File CAFE

Office of the Vice President

Domestic Policy
Old Executive Office Builiding
Washington, DC 20501
(202) 456-6222

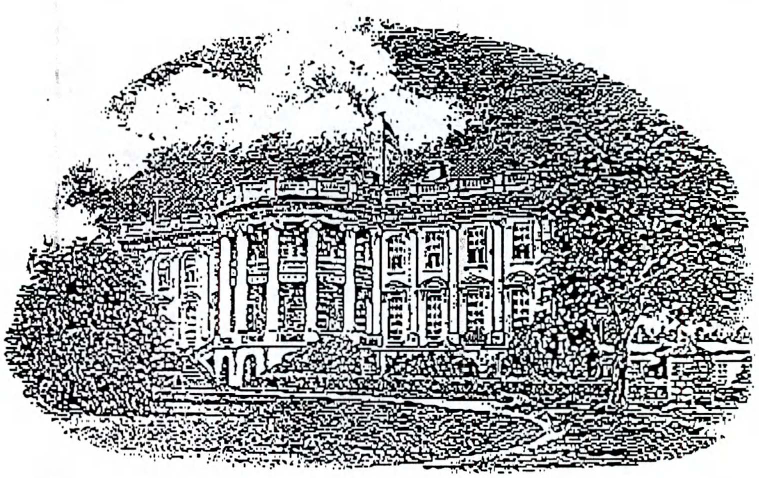
TO: Jennifer O'Connor | Shannon Fassler

FROM: Linda Lance

DATE: 6/25/96

number of pages including cover: ~~3~~ 4

COMMENTS: As I discussed w/ Shannon.



E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

03-Jul-1996 05:41pm

TO: TESLER_S

FROM: CN=Linda L. Lance/O=OVP

CC: GLAUTHIER_T
CC: WARREN_W

SUBJECT: Re: CAFE

Shana - pls have Balderston vet thoroughly. Also, pls get T.J.'s views on whether there's any other way to do this.

Message Creation Date was at 3-JUL-1996 17:52:00

attached is a draft follow up letter to phil hutchinson from harold ickes re cafe. i'm also forwarding to omb and ceq for their comments. i'll be badck in the office tuesday, and i can collect all comments and finalize for harold then. draft follows:

7/3/96
DRAFT follow up letter to Phil Hutchinson -- see original response dated 5/13 drafted by Linda Lance OVP X 62127

Mr. Philip A. Hutchinson, Jr.
President and CEO
Association of International Automobile Manufacturers, Inc
1001 19th Street North
Arlington, VA 22209

Dear Mr. Hutchinson:

This is to follow up on my letter to you of May 13, 1996. I regret that, due to a misunderstanding, ~~I was in error when I~~ my letter incorrectly stated current Administration policy on the issue you raised. I would like to clarify the matter.

The Administration is, of course, interested in ensuring that statutory requirements, like the Corporate Average Fuel Economy (CAFE) law, are crafted in the most fair and effective manner. In 1995, the Administration convened a year long Federal Advisory Committee process to provide recommendations to the President on the best policy options for reducing greenhouse gas emissions from the transportation sector. The Advisory Committee was made up of representatives of organizations with an interest in the area, including auto companies that are members of your organization, U.S.-based auto companies, the UAW, oil companies, environmental groups, and state and local governments. CAFE standards, including any revisions necessary to current CAFE law, were am ong the options considered.

Unfortunately, the Committee was unable to reach consensus on a set of recommendations to address the policy goals, and therefore did not provide recommendations to the President on changes to the CAFE law or any other options. Various groups of Committee members provided separate recommendations, but none addressed the issue you raise.

We will, of course, carefully consider your concerns about the domestic and foreign fleet provisions of the CAFE law; as well as any impact of a change in that provision on other auto companies, auto workers, the environment, and energy security. ~~However,~~ At this time, however, there has been no decision by the Administration to seek an amendment to this or any other provision of the current CAFE law.

I apologize for this misunderstanding. Please be assured that we will keep your concerns in mind in any future Administration decision-making on this issue.

