
 Witness Disclosure Requirement - "Truth in Testimony"
 Required by House Rule XI, Clause 2(g)

Your Name:		
1. Are you testifying on behalf of a Federal, State, or Local Government entity?	Yes	No X
2. Are you testifying on behalf of an entity other than a Government entity?	Yes X	No
3. Please list any federal grants or contracts (including subgrants or subcontracts) which <u>you have received</u> since October 1, 1999: None		
4. Other than yourself, please list what entity or entities you are representing: International Union, UAW		
5. If your answer to question number 2 is yes, please list any offices or elected positions held or briefly describe your representational capacity with the entities disclosed in question number 4: I am the Legislative Director for the UAW.		
6. If your answer to question number 2 is yes, do any of the entities disclosed in question number 4 have parent organizations, subsidiaries, or partnerships to the entities for whom you are not representing?	Yes	No X
7. If the answer to question number 2 is yes, please list any federal grants or contracts (including subgrants or subcontracts) which were received by the entities listed under question 4 since October 1, 1999, which exceed 10% of the entities revenue in the year received, including the source and amount of each grant or contract to be listed: None		

Signature: _____ Date: 5/3/06