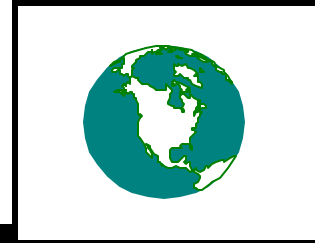


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# CAR LINES

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## EUROPE

**1. EU Proposes Ban On Sulphur in Road Fuels By 2011**

The European Commission has proposed new legislation to phase out sulphur in petrol and diesel by 2011. As part of the European Union's ongoing strategy to reduce harmful pollutants and carbon dioxide (CO<sub>2</sub>) from cars, the law would require every EU country to ensure sulphur-free petrol and diesel is available from 2005. Although sulphur-free fuel's share of the market is only likely to be a couple of percent in 2005, this should grow quickly until all cars run on it by 2011, when fuels with sulphur will be banned from the EU market.

Sulphur-free petrol will allow modern cars to burn less fuel - reducing emissions of the greenhouse gas CO<sub>2</sub> - and will improve the performance of catalytic converters which reduce noxious emissions from older vehicles, the Commission said.

The cleaner fuel, which has been requested by the car industry for years but resisted by the oil lobby, should allow car makers to go further in a voluntary commitment they made in 1999 to reduce CO<sub>2</sub> emissions from new cars. Under their commitment, car makers promised to get average emissions down to 140 grams of CO<sub>2</sub> per kilometer by 2008. This is up for review in 2003. The EU wants eventually to get this down to 120 grams.

The low sulfur diesel fuel should enhance the prospects for compliance with the heavy duty diesel Euro 5 requirements, due to go into effect in 2008 and scheduled to be reviewed by the Commission in the coming year.

The Commission also announced it had decided not to propose any new restrictions on the use of the petrol additive MTBE, a

chemical which can contaminate drinking water if fuel leaks out of underground storage tanks.

"At this stage the Commission believes that the best way to tackle the problem...is to ensure that all underground tanks used to store petrol at service stations comply with the best available standards," the Commission said in a statement.

The proposal must now proceed through the Council of Ministers and the Parliament before it is finally adopted.

**2. EU Launches Three-year "Clean Air For Europe" Program**

The European Commission has launched a three-year probe into how air quality can improve and reduce pollution-induced health problems. "We have come a long way in reducing air pollution, but we have not yet achieved our final objective, that is to make sure that everybody in Europe, even those who are particularly vulnerable to bad air, can breathe freely," EU Environment Commissioner Margot Wallström said in a statement.

The "Clean Air For Europe" (CAFÉ) program could culminate in new legislative proposals in 2004, the Commission, the European Union's executive arm, said. As EU anti-pollution laws had already made major progress in areas such as cutting acid rain, one of the focuses of the CAFÉ strategy would be the lesser known problem of particulate matter - tiny particles that can cause respiratory problems from lung irritation to cancer, according to the Commission.

A wide variety of emissions sources could be affected by any measures the Commission eventually decides to adopt against particulates. Any combustion process can

generate particulates, including traffic, industry and domestic heating systems, the official said.

CAFÉ will also look at the problems of ground-level ozone - a major cause of respiratory problems often related to traffic emissions, and on-going efforts to tackle acidification and the over-nitrification of water courses often caused by agricultural pollution.

### **3. Celebrities Escalate UK Esso Boycott Over Climate Stance**

Environmental groups and celebrities have launched a UK boycott of Esso, the European brand of giant Exxon Mobil , over its support for Washington's withdrawal from the Kyoto climate pact. Activist and former model Bianca Jagger kicked off the "Boycott Esso" effort, which is also supported by pop star Annie Lennox and actor Ralph Fiennes.

"Often, we as individuals feel powerless in the face of this catastrophe that is unfolding. But with this campaign we can make a difference," Jagger, former wife of famed Rolling Stones rocker Mick Jagger, said in a statement.

The Stop Esso Campaign, an alliance founded by Greenpeace, Friends of the Earth and People and Planet, is asking the British public to avoid Esso petrol stations until the company pledges support for the Kyoto Protocol. The Body Shop, another supporter, plans to publicize the campaign in its UK chain of shops selling organic cosmetics.

Greenpeace has taken aim at five U.S. oil companies - including Exxon Mobil - for backing U.S. President George W. Bush's rejection of the Kyoto accord, a move that frustrated and angered many of America's allies around the world. "Esso are the world's number one global warming villains," said

Greenpeace Executive Director Stephen Tindale.

But the company says the drive will do little to change U.S. policy and could hurt local employees.

"The call for a boycott of Esso service stations can only be counter-productive," Esso said in a statement. "We do not believe it will have any influence on the U.S. government - but it could harm the thousands of independent British businessmen and women and their staff who operate their stations in partnership with Esso in the UK."

The Kyoto Protocol calls for industrialized nations to cut carbon dioxide emissions by 5.2 percent from 1990 levels by 2012, but Bush pulled the United States - the world's biggest greenhouse gas emitter - out of the treaty.

Exxon Mobil has not accepted scientific evidence that fossil fuel emissions cause global warming, campaigners say, and is a member of the Global Climate Coalition, an international business lobby set up to counter that view. The company says it supports the study of climate change and has invested over \$500 million in renewable energy.

Greenpeace is also targeting Chevron , Texaco , Conoco and Phillips in its efforts to influence consumers.

### **4. MVEG Identifies Priorities For 2001**

The Motor Vehicle Emissions Group (MVEG) which advises the EU Commission regarding motor vehicle pollution control efforts has developed its work plan for 2001. Priority items include

- < Develop proposal to introduce relevant durability requirements for heavy-duty

- vehicles fueled with diesel and gas;
- < Develop proposal to introduce a method of in-use conformity testing that is applicable for heavy-duty vehicles;
- < Consider the feasibility of meeting the proposed NOx limit of 2.0 g/kWhr in 2008.
- < Monitor progress on durability studies relating to 2 and 3-wheeled vehicles;
- < Monitor progress of work in GRPE working group for possible application of a world test cycle for 2006 2 and 3-wheeled vehicles and develop appropriate emission limits;
- < MVEG to monitor progress of Commission and Member State research programs looking to develop methods to measure particulate size, number and composition.

A complete listing of MVEG activities is contained at the end of this report.

### 5. Energy Experts Say EU May Not Meet Kyoto Target

The EU's latest figures show greenhouse gases were down four percent by 1999 compared with the 1990 base line, a marked improvement on 1998 when emissions were down 2.5 percent. At first glance, that seems to put the bloc well on course to achieving its Kyoto target of an eight percent cut by 2010, but analysts say this is highly unlikely without some tough new measures.

And the reductions are very uneven. "On a country-by-country basis things are very different," said Richard Baron, an expert at the Paris-based International Energy Agency.

In its last report on greenhouse gas reductions in EU countries in November, the European Commission said existing policies and measures would at best reduce overall greenhouse gas emissions in 2010 to 1.4

percent below the 1990 level.

The drop in the EU's emissions to date is due mainly to chance events. The newly reunified Germany closed many of the dirty industries of the former Communist east, bringing down Germany's overall emissions by 16 percent by 1998. And Britain's policy to "dash for gas" and convert from coal-fired to less polluting natural gas power stations gave it a 9.5 percent emissions cut.

"These were one-off emissions reductions - something that happened in the 1990s and will not happen again in this decade," World Wide Fund for Nature (WWF)'s Giulio Volpi said.

The European Commission has estimated that if the EU aims its policies at certain economic sectors where emissions reductions will cost the least, it could reach its Kyoto target at an annual cost of just 0.6 percent of gross domestic product.

Measures such as boosting renewable energies, improving energy efficiency and reducing industrial emissions could deliver a seven percent cut by 2010, the Commission said.

