



U.S. DEPARTMENT OF TRANSPORTATION  
U.S. ENVIRONMENTAL PROTECTION AGENCY



### MYs 2021-2026 SAFE Vehicles Rule Proposal – Compliance Flexibilities

Compliance with NHTSA’s CAFE and EPA’s CO<sub>2</sub> standards is measured as a fleet-wide average. Compliance depends on two things: first, how well any given vehicle model performs relative to its target; second, how many of each vehicle model a manufacturer sells.

While no given model needs to precisely meet its target if a manufacturer finds itself producing and selling large numbers of vehicles that fall well short of their targets, it will have to find a way of offsetting that shortfall, either by increasing production of vehicles that overperform their targets, or by taking advantage of compliance flexibilities.

Compliance flexibilities for the CAFE and CO<sub>2</sub> programs have a great deal of theoretical attractiveness: if properly designed, they can help to reduce overall regulatory costs while maintaining or improving programmatic benefits. If poorly constructed, they create significant potential for market distortion. To the extent that there is a market demand for vehicles with lower CO<sub>2</sub> emissions and higher fuel economy, compliance flexibilities may create competitive disadvantages for some manufacturers if they become overly reliant on flexibilities rather than simply improving their vehicles’ performance to meet that market demand.

If standards are set at levels that are genuinely appropriate and maximum feasible, then the need for extensive compliance flexibilities should be low.

One category of compliance flexibilities includes credit mechanisms for **overcompliance** with the standards.

- These include the ability to carry credits back to past model years or forward to future model years, the ability to transfer credits between car and truck fleets, and the ability for manufacturers to trade credits amongst themselves.

Another category of compliance flexibilities are **incentives that address gaps in compliance test procedures**.

- The Energy Policy and Conservation Act requires NHTSA to measure vehicle fuel economy using the 2-cycle test, which does not account for fuel economy gains due to efficient air conditioning systems, or other technologies that cannot be accounted for “on cycle,” such as aerodynamic technologies. NHTSA allows manufacturers to earn “fuel consumption improvement values” for these A/C efficiency and “off cycle” improvements, where the efficiency gains have been quantified in more advanced test procedures. EPA also allows improvements for the same technologies, which are accounted for as “credits” towards compliance.

- The agencies examined two regulatory alternatives that removed the incentives for gaps in compliance test procedures.

A third category of compliance flexibilities are **incentives that encourage the application of specific technologies**, and **incentives that encourage alternative fueled vehicles**.

- For example, for each electric vehicle from model years 2017-2019 sold, EPA gives the automaker credit for selling two such vehicles—thereby increasing fleetwide compliance. Similarly, both agencies provide an incentive for manufacturers that build hybrid or advanced technology pickup trucks.

**The agencies discuss all of these flexibilities in the NPRM, and seek public comment on a wide array of options that range from ending these incentives to expanding them.**

- On one end of the spectrum, the NPRM requests comment on ending the CAFE credit trading program, and on the alternatives that remove the A/C efficiency and off-cycle improvement provisions.
- On the other end, the NPRM requests comment on extending credit multipliers for advanced technology vehicles, extending the hybrid pickup truck credit provision to all passenger cars and light trucks.
- And, while the agencies previously expressed concerns with providing credits for connected or autonomous vehicles in previous rules, this NPRM provides additional information and requests comment on that issue.

**NHTSA and EPA are seeking public comment on a wide range of options—including those relating to the current compliance credit system and to options for curtailing, reforming, or expanding it.**