

It's time to reel in and replace fuel economy standards

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by [Ian Adams](#). [The Hill](#). February 21, 2017



More than four decades after they first were introduced, federal fuel-economy standards just aren't working. They force Americans to pay more for cars and light trucks while providing few ecological, economic or security benefits. The rules have become a Gordian knot of shifting administrative responsibilities among opportunistic regulators. It's time for a new direction.

Since 1975, the Corporate Average Fuel Economy standards—originally introduced to limit the nation's reliance on foreign oil—have set benchmarks for each manufacturer's fleet of cars, which have become more demanding over time. They currently require automakers to field fleets with average fuel economy of more than 35 miles-per-gallon, with that target set to rise to 54 miles-per-gallon by 2025.

However, the significance of CAFE standards changed dramatically since the Supreme Court ruled that greenhouse-gas emissions may be regulated by the Environmental Protection Agency. Since then, two regulators—the EPA and the National Highway Traffic Safety Administration, which oversees CAFE—have had to coordinate their respective rules to avoid a situation in which the auto industry is confronted by divergent standards.

In the closing days of the Obama administration, the EPA saw a narrow window of opportunity to lock in emissions standards that would force the NHTSA's hand. A mere seven days before the start of the Trump administration, the agency did just that by finalizing its [midterm review](#) of light-duty vehicle emissions. That bold move came 14 months earlier than required.

By turning in its homework ahead of schedule, the EPA effectively expanded the scope of its authority into fuel-economy regulation. Since the same technologies that allow a vehicle to achieve better fuel economy—direct injection, hybrid technologies, additional gears, etc.—also result in lower greenhouse-gas emissions, the EPA's final determination about greenhouse-gas-emissions standards serves functionally to compel automakers to develop and use technologies that improve fuel economy.

For its part, the NHTSA now is in the awkward position of having to conform to the EPA's standards or risk the uncertainty that would come from pursuing a conflicting set of rules. This untenable situation resists easy resolution,

given how important predictability is to the automotive sector. With long product lead times and huge investments in new technologies, automakers are forced to make assumptions about what the regulatory landscape will be years into the future.

If ever there were a moment to reconsider the status quo, this is it. Assuming that emissions standards are here to stay, a better approach may be to replace CAFE altogether. In its place, policymakers should consider a unified supply-side solution, which would be far easier to administer. A supply-side framework would require a method to measure emissions and an emissions target, both of which already exist. The only additional needed element is a system of tax incentives to reward companies whose fleets outperform the target.

By evaluating vehicle fleets for the relative cleanliness of their emissions, rather than the mileage they achieve, the dual-standard problem goes away. The system also would allow manufacturers to make straightforward decisions about the degree to which the tax incentives merit investing in a cleaner fleet. Better aligning manufacturers' incentives also could produce more innovation than the current CAFE metric, which acts not only as a floor but, in practice, a ceiling.

The prescriptive approach to emissions regulation and fuel-economy standards has served to misplace incentives and encourage rent-seeking, without actually reducing pollution all that much. A supply-side solution would encourage greenhouse-gas reduction and improved fuel economy without CAFE's downside of making new vehicles more expensive, which in turn encourages consumers to keep driving older, dirtier vehicles for longer periods of time.

It's hard to tell whether there is political will to go beyond tinkering with the current system by enacting real reforms. But as time goes on, and uncertainty grows, the need to reel in and replace federal fuel-economy standards becomes more apparent.

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