

Energy, Efficiency, and Climate: What Role Auto?

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Thank you, Kim and Brett, and many thanks to the Center for Automotive Research for organizing this seminar. I first met Dave Cole and his team, then at OSAT and now at CAR, when I took a sabbatical at the University of Michigan just over 10 years ago. Dave opened doors for me and also shared his wisdom and passion for helping this industry meet its challenges. The learning I've been able to do with his help and the help of many of you and others in the industry has been one of the highlights of my professional experience.

The questions posed to this panel are: what is the auto industry's role in addressing energy and climate concerns? And how can automakers -- as well as suppliers and others in the industry's extended community on which so many jobs depend -- better make their collective voices heard in this debate?

My answer is this: automakers need to embrace the climate problem as their own, taking it on with an urgency and clarity of purpose that transcends the traditional response of managing policy pressures to minimize costs.

And I do mean *urgency*, not only that of the climate problem itself and the current pressures from high oil prices and the economy, but also because the window of opportunity may close if the task is not accomplished in the first session of Congress under the new president, regardless of who wins. Failing to establish a new paradigm at this juncture may mean that the chance to do so will disappear for a long time, if not forever.

Under the existing paradigm, policy makers blur energy and climate, and not to this industry's advantage. An established formula of U.S. energy policy was again ratified with last year's energy bill. A key part of that formula is simple: when push comes to shove, nail Detroit.

Putting in place a comprehensive climate policy, as opposed to a set of piecemeal energy policies, is the only way to create a new paradigm in which the responsibility is broadly shared with measures that are balanced, cost-effective and fair. Without such a paradigm shift, the auto industry will be left holding the bag in perpetuity.

Energy policy is failing both the auto industry and the environment

Energy-policy-as-usual today leaves automaking as the only major industry that is significantly carbon constrained. It leaves this industry carrying a disproportionate burden even in a policy framework fails to get the job done. And the energy policy paradigm fails in no small measure because it fails to carbon constrain the fuels industry.

As things stand, the discussion follows the legacy energy policy script, which writes autos in as a villain. I've heard it said that for climate, "two things matter: coal and cars." What's wrong with

that statement? Why doesn't it say "coal and oil?" It's not the car itself that is the inherent problem, but rather a fuel system that sends fossil carbon on a one-way trip to the atmosphere.

Some say that the United States doesn't really have an energy policy. Actually, we do, and let's be frank about its foundation. Last's year's bill was called the Energy Independence and Security Act. And of course, those terms have huge political resonance. In reality, however, energy independence is a false promise and a poor basis for sound policy.

A real cornerstone of our policy is that oil has been long declared a "vital national interest," in other words, something worth going to war over. And therein lies a contradiction: whatever politicians may spend to promote alternatives, it's dwarfed by what they spend to ensure access to foreign oil, even if at a high price and at the incalculable cost of lives lost.

As things stand, we continue to pursue a legacy energy policy that, while it does trim fuel use, remains far from a complete solution. Washington has proven that it can do an energy bill in every Congressional cycle and still not be satisfied. Last year's bill came on the heels of the 2005 energy bill, and more action on energy is still at the top of the list as Congress feels the heat on high fuel prices.

So what steps can automakers take to put in place a better strategy?

1. Embrace the climate challenge
2. Rethink the policy prescriptions
3. Reach out to collaborate on policy

1. Embracing the climate problem as your own

First, by embracing the climate problem I mean really owning it. That's the only way to begin leading rather than constantly reacting to the leadership of others who have good intentions but don't understand this sector.

Such a change in mindset can shift the issue from something that limits what you are allowed to do to something that opens up new possibilities for delivering customer value. However, the policy framework needed to offer such hope cannot be invented for you.

This industry has already come a long way in repositioning itself. Under Mike's leadership, AIAM last year voiced support for action on energy and climate. At the Alliance, Dave McCurdy helped usher the Big 4 CEOs to publicly support national cap-and-trade policy. I've been honored to work with Beth and other business representatives in the U.S. Climate Action Partnership (USCAP). And Honda is unique in its steady, constructive policy stance, calling for balanced approaches with adequate lead time for progress on energy, safety and emissions.