But as one third of those extra savings would be made by Germany and Britain alone, many EU countries would still fall far short of their individual targets, the EU body said. Commission estimates show France, which has a target of stabilizing its emissions, is facing an 11 percent increase. Belgium, which is supposed to cut emissions by 7.5 percent, will instead increase them by 13.5. Ireland, with an increase limit of 13 percent, is set for 29 percent growth.

The increases in many countries are due to rising transport and energy consumption, said Rob Bradley of the environmental group

Climate Network Europe.

Belgium and France both have the statistical disadvantage of relying on nuclear power, which produces no CO<sub>2</sub>, and so cannot achieve the relatively cheap emissions cuts which a switch from coal to gas can provide.

For France "it's going to be getting to grips with the transport sector that will be essential to them", Bradley said.

Ireland's greenhouse gas increase was due to high economic growth in the 1990s. Although the boom was in low-emission, high-tech sectors of industry, increased wealth meant a big rise in car use.

The Mediterranean countries would also miss their targets unless they reined in their energy and transport sectors, Bradley.

But trends in emissions will not be determined solely by policies directly aimed at complying with Kyoto, analysts said. The IEA's Baron said one of the most important factors will be the current liberalization of energy markets in the bloc.

By prizing the gas and electricity markets away from state-owned monopolies, EU policy aims to get prices down - and that could mean higher consumption. But it could also accelerate a switch to cleaner gas-fired generation.

"It is likely to change emissions one way or another, but the effects are uncertain," Baron said.

Taxes are one way of discouraging emissions, but the idea of harmonized EU-wide energy taxes has so far rejected. Tax measures can be vetoed by just one member state.

Alternative policies such as requiring companies to use a certain proportion of energy from renewable sources, voluntary agreements with car manufacturers to improve energy efficiency of new vehicles and emissions trading schemes - all policies in place or on the way - could bring down emissions, Baron said.

## 6. EU Environment Agency Pushes US To Publish Data

The head of the EU's European Environment Agency challenged the United States to publish environmental data so people could compare the green credentials of the world's two biggest trading blocs. Domingo Jimenez-Beltran said the United States might lead the world in tackling air pollution but was trailing far behind on energy conservation and climate change and that the public should be aware of the facts.

"It's important to benchmark the (European) Union against the United States," Jimenez-Beltran told a news conference where he unveiled the agency's latest annual environmental report.

The head of the EEA - the EU body responsible for compiling environmental data - was scathing about U.S. plans to increase energy production and said consumers worldwide should be made more aware of the poor U.S. record on energy conservation.

"(President George W.) Bush is saying 'we need more energy', but he doesn't say that the United States uses 70 percent more energy per million dollars (generated by the economy) than the EU," Jimenez-Beltran said.

The fact that petrol (gasoline) costs half as much in the United States as in Europe could almost be considered economic "dumping",

he said, because cheap energy meant U.S. products cost less to make than those in the highly taxed EU.

Jimenez-Beltran suggested that products should be labeled to show consumers if they were built in a country where energy efficiency was taken seriously or not.

Such a label should identify whether the product was built in a country that respects the 1997 Kyoto agreement on reducing greenhouse gases - the deal rejected by Bush earlier this year.

"People should know if a product that uses a lot of energy (when produced) comes from a country that's in the protocol (or not)," he said.

The EU's greenhouse gas emissions are down four percent from 1990 levels, but U.S. emissions are up 11 percent, Jimenez-Beltran said, but added the EU could still miss its Kyoto target of an eight percent reduction by 2012.

The EEA report, a snapshot of the state of Europe's environment, showed the biggest environmental challenges were the growing demand for transport and energy and tackling an ever growing mountain of waste.

Jimenez-Beltran said to tackle these problems the EU should look at harmonizing energy taxes, particularly on petrol, and introduce tax on aviation fuel which is currently tax free everywhere in the world.

#### **7. London Council First Buyer of Fuel Cell Vehicle**

The first zero-emissions fuel cell vehicle to be sold commercially was purchased by London's Westminster City Council. The van, which will be used in the upkeep of London's parks, was sold to the council by UK-based

makers ZeVco for 33,000 pounds (\$47,000).

"The cost of making this vehicle ran into hundreds of thousands of pounds, but it is like a prototype. It's to show people what fuel cell technology can do, and hopefully attract investment," ZeVco General Manager Alan Osborne said.

The ZeVco vehicle has a top speed of 100 kilometers an hour (62 mph) can accelerate from 0 to 50 km/h in 15 seconds and is 50 percent cheaper to run than a conventional combustion engine-powered vehicle. The vehicle looks no different from an ordinary van but it is extremely quiet.

"If we made another one now the cost would halve, and you can imagine that if we made a lot the cost would reduce massively," Osborne said.

The difficulty of installing a hydrogen refueling network similar to a petrol station network across Britain means that for the foreseeable future fuel cell vehicle producers will target fleet operators as a potential market, Osborne said.

#### **8. EU, US Talk On Environment But Stay Deadlocked**

The European Union and the United States remained deadlocked on environmental policies after their first high-level meeting since Washington issued a controversial new energy plan.

"The situation is unchanged. We disagree on the climate issue," Sweden's Environment Minister Kjell Larsson said after meeting U.S. Director of the Environmental Protection Agency Christine Todd Whitman.

Sweden holds the EU's rotating presidency.

He said the new energy plan - criticized by the EU for promoting use of fossil fuels oil and coal and for doing too little to promote conservation - made it impossible for the United States to return to a global pact to curb global warming.

President George W. Bush had already rejected the 1997 Kyoto protocol in March, stating it was too costly and unfair that developing countries were not included in the pact.

Whitman, in Stockholm where she signed a U.N. treaty to outlaw 12 toxic chemicals, said she was disappointed by the outcry at the energy plan and said Bush would prove himself a leader in combating pollution.

"I was a little surprised at (criticisms of) the energy plan...It was a little disappointing because...I don't think people have really read it," she told reporters before meeting Larsson.

"I think that as we move forward they will see that in fact this president is very committed to these environmental goals and is someone who will be a leader in this area," she added.

She said the energy plan would not push up U.S. emissions of greenhouse gases. The separate Kyoto protocol calls on industrialized states to cut their emissions of carbon dioxide by an average five percent from 1990's levels by 2012.

"I'm very disappointed that we can't continue to work globally within the Kyoto process," Larsson said earlier. The EU says the plan will aggravate global warming and does little to encourage conservation.

Washington has won little credit in Stockholm for signing the U.N. convention with almost 130 other nations yesterday to outlaw or minimize use of a "dirty dozen" persistent

organic pollutants (POPs).

Whitman told reporters that Bush would soon be ready to outline his alternative plans for combating global warming after he ditched the 1997 Kyoto pact.

But she stopped short of confirming whether he would unveil the plan at a meeting with European Union leaders in Sweden next month.

Canada, the first nation to sign and ratify the POPs treaty yesterday, also predicted that U.S. CO2 emissions would increase as a consequence of the new energy plan, which could raise demand for energy imports from Canada.

"The largest energy relationship in the world is between Canada and the United States," according to Canadian Environment Minister David Anderson, saying Canada exported oil and gas and other energy worth \$52 billion a year to its neighbor.

"Despite any increase in energy sales to the United States...we will nevertheless meet our Kyoto commitments of minus seven percent of 1990s levels," he said.

## NORTH AMERICA

### 9. Bush Announces National Energy Policy

On May 17, 2001, President Bush announced his national energy policy. The policy would promote oil and gas exploration and drilling, as well as increase reliance on coal and nuclear power to address energy needs while placing little emphasis on conservation or the development of alternative sources of energy. The plan gives strong preference to energy production over environmental considerations. While not specifically rolling back important



rules such as the recently adopted low sulfur diesel fuel requirements, some of its provisions leave open that possibility as well as increasing the likelihood of easing of the New Source Review (NSR) requirements for power generating facilities.

The plan would need to be enacted along three tracks: presidential executive orders, federal agency and department regulations, and congressional legislation.