Sincerely yours,

Harold Ickes
Asst to Pres + Dep CoS

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Sincerely yours,

Harold Ickes
Asst to Pres + Dep CoS

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ACOG notified by State
Ivisas denied -
also notifed Labor would
DO
H2B applications from these workers
Jobs must be posted so domestic workers can also apply
Repost
worked through

Shoemer's office
Erwin Roze

6/25/96

MEMO TO HAROLD ICKES

FROM: Linda Lance, OVP Linda

RE: Attached letter to Phil Hutchinson re Corporate Average Fuel Economy (CAFE)

Jennifer O'Connor asked me to give you some background on the CAFE issue discussed in the attached letter that went from you to Phil Hutchinson, President of the Association of International Automobile Manufacturers. The bottom line is that, based on information received from DOE (DOT administers the CAFE law but apparently was not consulted), the letter inaccurately states that the Administration has made a policy decision with respect to amending the CAFE law. We need to correct the record on this point in the near future. I'll be working with other relevant policy offices to draft a letter for your signature. Jennifer wanted you to have some advance background so that you can let us know if you have a preferred approach on the follow-up letter to Hutchinson.

General Background

- The CAFE issue is very controversial generally. The Republicans and the auto companies will make our support for the law a campaign issue. Sen. Dole already has stated his support for a repeal of the law. Our continued support for the law is an important issue for the enviros, and the Administration has been consistent on this point since the 1992 campaign. This is not the time for us to be reopening the issue legislatively, in part because even a simple technical amendment would be an opportunity for CAFE opponents to begin a broader assault on the law.

- Phil Hutchinson's group is made up of Japanese and European auto companies. Their position on the provision discussed in the letter is unlikely to square with the position of the U.S. auto companies or the UAW. While the amendment they seek is relatively technical and narrow, the provision they want to reopen is significant, and was originally put into the law at the request of the UAW. Last I heard from the UAW on this (which has been several months ago), they still believed the provision was useful in keeping auto manufacturing in the U.S.

- The attached response says we will propose an amendment to the statute along the lines requested by the international auto manufacturers. Not only would such an amendment reopen the CAFE law at a time when we should avoid that, but it does so to help foreign manufacturers.

Specific CAFE Provision

- Current law provides that manufacturers must meet fuel economy standards across the average of their fleets sold in the U.S. For those who sell vehicles in the U.S.

that are manufactured both in the U.S. and overseas, each of the U.S. and foreign manufactured fleets must meet the CAFE standards separately. Both fleets cannot be averaged together to meet the standard. The UAW insisted on the provision when the law was enacted, believing that without it the Big 3 would move all manufacturing of small cars overseas. The provision arguably results in the Big 3 keeping more small car manufacturing in the U.S. to offset the fuel economy of large cars manufactured here.

- To date, this provision has affected only the Big 3, since other manufacturers had only foreign fleets. However, some Japanese manufacturers are approaching the point at which they will have sufficient domestic content in the vehicles they manufacture in the U.S. to begin to have a "domestic" fleet. It is this result that the Hutchinson letter apparently is trying to avoid, and the amendment requested would grandfather fleets that were foreign to permit them to retain their foreign status even when their domestic content increases.

- As I understand it, the Big 3 would like to remove the domestic-foreign fleet provision from the law altogether, but will not be happy that the problem is being solved only for the foreign manufacturers. The UAW has always wanted to retain the provision as currently written. They will not be happy that it's being reopened, even though the Hutchinson amendment as written probably will have little effect on them since the foreign manufacturers' U.S. plants are non-union.

THE WHITE HOUSE

WASHINGTON

May 13, 1996

Mr. Philip A. Hutchinson, Jr.
President and Chief Executive Officer
Associate of International Automobile Manufacturers, Inc.
1001 19th Street, North
Suite 1200
Arlington, VA 22209

Dear Mr. Hutchinson:

Thank you for your comments on the CAFE standards requirement to separate passenger cars into domestically produced and not domestically produced categories based on the percentage of value attributed to imported components.

The Administration agrees that this categorization could have unintended consequences. It could dissuade both U.S. and foreign manufacturers from increasing the domestic content of their cars because such increases could shift cars from non-domestically produced fleet to the domestically produced fleet and change the calculus for compliance with CAFE requirements. This situation could discourage the use of U.S. auto parts, materials, and labor in certain circumstances.

