

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the William J. Clinton
Presidential Library Staff.**

Collection/Record Group: Clinton Presidential Records
Subgroup/Office of Origin: Council on Environmental Quality
Series/Staff Member: Kathleen (Katie) McGinty
Subseries:

OA/ID Number: 2892
FolderID:

Folder Title:
Auto Scrappage

Stack:	Row:	Section:	Shelf:	Position:
S	61	5	11	2

please make a file

AUTO SCRAPPAGE

General comments: there is little doubt that auto scrappage programs can reduce auto emissions at relatively low cost. UNOCAL demonstrated this in a pilot scrappage program in California, and EPA developed a scrappage option for states for use in State Implementation Plans (SIP) under the Clean Air Act.

lowing uncertainty
Any claims regarding macroeconomic stimulation are very speculative. A DRI study assumes that, for every two cars scrapped, one consumer will buy a new car, thus stimulating the economy. DRI appears to base this assumption loosely on the UNOCAL experiment. DRI reports that the UNOCAL data show that 50% of participants did not replace their cars; 40% bought used cars; and 10% bought new cars. DRI argues that ripple effects through the used and new car markets will ultimately lead to a full 50%, but there are no empirical or strong intuitive grounds for this belief. One would expect other remaining used cars to become more valuable, be better maintained, and be driven more. EPA staff believe that this effect will be more like one new car for every 100 scrapped (see attached memo). *for other than non-program participants*

A small effect (like EPA assumes) is more plausible, but we don't know for sure. Given the uncertainty, it would be imprudent to launch a massive auto scrappage program, hoping for economic stimulus. We are far more certain of what we can accomplish with \$1 billion spent on roads and bridges or through an investment tax credit.

At a minimum, a massive scrappage program should await the results of further pilot and demonstration programs. One is underway in Delaware now. GM and the Environmental Defense Fund are doing a joint experiment. States are contemplating using the scrappage option in their SIP's. We should scale this idea up gradually, and make improvements in design and implementation as we go.

* Scrappage Programs - jobs

* Energy Efficiency - SLAP Federal

* we can't do responsibly w/o recycling component.

UNOCAL - \$100 for pre-71

DRI → One new car for ea. 2 scrapped.
EPA has v. different prev.
→ optimistic view

Questions on specific proposal:

Summary: scrap pre-73 cars. Pay \$300 per car. Spend \$1 billion. If successful this would scrap about 3.3 million cars [\$1 billion/\$300].

1. COST AND QUANTITY: Isn't \$300 per car optimistic? [see DRI graph below] If you try to buy 3.3 million cars, wouldn't drive used-car prices up? So the program would cost more than \$1 billion?

\$300 per car is very optimistic. The attached graph from the DRI study shows that \$300 is near the minimum retail value of used cars. Furthermore, if the government becomes a big buyer, one would expect used car prices to go up. This would drive up the cost of the program.

2. EFFECT ON NEW CAR PURCHASES: Doesn't DRI make arbitrary assumptions about triggering new car purchases? Does the analysis you've seen use the same assumption of that the 1991 DRI study used -- 1 new car for 2 cars scrapped?

See on previous page.

3. PRUDENT POLICY DESIGN: Shouldn't we move more slowly in an area where we're just beginning to experiment? Aren't we more certain of the effects of money spent on traditional infrastructure, energy conservation, tax credits, etc.?

We shouldn't throw \$1 billion at auto scrappage when the macroeconomic benefits are based on an arbitrary assumption on the effect on the new car market.

SCRAPPAGE FOR AIR QUALITY AND ECONOMIC STIMULUS

**PHOTOCOPY
PRESERVATION**

Status

EPA has finalized guidelines encouraging states and localities to scrap old cars for better air quality. Among other requirements, EPA guidance requires scrappage to be carried out in facilities licensed to dispose of the solid, liquid, and gaseous waste produced. The facilities are not allowed to have any environmentally-related lawsuits or injunctions pending. Scrappage programs would likely be similar to a successful pilot run by the Unocal oil company in the Los Angeles area. Unocal bought, tested, and scrapped 8,300 pre-71 autos. The cars had an average fuel economy of 12 mpg, less than half of new cars, and emitted hydrocarbons at 99 times current standards.