Executive orders, like the one already issued by President George W. Bush to require federal agencies to consider the impact of new federal regulations on energy supplies, take effect almost immediately.

Federal agencies and departments would be able to implement those parts of the plan that call for streamlining regulations and speedy approvals of permits for power plants and oil refineries.

Congress will have to approve those portions of the energy plan that change federal law, such as opening the Arctic National Wildlife Refuge to drilling and allowing the government to take private lands for new electric transmission lines.

The 105 recommendations developed by the White House energy policy task force include:

#### **EXECUTIVE**

- < Require "energy impact" assessments of major new federal regulations that could significantly limit energy supplies.
- < Prepare a comprehensive electricity deregulation bill to promote competition and enhance reliability.
- < Develop closer energy integration of pipelines and transmission lines between the U.S., Canada and Mexico.
- < Encourage Saudi Arabia and other oil

producing countries to open their energy sectors up to foreign investments

- < Prior Bush executive orders have reduced energy use at federal facilities and required energy firms to supply electricity and natural gas to California's utilities.

#### **AGENCIES AND DEPARTMENTS**

- < Environmental Protection Agency to review different gasoline formula standards to assess whether they contribute to regional fuel shortages.
- < Transportation Department to study fuel economy standards for vehicles to see whether they can be raised without hurting U.S. automotive industry.
- < Ease regulations to allow drilling on more federal lands.
- < Speed approvals of new and renewed licenses for nuclear power plants. Allow more reactors to be built on current sites.
- < Ease regulations for relicensing hydroelectric dams.
- < Ease EPA rules to allow refineries and power plants to upgrade their facilities without installing tougher pollution control devices.

#### **CONGRESS**

- < Open a portion of the Arctic National Wildlife Refuge in Alaska to oil and natural gas drilling.
- < Give Federal Energy Regulatory Commission authority to take private land for transmission lines.
- < Invest \$2 billion in clean coal technologies over the next decade, and extend an existing research and development
- < Provide homeowners with a \$2,000 tax credit to install solar electricity or hot water systems.
- < Provide \$4 billion in tax credits for purchases of "hybrid" cars that run on gasoline and electricity.

- < Increase annual funding by \$300 million to \$1.7 billion for a federal program that helps low-income families pay their household energy bill.

The two provisions that potentially could have the greatest negative impact on mobile source emission control issues are: 1) the requirement that an Energy Impact Analysis (EIA) be prepared for all regulations and 2) the requirement that EPA evaluate the impacts of "boutique fuels" on fuel supplies and costs. The requirement for an EIA gives greater oversight to the Office of management and Budget (OMB) and the Department of Energy in reviewing EPA rules. The requirement regarding the evaluation of boutique fuels is directed mainly at reformulated gasoline, which would not necessarily impact exhaust emission control issues. However, the oil industry might try to use this provision to block efforts of individual states to adopt low sulfur diesel fuel requirements for on-road fuels in the event that EPA delays the federal rule or individual states' to adopt of low sulfur diesel fuel requirements for off-road diesel fuel.

Not surprisingly, the oil and power generating industries voiced strong support for the President's energy policy, but environmental and other interest groups, as well as Democratic party leaders in Congress, criticized the policy for placing the environment at risk and for failing to seriously pursue conservation and alternative power sources. Given the strong and broad-based opposition to many of the elements in the energy policy, the prospects for implementation of the policy are uncertain. With a Democratic controlled Senate, for example, the prospects for Arctic drilling are substantially diminished.

#### A. Specific Concerns

The Clean Air Trust has identified several

areas of special concern.

#### i. New Source Review Enforcement – Justice Department

Today, the Clean Air Act requires major new sources of pollution such as refineries or coal-fired electric power plants to use the best available pollution control technology. Existing pollution sources are treated more leniently. But when existing plants make major modernization investments that often cause significant increases in pollution, they legally become new sources - and need to upgrade their pollution controls. This provision of the law is designed to prevent companies from playing a shell game - of constantly rebuilding and expanding old plants in an effort to avoid modern pollution controls. There is clear evidence that some electric power companies, refineries and other industries have attempted to evade the law in this way. In fact, the EPA and states (led by New York) brought suit against big power companies for violating the law.

EPA separately brought enforcement cases against refineries and pulp and paper mills. As recently as last week, EPA reached a legal settlement with a major refiner. About half a dozen lawsuits against power companies are still pending.

Under the Plan, the Attorney General was directed to "review existing enforcement actions regarding New Source Review to ensure that the enforcement actions are consistent with the Clean Air Act and its regulations."

**Impact:** This raises doubts about two power company settlements, with Cinergy and Virginia Power and likely will undermine other pending cases against among others American Electric Power, Southern

Company, Duke Power and Exxon-Mobil. The amount of pollution at stake is immense. (To cite one example, last December, Cinergy announced a settlement in principle that would reduce sulfur dioxide emissions by 400,000 tons per year and nitrogen oxides emissions by 100,000 tons per year.) It is safe to assume that successful prosecution (or appropriate settlement) of the other utility cases alone could lead to collective emission reductions in the millions of tons.) It is unclear how many refineries have already been or could be similarly targeted. A recent *New York Times* article cited anonymous government sources as saying that half of the nation's refineries may be violating the law (they just all haven't been investigated thoroughly).

### ii. New Source Review – EPA

In a related development, the Plan directs EPA "in consultation with the Secretary of Energy and other relevant agencies, to review New Source Review regulations, including administrative interpretations and implementation, and report to the President within 90 days on the impact of the regulations on investment in new utility and refinery generation capacity, energy efficiency, and environmental protection."

**Impact:** This review is clearly connected to the Justice Department review noted above, though it does have a 90-day deadline for a decision. EPA was struggling to modify NSR in the past administration, though it could not gain a consensus among the various stakeholders. Options that were under consideration included setting a new "base" rule on NSR (a proposal had been issued several years ago; NRDC criticized it as being too weak) while providing different industry segments with "off ramps" or alternative compliance methods. For example, chemical plants or refineries might be permitted to

make process changes without triggering NSR as long as the plant met tougher plant-wide emission limits. (EPA incorporated this idea in the recent settlement of the Marathon Ashland case.) This so-called "plant-wide applicability limit" (PAL) approach could be better, or worse, for the environment depending on where EPA sets the plant-wide limit. Unlike the enforcement review -- which could result in unilateral relaxations of existing requirements -- any new NSR rule would require an extensive regulatory process and be subject to judicial review.

### iii. Energy Impact Statement

The President's Executive Order requiring the equivalent of an Energy Impact Statement for any regulatory action that could "significantly and adversely affect energy supplies, distribution and use."

**Impact:** This appears to significantly tip the balance in regulatory debates. The way this would work is that the relevant agency – EPA, for instance – would have to prepare such an analysis and give it to OMB along with a proposed rulemaking. This would put EPA nemesis John Graham of OMB in charge. It seems that the clear thrust would be to give more power to DOE and OMB at the expense of EPA in any debate. For example, it seems unlikely that EPA's recent low sulfur rule would have been able to withstand DOE's challenges if this Order was in place last December.

Logically, this new requirement also could come into play in the upcoming "independent" review of the highway diesel sulfur rule. Should the "independent" panel identify any potential supply concerns, this new requirement could give the oil companies yet another weapon to argue for weaker fuel standards – and that could undercut pollution control technology that is dependent on very

low-sulfur fuel.

#### iv. “Streamlined” Permitting Requirements

The Plan requires EPA and DOE to “provide more regulatory certainty to refinery owners and streamline the permitting process where possible to ensure that regulatory overlap is limited.”

**Impact:** A separate Executive Order created an interagency task force to monitor and assist agencies in expediting applications for permits that would accelerate completion of projects and increase energy production. The task force will be headed by the chairman of the Council on Environmental Quality and housed at DOE.