We are drafting an amendment to the CAFE statue that would rectify this. We believe this problem can be solved while retaining the underlying policies of the statute. If you have any additional questions, please contact Ted Pulliam, Assistant General Counsel for Legislation at the Department of Energy. His number is 202-586-3397.

Sincerely,

Harold Ickes
Assistant to the President and
Deputy Chief of Staff

cc: Ted Pulliam

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We will, of course, carefully consider your concerns about the domestic and foreign fleet provisions of the CAFE law; as well as any impact of a change in that provision on other auto companies, auto workers, the environment, and energy security. However, at this time, there has been no decision by the Administration to seek an amendment to this or any other provision of the current CAFE law.

I apologize for this misunderstanding.. Please be assured that we will keep your concerns in mind in any future Administration decision-making on this issue.

Sincerely yours,

Harold Ickes

U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY

OFFICE OF THE ASSISTANT SECRETARY FOR TRANSPORTATION POLICY

Number of Pages including this Page: 10

Date: 6/21/96

Cal to TS Kris B Lori K + Linda Lance

TO: Jennifer O'Connor
456-5820

FROM: JOHN N. LIEBER
DEPUTY ASSISTANT SECRETARY
FOR TRANSPORTATION POLICY

(202) 366-4450
FAX: (202) 366-7127

FAX MESSAGE:

~~Paul~~ I will call you to discuss.

Jam...

Linda
Lance LM 6/25

960405-002

U.S. Department of Transportation

Office of the Secretary of Transportation

400 Seventh St., S.W.
Washington, D.C. 20590

April 9, 1996

MEMORANDUM TO: Lori Keller
Office of Cabinet Affairs
The White House

FROM: Ann Bormolini
Chief of Staff

SUBJECT: Correspondence from P. Hutchinson

Attached is a copy of a draft response for Mr. Ickes to send to Philip Hutchinson, as well as a copy of the letter we plan to send to Mr. Hutchinson on the same subject.

Attachments

DRAFT

Mr. Philip A. Hutchinson, Jr.,
President and CEO
Association of International
Automobile Manufacturers, Inc.
1001 19th Street North
Arlington, VA 22209

Dear Mr. Hutchinson:

Thank you for your letter concerning the two-fleet provision of the corporate average fuel economy (CAFE) law. I understand that you have sent a similar letter to Secretary of Transportation Peña and other DOT officials. Deputy Secretary of Transportation Mort Downey will be responding to the matters raised in your letter on behalf of DOT.

Please be assured that the Administration will carefully consider your comments concerning the two-fleet provision of the CAFE statute in all future reviews of that program. CAFE continues to be a matter of interest to this Administration as we attempt to ensure that all regulatory programs achieve their intended purposes.

Thank you for providing me with the views of the international motor vehicle manufacturers on this issue.

Sincerely,

The Secretary of Energy
Washington, DC 20585

DRAFT

The Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Enclosed is legislation to amend the corporate average fuel economy (CAFE) standards for automobiles. The amendment would allow a class of automobiles to continue to be categorized as foreign manufactured even if sufficiently greater use is made of domestic auto parts, materials, and labor in its manufacture to change its categorization to domestic.

The CAFE standards require passenger cars to be separated into domestically produced and not domestically produced categories based on the percentage of value attributed to domestic components. These separate categories then must comply separately with the CAFE standards.

This categorization could have unintended consequences. It could dissuade both U.S. and foreign manufacturers from increasing the domestic content of their cars because such increases could shift cars from the non-domestically produced fleet to the domestically produced fleet and change the calculus for compliance with CAFE requirements. This situation could discourage the use of U.S. auto parts, materials, and labor in certain circumstances.

This amendment to the CAFE statute would rectify this matter while retaining the underlying policies of the statute. We urge its prompt consideration and passage.

The Office of Management and Budget advises that this legislative proposal is in accord with the program of the President.

