



## Close the CAFE Loophole

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The ethanol bubble has been bursting a bit lately. I don't say that with glee, because I hate to see people lose money, especially when it was due largely to misleading claims. (I say that even though 95% of the hate mail I get comes from ethanol investors). I hope the end of the irrational exuberance we have seen in the ethanol market will lead to a more fact-based look at which technologies are needed to replace or supplement fossil fuels, and what technical challenges must be overcome before that happens.

There are certain things we can do to help ethanol along that I completely agree with. Because of the great potential, I think we need to heavily fund cellulosic ethanol research. I think we need to encourage the pursuit of closed-loop ethanol processes, like the one [E3 Biofuels](#) is building. I have no problem with making most vehicles flex-fuel. I do have a problem with requiring E85 pumps at some percentage of gas stations. We can't even produce enough ethanol to roll out E10 nationwide, so why force gas stations to put in a lot of E85 infrastructure when we can't possibly produce the E85 to justify the expense? I also have a problem with forcing oil companies to pay for the pumps. If ethanol producers insist on E85 pumps, they should be required to pay for their installation, since they are the ones who will primarily benefit from E85 sales.

While I support the production of more flex-fuel vehicles, the CAFE loophole for flex-fuel vehicles is appalling. The government regulates fuel efficiency in the U.S. with [Corporate Average Fuel Efficiency](#), or CAFE standards. When the average fuel efficiency falls below a certain level for a car manufacturer, they must pay a penalty. This provides an incentive for auto makers to produce fuel-efficient vehicles.

However, there are a couple of loopholes that have limited the effectiveness of the standard. One is that light trucks have an exemption that allows them to get [worse fuel efficiency without being penalized](#). Because SUVs are classified as light trucks, there is an incentive for the auto maker to produce SUVs. The good news is that the government recently passed legislation to close the loophole. The bad news is that it [doesn't take place until 2011](#), meaning we have 5 more years of gas-guzzling SUV sales to contend with.

While this loophole is being closed, another is being opened. Did you wonder why automakers have embraced E85? Have they suddenly gone "green", and therefore E85 just seems like the right thing to do? No. By making flex-fuel vehicles, they are able to exploit another loophole in the standards. This loophole has recently been reported on in the press. [Car and Driver](#) was the first to bring this to my attention in [Tech Stuff: Ethanol Promises](#). The article explains:

With fewer than 600 stations selling E85 fuel in 37 states, why have GM, Ford, and DaimlerChrysler been cranking out these flex-fuel vehicles by the millions?

The answer is the mandatory Corporate Average Fuel Economy (CAFE) standards. Federal law requires that the cars an automaker offers for sale average 27.5 mpg; light trucks must achieve 22.2 mpg. Failure to do so can result in substantial fines. However, relief is available to manufacturers that build E85 vehicles to encourage their production.

The irony here is that although E85 in fact gets poorer fuel economy than gasoline, for CAFE purposes, the government counts only the 15-percent gasoline content of E85. Not counting the ethanol, which is the other 85 percent, produces a seven-fold increase in E85 mpg. The official CAFE number for an E85 vehicle results from averaging the gas and the inflated E85 fuel-economy stats.

[Consumer Reports](#) recently weighed in with [The Ethanol Myth](#). On the CAFE issue, they reported:

GM's advertising says, "Energy independence? The answer may be growing in our own backyard," and has coined the slogan "Live green, go yellow," referring to the corn from which most U.S. ethanol is made. DaimlerChrysler, Ford, and GM have said that they plan to double production of FFVs and other biofuel vehicles to 2 million by 2010.

The FFV surge is being motivated by generous fuel-economy credits that auto-makers get for every FFV they build, even if it never runs on E85. This allows them to pump out more gas-guzzling large SUVs and pickups, which is resulting in the consumption of many times more gallons of gasoline than E85 now replaces.

With the loophole in place, their motto should be "Live green, go yellow, consume more fossil fuels." By all means, build flex-fuel vehicles. But close this loophole, which may very well result in much higher gasoline consumption in the future.



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