Potential for large emissions reductions, and some additional car sales

EPA estimates that on average, scrapping 200,000 pre-1971 cars would reduce U.S. oil use by 1.6 million barrels per year, and reduce emissions by the following amounts over three years:

POLLUTANT REDUCTIONS

HC	31,800 tons
NO _x	8,400
CO	235,000

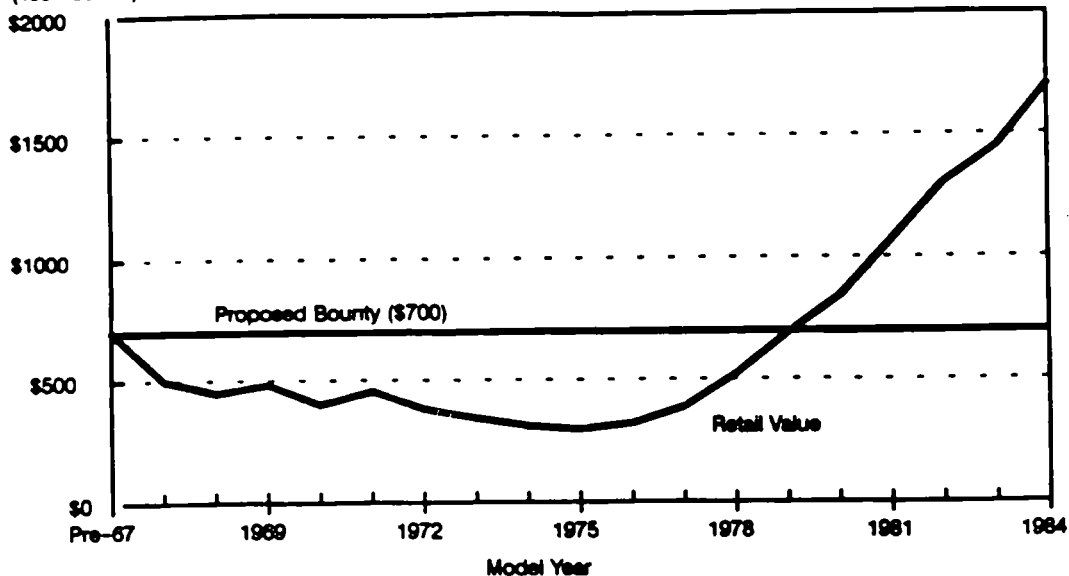
Actual reductions depend on the extent of the targeting of the program towards cars with high in-use emissions, in isolated areas with poor air quality, in areas of the country with little road salting (salt corrodes cars, taking them off the road naturally and making scrappage unnecessary). The analysis assumes that the mileage associated with retired vehicles is made up by the existing vehicle stock, plus some new car sales. These miles are taken up by the existing fleet in the same proportion as that fleet now drives total miles.

EPA estimates increased sales at 1,100 cars per 100,000 scrapped cars. Others are more optimistic. An August, 1991 study by DRI, for example, estimated that 45% of the scrapped cars would be replaced by new cars over three years. EPA based its analysis on Unocal's finding that the miles driven in scrapped cars were redistributed through the remaining fleet in roughly the same proportion as all miles driven are distributed. That is, since in the current fleet 1989-model-year cars drive 4% of the total VMT, 4% of the VMT from the scrapped cars was added to miles already driven by 1989s.

Where EPA took a mileage-based approach, DRI took an auto-based approach, arguing that the appropriate measure was people's need for individual autos, rather than miles of travel. While Unocal found that their participants' median replacement vehicle was a 1983, DRI argued that the seller of the '83 would need to replace that vehicle, and so on, so that 45% of scrapped cars would be replaced with new cars. This methodology suggests that EPA's approach is conservative. However, EPA believes it is unlikely that the scrapping of a \$700 used car will stimulate the purchase of a \$10,000 new car.

Results

CHART 4.4
Retail Values of Used Cars
(1991 dollars)



4.2 Implications of the Automobile Scrappage Case

Saving 5 billion gallons of gasoline would require scrapping an additional 9 million vehicles, assuming all are scrapped in the first year of the program.

In addition to scrapping 9 million vehicles from the current U.S. fleet for purposes of reducing fuel consumption, all operable vehicles that would have otherwise been scrapped must also be purchased. For 1992, nearly 3.7 million 1968-1978 vehicles would have been scrapped. Since only 20% of all scrapped vehicles are in running condition (and thus eligible for the plan), the scrapping program would have to buy an additional 700,000 cars. Although the proposed scrappage plan easily matches the cumulative gasoline consumption of the CAFE case, its greatest impact is felt in the first few years of implementation (see Chart 4.3)

The cost of purchasing these vehicles, and all other vehicles retired in their normal cycle over this period, would be underwritten by a 2 cent per gallon increase in federal gasoline taxes (other policy alternatives are evaluated in Appendix). DRI estimates that a "bounty" of \$700 per vehicle, paid directly to the consumer when he/she gives up the vehicle, would result in an increase in scrappage sufficient to achieve the gasoline consumption goals (see Chart 4.4). To buy the required 9.7 million cars would therefore cost about \$7 billion, plus administrative and financing costs.

The emissions reduction achieved by the scrappage program is significantly higher than in the CAFE simulations.

Cumulative hydrocarbon emissions drop by 13% (relative to the base case) between 1992 and 1996 (see Chart 4.5). Cumulative carbon monoxide emissions also