#### v. “Boutique Fuels”

The Plan calls for EPA “to study opportunities to maintain or improve the environmental benefits of state and local ‘boutique’ clean fuel programs while exploring ways to increase the flexibility of the fuels distribution infrastructure, improve fungibility, and provide added gasoline market liquidity.” EPA was directed to “consult with the Departments of Energy and Agriculture, and other agencies as needed.”

**Impact:** On the face of it, this proposal could be either positive or negative from a clean-air standpoint but there is reason to be concerned that this new program will lead to dirtier fuels, especially if it preempts state fuel standards. In the short term, for example, this could negatively impact the retrofit potential if states were precluded from mandating low sulfur fuels.

#### vi. “Clean Coal”

The Vice President called for additional

federal funding of “clean coal” technology, coupled with an order to federal agencies “to provide greater regulatory certainty relating to coal electricity generation through clear policies that are easily applied to business decisions.”

**Impact:** This portion of the plan would have added significance if coupled to provisions such as those in the Murkowski legislation to exempt “clean coal” projects from the Clean Air Act.

#### vii. Truck Idling

The Vice President called on EPA and DOT to reduce demand for petroleum fuels by working with the trucking industry to establish a program to reduce idling time, fuel consumption and emissions at truck stops.

**Impact:** This could lead to emission reductions by encouraging low-emission idling technologies.

#### viii. Multi Pollutant Legislation

In an attempt to put some green dye on the plan, the Vice President urged EPA to develop “multi-pollutant legislation” for electric power plants. EPA is urged to “work with Congress to propose legislation that would establish a flexible, market-based program to significantly reduce and cap emissions of sulfur dioxide, nitrogen oxides and mercury from electric power generators.”

**Impact:** In theory, a three-pollutant bill could bring about some clean-air progress, if it led to swift adoption of tough new controls on the relevant pollutants (for example, year-round NOx controls). But calling for a “market-based program” seems to rule out new mandatory pollution controls – a conclusion underscored by the fact that the Administration did not present any specific

emission targets or deadlines.

It also should be noted that emissions of the "three" pollutants almost certainly would continue to drop if the current Clean Air Act is enforced. The eight-hour ozone standard ultimately will force tougher NOx controls. The fine-particle standard will force tougher sulfur dioxide controls, as will the pending regional haze rules. (In the context of the more health-protective ambient standards, last week's court decision on Section 126 is probably a hidden bombshell: the court upheld EPA's ability to sustain interstate pollution petitions. That means that downwind states will be free to file additional petitions against states causing downwind violations of the new standards.) In addition, EPA has already set in motion a plan to require significant utility mercury reductions.

The Edison Electric Institute recently calculated that under current law, utilities might have to cut NOx and SO2 by 60 percent by 2010 and mercury by 90 percent.

## B. Reaction To The Plan

The plan sparked an immediate firestorm and carries political risk for Bush, a Republican whose energy industry allies helped him get elected. Democrats and green groups lined up to oppose the policy developed under the direction of Vice President Dick Cheney, a former oil company executive, as a boon to Bush's industry friends, a threat to the environment and an inadequate answer to immediate U.S. energy problems.

"The president's plan makes the wrong choices for America," said House Democratic leader Dick Gephardt of Missouri, calling the Bush report a "slick" document that "only gives lip service to conservation" without providing the budget "to accomplish anything." Bush's proposed budget, sent to Congress in

February, cuts energy efficiency and renewable energy programs by nearly a third with some conservation programs cut even deeper.

Initial Republican reaction was positive.

"It is a work in progress," said House Speaker Dennis Hastert, R-Ill. He said "the case has to be made" for some provisions such as drilling in the Arctic National Wildlife Refuge in Alaska.

(Former) Senate Majority Leader Trent Lott, R-Miss., said he hoped to have energy legislation up for a Senate vote this summer, but also acknowledged some of it "will be hotly debated."

Among the report's most controversial recommendations is to lift the ban on drilling in the Arctic National Wildlife Refuge in Alaska. Democrats have vowed to block any legislation freeing the refuge to development. Another proposal to allow the federal government to take private land for power lines is expected to meet sharp opposition from property rights advocates. The report also recommends that nuclear reprocessing be given another look as part of a package of proposals to promote commercial nuclear power and reduce the amount of reactor waste to be stored.

The natural gas, oil, electric, nuclear and coal interests embraced the report, which would increase production by spurring the building of new nuclear power plants, opening Alaska's Arctic National Wildlife Refuge to oil and gas drilling and streamlining rules on power plant and refinery expansions. Bush's plan also would build more pipelines to carry oil and natural gas.

### i. Church Leaders Urge Scrutiny

A group of 39 U.S. religious leaders called for national reflection on the consequences of the Bush administration energy plan, noting the world faces "pivotal" decisions on energy consumption amid booming population, global warming and advances in technology. In a signed letter to President George W. Bush, Congress and the general public, Jewish and Christian members of the National Council of Churches said the moral and religious questions surrounding the Bush plan require deep thinking.

"Far more than rolling blackouts and gasoline price increases are at stake: the future of God's creation on earth; the nature and durability of our economy; our public health and public lands; the environment and quality of life we bequeath our children and grandchildren," the letter said.

The religious leaders, who stressed they are not scientists or policymakers, used Bible messages to illustrate the need to preserve the planet's natural wonders for future generations, indirectly criticizing the White House proposals.

"Humankind has a fundamental choice of priorities for its future," the religious leaders said.

"By depleting energy sources, causing global warming, fouling the air with pollution, and poisoning the land with radioactive waste, a policy of increased reliance on fossil fuels and nuclear power jeopardizes health and well-being for life on Earth."

The other choice could change that dire future, they said, pointing out the promise of clean fuel technology, renewable energy, greater vehicle efficiency and safer power plants.

## ii. UN says policy fuels global

## warming

The head of the United Nations forum on climate change said a new U.S. energy policy would add to global warming and that he planned an international meeting to try to salvage the Kyoto climate pact. President George W. Bush's new energy policy "will make it extremely difficult, perhaps impossible", to meet the original targets for cutting greenhouse gases according to Jan Pronk.

"The energy plan will in my view undoubtedly increase the carbon dioxide (CO2) emissions rather than decrease or stabilize them," said Pronk who is also the Dutch environment minister.

Pronk, who was attending a U.N. conference in Stockholm, said he was planning a new preparatory meeting in the Netherlands June 25-28 to try to save the 1997 Kyoto pact to curb global warming.

Pronk said the Bush energy plan, which promotes extended use of oil, coal and nuclear power in the U.S. and offers \$10 billion in tax credits for conservation, was a step in the wrong direction. "What we might have expected was an integrated plan, energy and climate...Now we have an energy plan setting the limits for a climate plan which is still not yet there," he said.

"Everybody is waiting for the climate plan."

## iii. Whitman Defends Plan

The United States rejected criticism that its new energy policy would fuel global warming and lacked serious measures to increase energy efficiency. "From an environmental point of view it in fact is a very good document," according to Environmental Protection Agency Administrator, Christine

Todd Whitman.

When asked if the plan would raise emissions of greenhouse gases and so contribute to global warming, she replied: "Oh, not at all, not at all."

Whitman said half of the recommendations of the policy were directed at renewable energy sources or energy conservation. The plan includes measures to bolster nuclear power and allocates \$10 billion to conservation. Whitman said new technology, increased use of renewable energy and voluntary efforts to raise energy efficiency would help the United States - the world's largest polluter of CO<sub>2</sub> - to control its greenhouse emissions.

Another sign that the United States was increasing its energy efficiency was that greenhouse emissions were not rising as fast as economic growth, she said.

Americans use about three times more energy per capita than EU citizens.

The agency would also launch a campaign this year to boost energy awareness and efficiency further, she said.

Whitman also said she would present recommendations for a new climate policy by the end of June to Bush but could not say when the plan will be published. Whitman said the administration aimed to publish its alternative climate plan in June and consult with its allies ahead of global climate talks in mid-July in Bonn, Germany.