But at this juncture, the industry needs to go farther in leadership, and the second step for doing so is to rethink its policy priorities.

2. Rethinking policy priorities

I fear that much current thinking still reflects dysfunctional parts of the energy policy legacy. Such is the case regarding calls for incentives for various technologies, such as tax credits for hybrids or "super-incentives" for plug-in hybrids. It is also the case for the auto industry's role in promoting alternative fuels such as ethanol.

A clear-eyed look at the numbers shows that such policies have not done much for either cutting oil use or emissions reduction, and in some cases have made matters worse. These common tenets of transportation energy policy need serious rethinking if not outright abandonment.

Instead, there needs to be a single-minded focus on bringing the petroleum sector under a carbon cap. That will be an enormous challenge, but unless the oil industry also faces a carbon constraint, there's no hope for low-carbon fuels in the market. Alternative fuel policies will be for naught as long as petroleum can continue to be pumped out of the ground and sold through your tailpipes without limit. Alternative fuel promotions create no such limit.

The auto industry is required to cut new car and light truck fleet average fuel intensity by over 30% by 2020. Yet those more efficient vehicles could well be burning an average motor fuel that is more, rather than less, carbon intensive than what is consumed today.

If the message to Washington is not adequately focused, politicians will cherry-pick those options that either fit their preconceived notions or are easiest in the short run even if they just put off the real solution to another day. Climate policy is a big lift, and not one that gets easier by pursuing half-measures.

For that reason, at the national level, I'd be very wary of pushing for a low-carbon fuel standard. The political process is unlikely to yield both a meaningful low-carbon fuel standard and a binding cap on total carbon from the transportation fuels. Again, this is where clarity of purpose is essential.

And a cap, incidentally, is also the only way to harness a carbon market to help defray costs by replacing technology policies with CO₂-based incentives that reward emissions reductions regardless of how they are achieved. That can be the ticket for this industry to tap resources much greater than what one can hope to get from tax credits or incentives tied to a federal appropriations process.

3. Reaching out to find allies in this process

The third step is reaching out to find allies in pursuing this focus. USCAP is one forum in which the Detroit 3 as well as EDF participate. But at this juncture we'll need other alliances having both broader participation within this industry and wider inclusiveness among other sectors, such as agricultural interests who may also benefit from a well-crafted climate policy.

Given that the auto industry is already uniquely carbon constrained, it is in a unique position to reach out and catalyze a process that unites new allies for a common cause and creates a new locus of leadership, moving policy forward from America's heartland rather than as a pincer movement from the left and right coasts.

A first task for such a collaboration will be to find a way to channel the cacophony of voices -- now ranging from environmentalists to ex-oilmen such as T. Boone Pickens -- into a productive

focus. A special challenge how to communicate a better policy vision in the face of high fuel prices that now dominate what policymakers are hearing from the public.

A well-designed climate program might impact fuel prices by perhaps 20¢ per gallon in the early years. However, some opponents of climate policy play this for public fears, while remaining silent about the core shortcomings of an energy policy that enables a monopoly price premium amounting to \$2.00 per gallon.

In short, America's energy policy needs a conscience, and that's something only climate policy can provide.

Enacting a sound strategy -- one which will ultimately make the America public better off in term costs -- will take a determined and creative effort, one that is very much in this industry's best interest. My organization, EDF, is ready to collaborate in this regard.

Conclusion

So, to sum up, the best way forward on these issues is for the auto industry to take on climate protection as a challenge that you own. You can look at this as a kind of jujutsu: rather than fight the force of policy pressure directed at you, embrace it and redirect it to your advantage. Stepping forward to really own the problem that others say you own will provide the best way transcend the legacy approaches of energy policy and this aspect of the turbulence the industry now faces.

A thriving auto industry need not be in conflict with climate protection if we can recast the debate and put in place a policy that is comprehensive, rational, cost-effective and fair. This industry's leadership is crucial for advancing such a goal. With a well-crafted climate policy, the auto industry will position itself to thrive in the ever more carbon-constrained world that it will surely face in the decades ahead.

Thank you.