Sincerely,

Hazel R. O'Leary

Department of Energy
Washington, DC 20585

DRAFT

ES - None

MEMORANDUM FOR THE SECRETARY

FROM: Robert R. Nordhaus
General Counsel

SUBJECT: ACTION: Submitting Legislation in Response to White House Letter

ISSUE: Submitting Legislation to Amend the Corporate Average Fuel Economy (CAFE) Standards for Automobiles

- Harold Ickes wrote the President and CEO of the Associate of International Automobile Manufacturers that DOE was drafting an amendment to the domestic-nondomestic categorization part of the CAFE statute to make it more flexible and encourage the use of U.S. auto parts, materials, and labor.
- This legislation contains the amendment.

SENSITIVITIES: The CAFE standards statute is very sensitive in Congress. Amendments to it were heavily debated as part of the Energy Policy Act of 1992 and were not included in that Act because of the extent of disagreement. Those amendments, however, did not focus on the domestic-nondomestic categorization but on the correct miles-per-gallon standard.

EPA and the Department of Transportation administer the CAFE standards and will have strong interest in the amendment.

POLICY IMPACT: This amendment would leave the miles-per-gallon standard unchanged and would have no energy policy impact. It likely would have economic, labor-related, and international policy impacts.

RECOMMENDATION: That you approve sending this legislation to OMB for interagency clearance.

APPROVE: ______________

DISAPPROVE: ______________

DATE: ______________

CONCURRENCES: CP: ________ EE: ________ PO: ________ GC-72 ________

June 10, 1996

DRAFT

A BILL

To provide flexibility to the corporate average fuel economy standards to encourage the use of United States auto parts, materials, and labor, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 503(b)(2)(E) of the Motor Vehicle Information and Cost Savings Act (15 U.S.C. 2003(b)(2)(E)) is amended to read as follows--

"(E) An automobile shall be considered domestically manufactured in any model year if at least 75 percent of the cost to the manufacturer of such automobile is attributable to value added in the United States or Canada, unless--

"(i) the assembly of such automobile is completed in Canada and such automobile is not imported into the United States prior to the expiration of 30 days following the end of such model year; or

"(ii) the manufacturer requests that a class of automobiles considered by the EPA Administrator on the date of the request not to be domestically manufactured continue to be so considered notwithstanding any increase after the date of the request in cost of automobiles of such class attributable to value added in the United States or Canada.

The EPA Administrator may prescribe rules for purposes of carrying out this subparagraph.".

DRAFT

Changes Made in Existing Law

DETERMINATION OF AVERAGE FUEL ECONOMY

SEC. 503(a) * * *
(b) * * *
(3) * * *
"(E) An automobile shall be considered domestically manufactured in any model year if at least 75 percent of the cost to the manufacturer of such automobile is attributable to value added in the United States or Canada, unless--
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The EPA Administrator may prescribe rules for purposes of carrying out this subparagraph.".

June 20, 1996

MEMORANDUM FOR KATIE MCGINTY

FROM: JENNIFER O'CONNOR

cc: HAROLD ICKES
KITTY HIGGINS
KRIS BALDERSTON

DRAFT

SUBJECT: CAFE Standards

Attached is a letter written to Mr. Phillip Hutchinson, Jr., President and CEO of the Association of International Automobile Manufacturers, written in response to the attached March 6 letter to Harold.

As is standard procedure, our office forwarded Mr. Hutchinson's letter to Cabinet Affairs for the appropriate agency to draft a response. The letter was sent to Jonathan Miller at the Department of Energy, where he requested a draft from Bob Nordhaus, DOE General Counsel. Mr. Nordhaus was assisted by Ted Pulliam, Doug Smith in the Office of the General Counsel. The response was sent back through Mr. Miller to Kris Balderston in the Office of Cabinet Affairs to our office.

Our office assumed that the response had been vetted and therefore used it to base our response from Harold to Mr. Hutchinson. I have come to find out, for whatever reason, the response had not been vetted and the information was not consistent with the White House position on this issue.

What is your recommendation on how to proceed from here?

THE WHITE HOUSE

WASHINGTON

586-7644 fax

May 13, 1996

Mr. Philip A. Hutchinson, Jr.
President and Chief Executive Officer
Associate of International Automobile Manufacturers, Inc.
1001 19th Street, North
Suite 1200
Arlington, VA 22209

Dear Mr. Hutchinson:

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The Administration agrees that this categorization could have unintended consequences. It could dissuade both U.S. and foreign manufacturers from increasing the domestic content of their cars because such increases could shift cars from non-domestically produced fleet to the domestically produced fleet and change the calculus for compliance with CAFE requirements. This situation could discourage the use of U.S. auto parts, materials, and labor in certain circumstances.