"We will be talking to umbrella group allies prior to that to engage them in the discussion to see how we move forward," Whitman said in response to fears that Washington may invite other countries to follow its new plan and abandon Kyoto. Umbrella group countries and U.S. allies in environmental policy are

Canada, Japan, Australia and New Zealand.

## 10. US Lawmakers Seek To Boost SUV, Truck Mileage

A bipartisan group of U.S. senators wants to close a loophole in federal law that allows sport utility vehicles (SUVs) and light duty trucks to get fewer miles per gallon than passenger cars, a move they say would save huge amounts of oil. The lawmakers' plan to boost fuel efficiency of SUVs comes at a time when the Bush administration is focusing on ways to increase oil and gas drilling and downplaying the role of conservation. Under the legislation (introduced prior to President Bush's Energy proposals), automakers would have six years to improve the fuel efficiency of SUVs and light trucks to match that of cars.

The change would save one million barrels of oil a day, reduce oil imports and cut carbon dioxide emissions, according to the bill's sponsors - Democrats Dianne Feinstein of California and Charles Schumer of New York, and Maine's two Republican senators, Olympia Snowe and Susan Collins.

The U.S. market consumes about 20 million barrels of crude oil and refined petroleum products a day.

Separately, a new study by The American Council for an Energy Efficient Economy found that boosting the fuel efficiency of new cars and light trucks by just 5 percent a year would cut U.S. oil use by 1.5 million barrels per day. Over a period of 40 years, the improvement would save at least 10 times the amount of crude oil in the Arctic National Wildlife Refuge, according to the non-profit group. Vice President Dick Cheney, the principal author of the Bush Energy Plan, has said that conservation measures were a "sign of personal virtue," not enough to make a difference in the nation's energy needs.

Cheney, the former top executive at oilfield services giant Halliburton Co. and Bush, a former Texas oilman, have been accused by environmental groups of being too eager to drill for more oil rather than finding ways to limit demand.

The Senate legislation noted that about half all of new vehicles sold in the U.S. are SUVs and light trucks, which average 6.8 fewer miles to the gallon than cars due to a loophole in federal law from 1975 that allows them to have lower fuel efficiency. SUVs and light trucks have lower gas mileage, because at the time the fuel standards were adopted these vehicles were used mostly for agriculture and commerce. The explosive growth in light truck sales and SUVs dropped the average fuel efficiency of all the nation's new vehicles last year to its lowest point since 1980.

Currently, SUVs and light duty trucks are required to get an average 20.7 miles per gallon (mpg), while passenger cars must average 27.5 mpg. The legislation would require SUVs and light trucks to meet the higher fuel standard for cars by 2007. The legislation would apply to vehicles that weigh up to 10,000 pounds whereas the current fuel efficiency standards apply to vehicles up to 8,500 pounds.

Feinstein said the higher fuel standards would save the average SUV owner \$420 per year if gasoline cost \$2 a gallon, a price it has already reached in many areas of the country.

Slashing demand for gasoline is the only responsible way to fight soaring U.S. pump prices, and automakers can do just that while putting more money in the pockets of consumers, according to a leading environmental group. "Stabilizing gas pump prices is not about increasing supply of a finite resource," the Union of Concerned Scientists,

a research-based group with more than 50,000 members across America, said in a statement.

"Fuel-efficient cars and trucks, which can easily be achieved with existing technologies, conserve oil without sacrifice. In fact, they mean more disposable income for average Americans, not oil industry executives," the UCS said.

The recent surge in gas prices has unleashed a growing chorus of calls for an increase in U.S. oil supplies, including President George W. Bush's comments about the need to expand the country's oil refining capacity. A similar position was taken by Ford Motor Co. President and Chief Executive Jacques Nasser, since higher gas prices threaten to erode his company's sales of new cars and trucks. Gas-guzzling sport utility vehicles, key to the bottom line at the world's second-largest automaker, could be especially hard hit if gasoline approaches the dreaded \$3 per gallon mark.

But the UCS, citing the environmental and public health risks inherent in drilling more oil wells and building more refineries, said, "America cannot simply drill and refine its way to lower gas prices."

Voicing strong support for legislation that would close a loophole in federal law that allows sport utility vehicles and light trucks to get fewer miles per gallon than passenger cars - it said the measure would save as much gasoline as is produced by 12 refineries by 2010.

"This means less pollution from the refining and distribution of gas, saving Americans 75,000 tons of smog-forming pollution annually," it said.

"The auto companies have a responsibility to



deal with gas prices by offering consumers more efficient products. Automotive fuel economy is a far better strategy than a drill and refine energy path," said Jason Mark, a leading UCS analyst and head of the Massachusetts-based group's clean vehicles program.

Mark added that it was in the automakers' own best interest to build fuel-efficient vehicles, since he sees demand for them is likely to increase sharply with any future spike in gas prices.

"I think the automotive market is shifting as we approach \$2 or perhaps \$3 a gallon this summer. People are going to be walking into showrooms asking for a car that saves them money at the pump."

The Executive Summary of the report is available now at [www.CleanCarCampaign.org](http://www.CleanCarCampaign.org) and the printed report will be produced in a few weeks by ACEEE.

### **11. Marathon Ashland Agrees To Cut Refinery Pollution**

The U.S. Justice Department has reached a settlement with Marathon Ashland Petroleum LLC that calls for the company to spend \$265 million to install pollution-control equipment at seven continental U.S. refineries.

The Bush administration, which has been criticized by Democrats and green groups for easing some environmental rules in recent weeks, said the settlement would help clean up dirty air in the communities involved. "This settlement will control pollution wherever it originates in the refineries," Environmental Protection Agency Administrator Christine Todd Whitman said in a statement. "The controls also are expected to help improve the efficiency of the plant and increase production of gasoline over the next eight years," she

added.

U.S. gasoline pump prices have climbed to record highs in the past week. and some public opinion surveys show Americans are increasingly worried about fuel prices.

A consent decree was filed in federal court in Detroit outlining the terms of the settlement. Marathon Ashland agreed to spend \$265 million to install modern pollution control equipment from stacks, valves, flares and wastewater vents from refineries in Robinson, Illinois; Garyville, Louisiana; Texas City, Texas; Catlettsburg, Kentucky; Canton, Ohio; St. Paul Park, Minnesota; and Detroit, the Justice Department said.

The company also will pay a \$3.8 million civil penalty under the federal Clean Air Act, and will spend about \$6.5 million on environmental projects in communities where the refineries are located, the Justice Department said.

In March, the government reached similar agreements to cut air pollution at 9 other refineries. Those settlements involved Motiva Enterprises, a joint venture of Saudi Arabia's state oil company, Texaco Inc and Royal Dutch/Shell Group's Shell Oil; Equilon Enterprises, which is also owned by Shell and Texaco; and Deer Park Refining Limited Partnership, which is owned by Shell and Mexico's state oil company.

The companies agreed to spend \$400 million to install pollution-control equipment, and to collectively pay a \$9.5 million civil penalty to the government.

Attorney General John Ashcroft said enforcing environmental laws like the Clean Air Act was a "top priority" for federal prosecutors.

The new settlement with Marathon Ashland plus the deals reach in March address

pollution problems involving roughly 30 percent of U.S. refining capacity, the Justice Department said.

The federal government said it reached a separate settlement with Marathon Ashland involving benzene emissions at its refinery in Robinson, Illinois.

In that settlement, filed in federal court in Benton, Illinois, the company agreed to pay a \$1.67 million civil penalty under the Clean Air Act and spend \$125,000 to create an emergency response program.

Marathon Ashland also promised to modernize its sewer system and wastewater treatment plant at the refinery.

The Justice Department said that because all the companies involved in the string of settlements "negotiated in good faith," the settlements were reached without the government filing suit against them.

