▼

DOW JONES, A NEWS CORP COMPANY

DJIA Futures **23724** 0.73% ▲ Stoxx 600 **370.14** -0.20% ▼ U.S. 10 Yr **-9/32 Yield** 2.765% ▼ Crude Oil **63.38** 0.59% ▲ Euro **1.2264** -0.32% ▼

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit http://www.djreprints.com.

https://www.wsj.com/articles/car-makers-get-their-wish-on-fuel-efficiency-standards-1522747800

AUTOS

Car Makers Get Their Wish on Fuel-Efficiency Standards

Appetite for bigger vehicles has made it hard for companies to justify shrinking their fleets

Chevrolet pickup trucks for sale at a car dealership in Louisville, Ky., earlier this year. **PHOTO:** LUKE SHARRETT/BLOOMBERG NEWS

By Chester Dawson

April 3, 2018 5:30 a.m. ET

The Trump administration's move to ease fuel-efficiency standards is a boon to car executives who for years have said they couldn't justify making smaller, less-profitable vehicles in an era when cheap gas made America's appetite for pickups and SUVs insatiable.

Auto makers have long said Obama-era targets that exceed an industry-average fuel economy of 50 miles a gallon by 2025 were too steep for their bottom lines, even after various rules were put in place to help them along. Car companies, for example, were given credit toward meeting fuel-economy standards by either making electric cars or switching to greener air-conditioning systems.

One of the more complicated loopholes is related to the square footage of an automobile. Known as the "footprint" rule, it grades vehicle emissions on a curve by progressively lowering the fuel-economy requirement as a vehicle gets bigger. This means that as engineers redesign vehicles, they are rewarded for making them bigger and, theoretically, less efficient.

"Auto makers have an incentive to make more SUVs and light trucks with less stringent standards than high-performance sedans," said Kate Whitefoot, an assistant professor of mechanical engineering and public policy at Carnegie Mellon University. She co-wrote a 2011 research paper predicting that migration toward larger vehicles.

The sliding scale replaced a minimum based on a fuel-economy average regardless of size, which auto makers said gave unfair advantage to producers of small cars. Now, cars and trucks alike must meet progressively higher targets every year. The EPA said in January that auto makers missed a federal emissions target during the 2016 model year for the first time, but they have been making some improvements toward fuel efficiency.

But the EPA estimated only about 5% of current new vehicles would be able to meet the 2025 emissions targets now under review.

Gasoline prices have been low for several years, spurring demand for heavier crossover wagons, sport utilities and pickups ranging from Jeep Wranglers to Ford F-150 pickup trucks to compact Honda CR-V crossovers. That has helped pushed up average new-car prices to record highs and fatten auto makers' profit margins.

In the 2016 model year, 11 of 17 auto manufactures' average footprints increased for both cars and trucks combined, according to the EPA. Four fell and two were stable. General Motors Co. and Ford Motor Co. had the biggest overall footprints at an average of 53.3 square feet for their fleets, while Mitsubishi Motors Co. had the smallest at 44.1 square feet.

"A system that had reasonable intentions when implemented has, in retrospect, actually let the gap between cars and trucks grow," David Friedman, a former senior official in the National Highway Traffic Safety Administration during the Obama administration. He now heads auto analysis at Consumers Union, the policy arm of Consumer Reports.

Some industry officials say lower demand for passenger cars—and tougher fuel-economy standards for smaller vehicles—make it harder to justify investing in the next generation of sedans and other autos that aren't classified as light trucks.

Fiat Chrysler Automobiles NA, stopped making its Dodge Dart and Chrysler 200 small sedans in 2016. It hasn't publicly announced whether it will continue producing some larger sedans like the Chrysler 300 and Dodge Charger after 2020.

A senior FCA executive told suppliers at a meeting in September that the auto maker was concerned those vehicles may not be able to meet tougher fuel-economy rules, according to people who attended.

Similarly, Ford's new chief executive, Jim Hackett, said last year the auto maker would prioritize launching more SUVs and trucks instead of sedans, shifting $7 billion to speed development of those vehicles.

Meanwhile, Ford's next Ranger pickup is expected to have a wheelbase about an inch longer than the previous U.S. market version, for instance. GM's 2019 model year Silverado boasts a wheelbase that is 3.9 inches longer; FCA's latest Ram 1500 is 4 inches longer and half an inch wider.

Auto makers' representatives say output of larger vehicles reflects customer demand and isn't an effort to exploit fuel-economy standards.

"Consumers make different choice when gas prices are low," said Gloria Bergquist, a spokeswoman for the Alliance of Automobile Manufacturers, an industry lobby.

Write to Chester Dawson at chester.dawson@wsj.com

Copyright ©2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit http://www.djreprints.com.