We are drafting an amendment to the CAFE statue that would rectify this. We believe this problem can be solved while retaining the underlying policies of the statute. If you have any additional questions, please contact Ted Pulliam, Assistant General Counsel for Legislation at the Department of Energy. His number is 202-586-3397.

Sincerely,

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Assistant to the President and
Deputy Chief of Staff

cc: Ted Pulliam

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Washington, DC 20585

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Department of Energy
Washington, DC 20585

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Office of the Vice President

Domestic Policy
Old Executive Office Builiding
Washington, DC 20501
(202) 456-6222

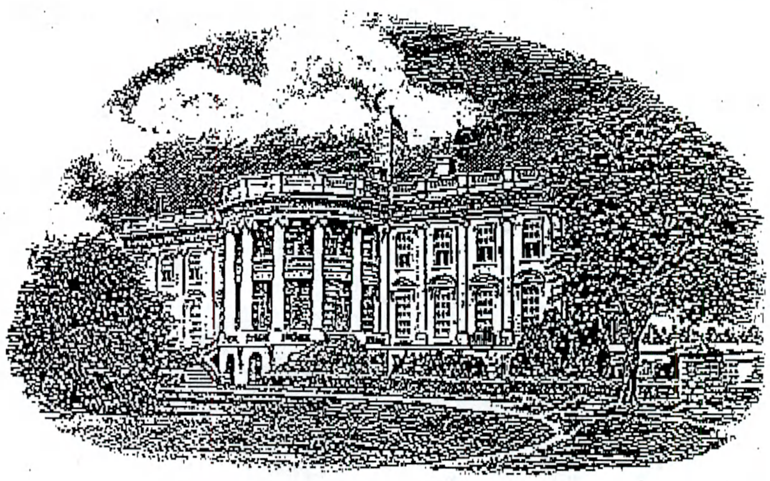
TO: Jennifer O'Connor

FROM: Linda Lance

DATE: 6/18/96

number of pages including cover: 6

COMMENTS: call me to discuss at 62127



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THE WHITE HOUSE

WASHINGTON

May 13, 1996

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President and Chief Executive Officer
Associate of International Automobile Manufacturers, Inc.
1001 19th Street, North
Suite 1200
Arlington, VA 22209

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We are drafting an amendment to the CAFE statue that would rectify this. We believe this problem can be solved while retaining the underlying policies of the statute. If you have any additional questions, please contact Ted Pulliam, Assistant General Counsel for Legislation at the Department of Energy. His number is 202-586-3397.

Sincerely,

Harold Ickes

Harold Ickes
Assistant to the President and
Deputy Chief of Staff

cc: Ted Pulliam

DEPARTMENT OF ENERGY
Washington, DC 20585

Shever - please do draft.

Jenn O'Connor

OFFICE OF THE SECRETARY

I guess you guys asked for a draft
Kris

OFFICE OF THE SECRETARY

FACSIMILE TRANSMISSION SHEET

To	Kris Balderston	From	Jonathan Miller
Office	Cabinet Affairs	Date	16 April, 1996
Fax Number	456-6704	Fax Number	202/ 586-7644
Office Number	456-2572	Office Number	202/ 586-6210

Comments:

Pages: 7, including this cover sheet.

IF TRANSMITTAL IS INCOMPLETE, PLEASE PHONE Makiel AT 202/ 586-6210.

Department of Energy
Washington, DC 20585

April 16, 1996

TO: Jonathan Miller
Office of the Secretary

FROM: Ted Pulliam
Office of the Assistant General Counsel for Legislation

Ted Pulliam

SUBJECT: Response to Letter from International Automakers on CAFE Standards (forwarded from Harold Ickes)

Attached is a draft letter and legislation responding to a letter from the Association of International Automobile Manufacturers, Inc. forwarded by Harold Ickes. The response was developed in consultation with Doug Smith and Bob Nordhaus.