## **12. US Air Quality Worsening According To American Lung association Study**

Millions of Americans are breathing dirtier air, and larger U.S. cities such as Los Angeles and Atlanta remain among the worst for pollution according to a new report from the American Lung Association. Los Angeles was the worst of 382 U.S. counties receiving failing grades when it came to ozone air pollution, or smog, a 15 percent leap from the 333 counties getting failing grades last year, the association said in its annual "State of the Air" report. The number of people living in areas with failing marks rose to 141 million from 132 million.

The report grades and ranks counties on how often their air quality exceeds "unhealthful" categories of the U.S. Environmental Protection Agency's Air Quality Index for

smog. The lung association analyzed ozone data in areas where ozone monitors exist, covering 187 million of the total U.S. population of more than 281 million people.

The association based its grading system on a weighted average of each county's ozone data. The weighted average was calculated from the number of days each county experiences "orange days" (unhealthy for sensitive groups, such as people with asthma, chronic bronchitis or emphysema), "red days" (unhealthy) or "purple days" (very unhealthy) based on the EPA's air-quality index.

Los Angeles-Riverside-Orange County, California, remained the nation's smoggiest county, and Atlanta jumped to sixth-smoggiest from ninth. Joining them in the association's 10 smoggiest metropolitan areas were: Bakersfield-Fresno, California; Visalia-Tulare-Porterville, California; Houston-Galveston-Brazoria, Texas; Washington-Baltimore; Charlotte-Gastonia, North Carolina-Rock Hill, South Carolina; Knoxville, Tennessee; and Philadelphia-Wilmington, Delaware, plus Atlantic City, New Jersey.

The report reflects data from 1997-99. Last year's report focused on 1996-98.

## **13. Ford Seeks Environmental Leadership Role**

Ford Motor Co., which has vowed to cut emissions of greenhouse gases from its popular but gas-guzzling sport utility vehicles, sought to burnish its environmental image again, saying the fight against global warming is its single biggest corporate challenge. "There will be many ways to judge Ford in this first decade of the 21st century, many measures of success," Ford said in its second annual so-called "corporate

citizenship" report. "None will be greater than our response to the issue of climate change."

A leading environmental group welcomed the report as a sign that Ford was taking its role in global warming seriously. Dan Becker, director of the Sierra Club's global warming project, said cars and light trucks account for about one-fifth of the greenhouse gases generated in the United States every year. The single biggest step to curbing global warming is making cars go further on a gallon of gas," Becker said. "Ford is a big part of the problem. They're trying to become part of the solution, and they deserve credit for that."

In its report, Ford estimated that yearly greenhouse gas emissions from its vehicles and manufacturing plants totaled the equivalent of 400 million metric tons of carbon dioxide, which scientists have identified as one of the leading man-made causes of global climate change. Becker said if Ford were a country it would rank as the 10th largest source of greenhouse gas emissions worldwide.

Ford Chairman Bill Ford, great-grandson of the Detroit automaker's founder, is a lifelong environmentalist, and efforts to portray Ford Motor Co. as an environmentally aware "green" company have been made ever since he took over in January 1999. In a letter included as part of Yesterday's 88-page report on the environment and other issues, Chairman Ford said global warming "stands out from other environmental issues because of its potentially serious consequences and its direct relationship to our industry."

He said nothing specific about ways of fighting emissions of carbon dioxide from polluting internal combustion engines. But in a speech to a Greenpeace Business Conference in London last October, Ford said the days of such engines were numbered, after a

100-year reign, and that they will be replaced by clean fuel cell technology.

In its first corporate citizenship report, issued in May last year, Ford conceded that its SUVs created a "dilemma" for the company and stated a goal of being at the cutting edge of efforts to improve fuel economy and reduced greenhouse gas emissions. Ford later committed itself to improving the fuel economy of its SUVs by 25 percent over five years, and has repeatedly said that it plans to cut carbon-dioxide emissions from its cars and trucks. In the latest report, the company admitted, however, that its 2001 model-year cars and trucks would post a poorer performance in terms of overall fuel economy than its model year 2000 vehicles, due to the addition of the Land Rover SUV business.

GM and DaimlerChrysler AG have also committed to increasing the fuel economy of their vehicles, but have not given specific targets.

#### **14. GM To Introduce Fuel-Efficient V8 Truck Engines**

General Motors has announced that it will add more fuel-efficient V8 engines in its light trucks starting in 2004, increasing mileage by as much as 25 percent.

The new engines, part of GM's efforts to maintain its edge in truck fuel-efficiency over rival Ford Motor Co., resurrect "displacement-on-demand" technology, which automatically shuts off half of the V8's cylinders, temporarily turning it into a more efficient four-cylinder, when the trucks are cruising at a constant speed or carrying a light load. During acceleration or when pulling a heavy load, all eight cylinders do the work.

GM plans to manufacture more than 150,000 of the V8 engines in 2004, and increase

production to nearly 1.5 million units annually by 2007.

GM's light truck fleet, weighted by sales, averaged about 21 miles per gallon last year. The new engines would be put in its larger vehicles, which are less fuel efficient, such as the Chevrolet Suburban full-size SUV, which gets between 14 and 18 miles per gallon.

Sam Winegarden, GM's chief engineer of Vortec V8 engines, said the split-second transition from V8 to a four-cylinder is unnoticeable and vastly superior to when GM's Cadillac division briefly tried a displacement-on-demand engine in 1981. That engine, which shifted between a V8, a six-cylinder and a four-cylinder, depending on the driving conditions, lasted only about one model year because it shook uncontrollably and the technology was much more costly.

GM officials have been annoyed by Ford's efforts to portray itself as an environmental leader, and have taken more steps to point out their own contributions to raising fuel efficiency and cutting vehicle emissions and pollution.

"We clearly have got the lead there, and we intend to keep that," Winegarden said.

Meanwhile, pressure is mounting on the U.S. government from environmental groups to raise the required fuel efficiency to the same level as cars. President Bush's energy plan said the government will reexamine federal fuel economy standards, with an eye toward raising them "without negatively impacting the U.S. automotive industry."

Winegarden said the new technology costs a minimal amount, and the engines will be standard on many pickup trucks and sport utility vehicles.

The V8 engines will boost fuel economy by up to 25 percent in certain driving conditions. However, the listed fuel economy will rise by about 8 percent, based on the testing procedures required by the U.S. Environmental Protection Agency, which simulates rush hour traffic.

Jim Hall, vice president of industry analysis with consulting firm AutoPacific, said GM could eventually put the new V8 engines in its upcoming Cadillac roadster, to arrive on the market in early 2003, or its Chevrolet Corvette.

"GM is spending money on engines, something they haven't done for a long time," he said. "They realize customers will pay for it."

GM said it is also considering applying displacement-on-demand technology on some of its six-and four-cylinder engines.

Currently, DaimlerChrysler AG's Mercedes is the only major automaker to offer displacement-on-demand engines, making it available on V12 engines for its high-end S600 and CL600 sedan and coupe, which each cost more than \$110,000. The engines automatically deactivate half the cylinders, effectively making it into a six-cylinder, when full power is not required. Mercedes also sells a luxury sedan in Germany that has the technology on a V8.

Ford, which said last July that it is aiming to boost the fuel efficiency of its SUVs by 25 percent by 2005, is also considering similar technology for its V8 or the larger V10 engines.

Winegarden said GM is also working on other technology, including variable-valve timing, variable compression, as well as adding continuously-variable transmissions and

five-speed transmissions to its lineup to raise fuel economy.

### 15. Will GM Soon Be #2?

A recent analysis in the New York Times indicates that for the first time in 70 years, Ford may be on the verge of replacing General Motors as the Number 1 vehicle manufacturer in the world. Ford came within half a day's sales of passing G.M. in total revenue in the first quarter. And Ford actually surpassed G.M. in automotive revenue, although this was partly because G.M. cut production more deeply than Ford in response to the slowing economy. Many people in the industry expect Ford to edge ahead of G.M. in total revenue and automotive revenue within two or three years.

