

Federal 'two-fleet' rule drives up costs of U.S. automakers

by *The Detroit News*

If the Obama administration has its way, pressure will increase for cars sold in this country to be smaller and more fuel-efficient. But federal rules also say that only vehicles manufactured in North America can be counted toward federal mileage standards. Imported cars must be counted separately. This needlessly increases the cost of making small cars here.

The federal administration, in its analysis of the February survival plans submitted by General Motors Corp., stated that the company is too reliant on the sale of "high-margin trucks and SUVs, which are vulnerable to a continuing shift in consumer preference to smaller vehicles."

So far, that shift is more apparent than real. Sales figures show consumers still preferring larger vehicles from the Detroit Three manufacturers.

But the government is working to push smaller cars through regulation. Last month, it increased the fuel efficiency requirement for light vehicles sold in 2011 to an average of more than 27 miles per gallon. The requirement is a step on the road to a congressionally-mandated fleet wide average fuel efficiency standard of 35 miles per gallon by 2020, adopted as part of a 2007 federal energy bill.

Part of that bill includes the requirement that only vehicles made in North America can be counted toward meeting that standard. The regulation is known as the two-fleet rule, and it has been in existence for years. It was almost dropped out of the 2007 energy bill, but it was resuscitated at the behest of the United Auto Workers union.

The fact that since 2005 vehicles made in low-wage Mexico as well as Canada can count toward the rule should give the U.S. automakers some relief, but the manufacturers, as Wall Street Journal columnist Holman Jenkins has pointed out, haven't done much with it.

Part of the long-simmering troubles of the domestic carmakers is that they have been willing to pay a very high price for labor peace, and pushing small car production out of the United States would have disrupted that peace.

But conditions are very different now. Abolition of the rule would give the automakers more bargaining power in dealing with their labor costs, assuming they survive in the next few months.

One of the rationales for the discussion of a Chrysler arrangement with Fiat would be its access to smaller Fiat auto platforms. But they would have to be brought to the United States and manufactured here. While Europe's wage structure wouldn't provide any labor cost relief, the proposed arrangement illustrates the possible benefit of ending the two-fleet rule.

For example, GM's Chevy Aveo, a subcompact made in lower-wage South Korea, could help GM with its fuel requirements if it could be counted as part of its total fleet.

If either a spike in oil prices or a further ratcheting of auto mileage requirements create more of a demand for smaller cars, the two-fleet rule could prove a larger impediment to the economical production of smaller cars.

It will be interesting to see if the federal government, which has assumed so large a role in the affairs of domestic automakers, will continue to support this rule.

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