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COMMENTARY
By Thane Peterson

Energy: Ignoring the Obvious Fix

Industry lobbying against higher fuel economy standards is fierce. Yet that remains the best way to cut U.S. dependence on foreign oil

As Congress puts the final touches on a massive new energy bill, lawmakers are about to blow it. That's because the bill, which they hope to pass by the end of July, almost certainly won't include the one policy initiative that could seriously reduce American's dependence on foreign oil: A government-mandated increase in the average fuel economy of new cars, SUVs, light trucks, and vans.

Opponents -- mainly the domestic auto makers and the United Auto Workers -- have successfully opposed a significant increase in mileage standards as government meddling that would anger consumers and cost jobs by further hobbling the companies that are already in financial trouble.

"With the difficulties Ford (F) and GM (GM) are experiencing, we don't think it would be advisable to add to their problems right now," says Alan Reuther, the UAW's legislative director. Adds Eron Shosteck, a spokesman for the Alliance of Automobile Manufacturers: "Any extreme increases in [mileage standards] would force auto makers to drop features that consumers demand."

CRISIS AHEAD. Detroit, however, is merely postponing its inevitable day of reckoning. The U.S. imports 55% of the oil it consumes, up from 35% in 1974. And passenger cars and light trucks are by far the biggest -- and most wasteful -- source of oil consumption.

With crude prices hitting an all-time high of $58.60 and closing at $58.47 on June 17, most Americans realize it's time to start weaning themselves off gas-guzzlers. And if we don't act now, a crisis will probably force more drastic action later on.

A mechanism is already in place to do avoid such a situation: The Corporate Average Fuel Economy (CAFE) program -- requiring manufacturers to steadily increase the average fuel economy of new cars and trucks they sold -- was first introduced during the mid-1970s energy crisis. "An energy crisis is going to slap us in the face again if we don't do something," predicts John Heywood, director of MIT's Sloan Automotive Laboratory and Center of 21st Century Energy.

CONSENSUS FOR MOVING FASTER. Granted, CAFE standards haven't worked as well as they might have. But that's largely because special interest groups succeeded in twisting the rules. For instance, foreign and domestically produced vehicles were treated differently to avoid excessive job losses. The standards were looser for trucks than cars, helping foster the boom in gas-guzzling SUVs. And regulators' ability to update tests and standards was severely limited, which is one reason official mileage estimates are up to 25% higher than what vehicles achieve in real use.

Worse, lawmakers didn't keep the pressure on. Federal mileage standards -- 20.7 mpg for light trucks and 27.5 mpg for cars last year -- are little changed since 1985 (though the light-truck standard is slated to rise to 22.2 mpg by 2008). As a result, the average mileage of U.S. passenger vehicles peaked in 1988 and has fallen slightly since. And because gasoline prices remained low until recently, some of the potential energy savings were eaten up because drivers simply drove more as vehicles got more efficient.

A broad consensus is developing in Washington that the nation must move faster. Indeed, prominent security hawks and neoconservatives such as former National Security Council Director Robert McFarland, former Assistant Secretary of Defense Frank Gaffney, and ex-CIA director R. James Woolsey have joined together with conservative Christian leader Gary Bauer and the environmental group Natural Resources Defense Council (NRDC) to form a new coalition called Set America Free (www.setamericafree.org) to lobby for greater national energy independence.

SIMPLE SYSTEM. Unfortunately, the group plans to remain neutral on revising federal mileage standards. "It's a political hot potato. We need to get beyond the CAFE debate," says Anne Korin, Set America Free's co-chairperson. Instead the coalition is backing incentives to promote alternative, hybrid, and flexible-fuel vehicles that would be powered by everything from ethanol and methanol to biomass and electricity. The version of the energy bill passed by the House includes some similar provisions, such as consumer tax credits of up to $4,000 to promote sales of alternative-energy vehicles.

Raising federal mileage standards would be a far more effective -- and free-market-oriented -- approach. Conservative critics may deride CAFE standards as command-and-control big government. But the truth is that as long as the same mileage standard applies to every company, competition will flourish, and executives will have enormous latitude in deciding how to meet the goal. By contrast, using tax credits to favor certain alternative fuels smacks of the government trying to pick winners and losers among the technologies available.

Federal mileage standards could work a lot better now if they were designed properly, partly because rising energy demand from China and India seems likely to keep gasoline prices rising. The best approach would be to keep the system simple: Mandate that each company raise average mileage of all the cars and light trucks it sells to, say, 36 mpg by 2016, and leave it up to the companies to figure out how to do it. The NRDC estimates that would save the U.S. 1.5 million barrels of oil per day by 2016.

TRADING CREDITS. Merely closing the current system's most blatant loopholes would raise the federal mileage standard by at least five miles per gallon, estimates the Washington (D.C.)-based Save Energy Alliance. To ease the transition, Congress also could authorize a system recommended in a 2002 National Academy of Sciences study: Tradable mileage credits so companies that are struggling could buy credits from companies that exceed the goal.

The appliance industry has shown that such an approach could work. The NRDC's David B. Goldstein, who won a MacArthur Foundation "genius award" in 2002 for his innovative ideas about energy conservation, notes that since the early 1970s, U.S. and California regulators have raised the energy-efficiency standard for refrigerators six times. Largely as a result, manufacturers have designed refrigerators "that use one-fourth the energy they did in 1973, have more features, and cost half what they used to cost at retail," Goldstein says.

Clearly, raising CAFE standards alone won't do it. MIT's Heywood argues that a hike in gasoline taxes and consumer incentives are also needed. "Otherwise, we're just telling the manufacturers: 'You fix the problem,'" he says.

Of course, such a program will probably never pass Congress unless a real crisis hits. That's a shame, because America should start preparing now.

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