The short-term reasons G.M.'s lead is likely to evaporate are simple. G.M. is phasing out its Oldsmobile division and is trying to sell its **Hughes Electronics** subsidiary or spin it off to shareholders as a separate company. And Ford will pick up additional sales from its acquisition of Land Rover.

But G.M.'s lost mastery has much deeper roots: an inability to respond to market trends quickly. G.M. missed the growth of the small-car market in the late 1970's and early 1980's, the move to more aerodynamic mid-size cars in the late 1980's and the rise of sport utility vehicles based on pickup truck designs in the 1990's. And now it is stumbling in its response to the popularity of sport utilities based on car designs.

For most people in the auto industry, the question is no longer if Ford will overtake G.M., but when. "Their market share is going to continue to decline," said Chris Cedergren, the managing director of Nextrend Inc., an automotive consulting company. "The new generation can't relate to G.M. brands."

G.M. executives say that although their share of the United States market has been falling for 22 years, the trend is about to reverse itself. They are pinning their hopes on expanded production of full-size pickup trucks and sport utilities based on pickup designs, and on sport utilities based on car designs that Saturn, Buick and Pontiac will introduce this year and next.

The most recent setback for G.M. has been in its initial effort to tap into the market for sport utilities based on car designs, like Honda Motor's Honda CR-V and Toyota Motor's Lexus RX 300 and Toyota Highlander. The car-based models offer a smoother ride and better fuel economy than traditional sport utilities. They are also less likely than pickup-based models to inflict major damage on cars during collisions, and they typically emit less of the gases linked to smog and global warming.

Sales of sport utilities based on car designs have tripled in the last year even as sales of sport utilities based on pickups have dropped 8.5 percent and the overall auto market has fallen 5.7 percent, according to Ward's Auto Info Bank, a market data service in Southfield, Mich.

G.M. and Ford jumped into the market for car-based sport utilities at almost the same time late last summer, with the Pontiac Aztek and the Ford Escape. But the Aztek has been dubbed one of the ugliest automobiles in years by many auto reviewers, and has sold so poorly that G.M. has ordered hundreds of its engineers to start borrowing them from the company fleet so that at least some Aztek would be seen on Detroit roads.

The Escape is now the best-selling vehicle in the segment by a wide margin, and outsold the Aztek in April by 14,025 to 2,394.

G.M. also missed the boom in pickup-based sport utilities in the 1990's, particularly full-size models, even though it had been making them longer than any other company, beginning in April 1935 with the Chevrolet Carryall Suburban. When Ford introduced the Expedition in 1996, it swiftly raised production to meet soaring demand. Its Expedition factory in Wayne, Mich., quickly generated more in overall profits than any factory in any industry, reaching an estimated \$3.7 billion in pretax profits by 1998.

Only in the last year, as high gasoline prices, foreign competition and declining consumer interest have begun eroding the profitability of the market segment, has G.M. finally stepped up production significantly.

Ford led the move to aerodynamic styling in mid-size cars in 1986 with the Taurus, which has been one of the nation's best-selling cars ever since. In the late 1970's and early 1980's, Ford paid more attention to attractive designs than G.M., which became so distracted with meeting new safety, emissions and fuel-economy regulations that it produced too many look- alike cars.

During the two recessions of the early 1980's, some questioned whether Ford could even survive. But because Ford came much closer to the brink of financial collapse than G.M., the United Automobile Workers union let it lay off or push into retirement tens of thousands of workers, and allowed some restrictive work rules to be rewritten. G.M. was not as aggressive then in cutting its work force, and is only now coming close to matching Ford in factory productivity.

Because of G.M.'s poor sense of the market, its share of auto sales in the United States has slumped to just 28 percent from 48 percent in 1978. Ford has stayed remarkably steady at 23 percent, although partly by

investing its profits over the last decade in the outright purchase of Jaguar, Aston Martin, Volvo and Land Rover. This has also raised the average price of Ford's vehicles, increasing total revenue. G.M. has instead purchased minority stakes in Fiat Auto and Fuji Heavy Industries, which makes Subaru, and has increased its minority stakes in Isuzu Motors and Suzuki Motor, but these companies remain independent and G.M. does not count them in its own sales.

In terms of revenue, Ford finished last year with \$170.1 billion to G.M.'s \$184.6 billion. That gap is closing and Ford will take the lead within the next several years unless G.M. makes a big acquisition or finally stabilizes its market share. Last summer, Ford bought Land Rover, which has about \$6 billion in annual sales, but only Land Rover's sales from July through December were included in last year's results. At the same time, G.M. plans to phase out its unprofitable Oldsmobile division, with \$8 billion in sales, over the next several years. G.M. hopes to hold on to all of these revenues, said Darwin Clark, G.M.'s vice president for dealer relations. But auto consultants say that G.M. will lose at least half of Oldsmobile's customers to rivals, so the loss of Oldsmobile could shave perhaps \$4 billion from G.M.'s lead. Finally, G.M.'s board approved further talks with the News Corporation to dispose of Hughes Electronics, which had \$8.7 billion in revenue last year. Add up these changes and it equals more than enough to wipe out the sales gap with Ford, even without further market- share deterioration by G.M.

#### **16. California Says Clean Air Requirements Are Not The Cause of Power Crisis**

California regulators told congressional lawmakers that clean air regulations are not to blame for the state's electricity shortages and

said new legislation seeking to ease air quality rules was unneeded.

Speaking at a House Commerce Energy and Air Quality Subcommittee hearing, the Executive Director of the California Air Resources Board repeatedly said environmental regulations should not be suspended for the sake of electricity.

"Air quality laws are not interfering with California's ability to bring new generation on line and run existing power plants at maximum capacity," said Michael Kenny, executive officer of the board. When asked by Democratic lawmakers on the panel about a provision in a pending electricity bill, the California regulator said the state did not ask for a relaxation of clean air rules and did not need the change.

"We believe that air quality-related sections of the legislation are unnecessary," Kenny said.

Rep. Joe Barton, the Texas Republican who chairs the energy subcommittee, said the measures allow flexibility to states for the temporary suspension of environmental laws. He said the key point of his bill is to ensure the lights stay on in California this summer.

The Golden State expects to face threats of blackouts starting this month, when air conditioning use accelerates.

Objections raised by Kenny to the Barton bill included disagreement on a section allowing the U.S. Environmental Protection Agency to waive, when asked by a state, the requirements of the federal Clean Air Act pertaining to nitrogen oxide emissions.

Kenny said the state already gives flexibility on the issue and contended the legislation would go too far and be problematic.

"The waiver applies to all new generation facilities in the state and does not allow for consideration on a case-by-case (generating plant by generating plant) basis, where unique local factors can be weighed," said Kenny.

### **17. California Energy Czar Disagrees With Vice President Over Conservation**

Taking aim at the Bush administration, California's energy czar said that conservation will be more crucial to getting the power-starved state through the next few months than adding new power plants. "I've got a message for the vice president. Conservation is not a dirty word in California," David Freeman told state, civic and corporate leaders gathered here for the second annual Silicon Valley Energy Summit.

Freeman, an energy adviser to President Jimmy Carter and former head of the Los Angeles Department of Water and Power, was appointed by Gov. Gray Davis to spearhead efforts to solve California's energy crisis. Freeman's comments responded to a recent energy policy speech by Vice President Dick Cheney in which Cheney emphasized the need for the United States to prioritize oil and gas production and speed power plant construction rather than expect to solve a national energy shortage through conservation. The vice president's words were echoed by Energy Secretary Spencer Abraham, who was in San Francisco touting the Bush administration's orders to cut energy use at federal facilities in California by 10 percent to help relieve the grid. Like Cheney, Abraham concluded his one-day visit by admonishing Californians to boost their electricity supplies.