If you have any questions, I can be reached at 6-3397.

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President and Chief Executive Officer
Association of International Automobile Manufacturers, Inc.
1001 19th Street, North
Suite 1200
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We believe this problem can be solved while retaining the underlying policies of the statute.

Sincerely,

Proposed Amendment to the Motor Ve
Information and Cost Savings Ac

SEC. _____. Amend section 503(b)(2)(E) of t
Information and Cost Savings Act (15 U.S.C. 200
read as follows [underlined material indicates

"(E) An automobile shall be considered
manufactured in any model year if at least
cost to the manufacturer of such automobile
to value added in the United States or Can

"(i) the assembly of such autom
in Canada and such automobile is no
United States prior to the expirati
following the end of such model yea

"(ii) the manufacturer requests
automobiles considered by the EPA Adm
date of the request not to be domestic
continue to be so considered notwithst
increase after the date of the reques
automobiles of such class attributabl
in the United States or Canada.

The EPA Administrator may prescribe ru
carrying out this subparagraph.".

To: Bob Nordhaus
From: Jonathan Miller
Date: March 15, 1996
Re: Attached letter

Harold Ickes' office has asked us to draft a response to the attached letter as soon as possible. If you could find someone in your shop to make drafting this response a priority, I would appreciate it. Thanks!

3/7

AIAM
The World's Leading Automakers

March 6, 1996

Harold Ickes
Assistant to the President / Deputy Chief of Staff
Executive Office of the President
The White House
First Floor - West Wing
Washington, DC 20500

Dear Mr. Ickes:

At a recent meeting with a senior White House trade advisor, I brought to his attention the unintended consequences of a 20-year-old provision in the CAFE law which inhibits international (and Detroit-based) automakers from purchasing more U.S. auto parts. This provision is in the section of the Energy Policy and Conservation Act concerning fuel efficiency. As a result of that meeting, I decided to inform you about the counterproductive consequences of this antiquated law.

The current CAFE law requires auto manufacturers to segregate passenger cars into either a "domestically" produced fleet or a "not domestically" produced fleet. A passenger car is deemed domestically produced if it contains at least 75 percent U.S. and Canadian content (with a phase-in of Mexican content beginning later in the decade.) A passenger car with less than 75 percent domestic content falls into the "not domestically" produced, or import fleet. Each fleet individually must meet the CAFE standard or pay a civil penalty of $5 for each tenth of a mile that the fleet misses the 27.5 mpg standard. This penalty is assessed against every passenger car in the fleet, whether or not a particular model line of car within the fleet meets the standard, and can easily amount to millions of dollars.

This fleet designation was originally enacted because at that time Congress feared Big Three production of small cars (with high fuel economy) would move offshore. Ironically, over the past twenty years we have seen automakers, including Ford, increasing the foreign content of their models so they would be included in an import fleet. Given this experience, the fleet split approach has clearly backfired. More important, the fleet split designation now serves as an inhibiting factor for new auto manufacturers, both European and Japanese owned companies, operating in the U.S. to increase the domestic content of their U.S. produced cars.

Some new U.S. manufacturers may have to keep their U.S. produced cars below the 75 percent threshold because they are the most fuel efficient and moving them into the domestic fleet would expose their import fleet to penalties. Meanwhile, others may need to keep their domestic production below 75 percent because the cars obtain lower fuel economy levels than the current standard and to move them into the domestic fleet without an offsetting higher mileage car would expose their domestic fleet to penalties. In either case, there is a significant disincentive to use U.S. parts and materials.

ASSOCIATION OF INTERNATIONAL AUTOMOBILE MANUFACTURERS, INC.
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The current dual fleet requirements in the CAFE law are inconsistent with and counterproductive to the U.S. Government's desire for manufacturers to increase the purchase of U.S. auto parts and materials. This antiquated provision needs to be repealed so that U.S. auto parts and materials suppliers (and their employees) can be used to the maximum extent possible by all auto manufacturers operating in the U.S.

Should you desire more information on the CAFE dual fleet designation, I would welcome the opportunity to discuss this issue in greater detail with you. Please feel free to contact me at (703) 525-7788.

Sincerely,

Philip A. Hutchinson, Jr.
President and CEO