"We know what we need to do. But it's a combination of adding to the power supply and conserving to get back to a 15 percent supply margin," Freeman said. Early fruits of

that twin effort are already being seen. Officials from Gov. Davis's office said electricity consumption statewide in March and April was down about 9 percent from a year ago. Their goal is to reach 20 percent savings during the summer months, when air conditioning accounts for up to a third of all power used.

And after a decade of what Freeman called an electric industry "sleeping at the switch", 13 power plants have been licensed in California in the past two years, eight of which are now under construction. Yet despite the rush to add megawatts, most of the extra electricity won't be available until next summer.

Energy industry officials estimate the state still faces a 3,500-5,000 megawatt shortfall on the hottest days this year, or about 10 percent less than needed by the state's 34 million residents.

The severity of the crisis also depends on how hot it gets. If the summer is mild and conservation goals are met, some state officials said they believe California can squeak through the June-September crunch without any blackouts at all. But the latest energy industry forecasts are less rosy, pointing to 34 days of rolling blackouts, typically triggered for several hours during the afternoon and early evening when air conditioning demand peaks. Rolling blackouts are ordered when electricity reserves drop to less than 1.5 percent of actual demand - a last-ditch effort to prevent uncontrolled outages and widespread damage to the state's electrical system.

For Silicon Valley and the greater San Francisco Bay Area's five million residents, those outages spell economic disaster. A study released last month by the Bay Area Economic Forum said the region faces business and manufacturing losses this

summer of \$2 billion to \$16 billion, depending on the number of hours companies are without electricity.

Records from the first blackout to hit Silicon Valley back in June, 2000, showed members of the 109-company Silicon Valley Manufacturing Group lost anywhere from \$1 million an hour to a staggering \$1 million a minute. Included in the group, whose members employ some 275,000 people, are such technology heavyweights as Intel Corp., Sun Microsystems Inc. and Hewlett-Packard Co. Those companies hit hardest by power outages were chip makers and biotech firms, who found themselves tossing out huge batches of silicon and cell cultures - forcing them to restart processes that often take days or weeks to complete.

Despite the sobering near-term scenario, Freeman told those attending the conference there was reason to be optimistic about the state's energy future. "This state will emerge stronger than the rest of the nation," Freeman predicted, adding that California will restore its energy supply/demand balance perhaps as early as 2002 and almost certainly by 2003.

### **18. Toyota Delivers Hybrids To Denver**

With rising gasoline prices and concern over air pollution as a backdrop, Toyota Motors has delivered to the city of Denver 39 gas-electric hybrid cars that register 52 miles per gallon in city driving.

The purchase of the 2001 Prius sedan models, which run on both an electric motor and a conventional engine, will bring to 14 percent the share of the city's light vehicle fleet that runs on alternate fuels, city officials said.

"We're committed to making Denver an environmentally friendly city," Theresa



Donahue, manager of Denver's Department of Environmental Health, said in front of City Hall where the vehicles were parked.

The cars will be used by the Denver Fire Department, Parks and Recreation and other city agencies.

Only Toyota with its Prius and Honda Motor Co. Ltd. with the Honda Insight, have hybrid gas-electric vehicles for sale. Other automakers are not expected to have models available until 2003 at the earliest.

Toyota also delivered seven RAV4-EVs, or electric vehicles, that get 126 miles (200 km) on "one tank" or charge, that will be leased by companies in the Denver area.

The four-door Prius sedan, which seats five, does not need to be recharged because it generates power when the driver steps on the brake. Because of this, the car, which retails at \$19,995, gets better mileage in the city than on the highway, 52 mpg (83 kilometers) compared with 48.

Toyota is selling the Prius model at a rate of about 1,000 a month, in line with its annual target of 12,000, Kitzens said.

About 4 percent of Prius sales in the United States go to fleets, but about 30-35 percent of sales in western U.S. states are for fleets, a Toyota spokeswoman said.

The Denver region, which covers six western states, accounts for about 10 percent of Prius sales, Kitzens said, a higher count than would be expected in the sparsely populated Rocky Mountain region.

While the Prius is a hybrid, the RAV4-EVs is powered solely by an electric motor. Seven public access charging stations will be built around the Denver area, including at Denver

International Airport through a grant from the U.S. Department of Energy Clean Cities program, Donahue said.

The RAV4, which looks like a small sport utility vehicle, is being offered for lease exclusively to fleet users.

As of spring 2001, 821 RAV4-Evs have been delivered. It takes about five to six hours to fully recharge the battery.

Both vehicles offer a smooth ride and if it were not for indicators in the Prius showing when the electric motor kicks in, many drivers would not detect the difference.

### **19. US Utilities Form Alliance To Curb Carbon Dioxide Emissions**

Eight U.S. utilities, concerned about their ability to plan future investments in power plants, are preparing a legislative proposal to limit carbon dioxide and other emissions under a voluntary, market-based system. The plan runs counter to a decision made earlier this year by President George W. Bush rejecting caps on carbon dioxide emissions. The president said such caps were too costly and risky, given the nation's worsening energy supply crunch.

Carbon is considered the leading cause of man-made greenhouse gases, which are in turn blamed for global warming.

Included in the industry proposal are a national tonnage cap for emissions and a gradual reduction in carbon dioxide pollution, according to the industry source, who spoke on condition of anonymity.

Utilities would be allowed to go outside their own operations to gain credits for cutting pollution in other businesses, like buying clean-burning vehicles not related to running

power plants.

The proposal seeks to balance the need for certainty on pollution controls with a transition period for utilities to adapt to new emission controls.

The plan is to be completed next month, after which the group will seek support to move the proposal in Congress.

The eight firms, which work together on the four-pollutant plan as a coalition known as the Clean Energy Group, want to cap carbon, sulfur dioxide, nitrogen oxide and mercury emissions.

The utilities in the coalition are Conectiv , Consolidated Edison , Exelon Corp , Keyspan Corp , Northeast Utilities , PG&E National Energy Group , PSEG and Sempra Energy.

In addition to more certainty over how future power plant emissions will be regulated, the group wants to ease concerns on Wall Street.

Nervousness in the capital markets over the issue of emissions could slow financing for the hundreds of power plants expected to be built in United States in the coming decades.

The following are reported to be the general points of the plan.

- < Sulfur dioxide would be cut 50 percent by 2008.
- < Mercury emissions would be cut 70 to 90 percent by 2012.
- < Nitrogen oxides would be capped at just over 2 million tons in 2008, around half of current levels.
- < Carbon emissions would stabilize at the levels recorded in the year 2000 by 2008, and reach 1990 emission levels by 2012, the proposal says. Flexible mechanisms would be in place to help achieve the

reductions.

## 20. New York and Connecticut Sue EPA Over Toxics Rule

New York, Connecticut and three national environmental groups have filed a lawsuit in federal court alleging the U.S. Environmental Protection Agency failed to offer an adequate plan to cut toxic pollution from cars, trucks and other mobile sources. The lawsuit said an EPA final rule released in March would leave hundreds of millions of Americans unnecessarily exposed to known human carcinogens like benzene.

"It is crucial to public health that EPA set effective standards to reduce these toxic pollutants," said Jim Pew, an attorney with Earthjustice, the group representing the Sierra Club, Natural Resources Defense Council and the U.S. Public Interest Research Group in court against the EPA.

The green groups say the agency was mandated by the Clean Air Act to reduce, by 1995, the threat of toxic air pollutants from cars, trucks, buses, boats, snowmobiles, lawn equipment and motor vehicle fuels.

The March rule does not place new controls on the emissions, however, leading to the legal action, they said.

"EPA's failure to adopt timely, comprehensive and common sense regulations to reduce these pollutants is unacceptable," said New York Attorney General Eliot Spitzer, in a statement announcing the state's decision to join the lawsuit.

According to the environmental groups, the EPA itself estimates that mobile sources emitted 1.6 million tons of toxins in 1996. That exposure meant more than 250 million people nationwide were subject to an unacceptable

cancer risk, they said.

In addition to benzene, a known carcinogen which comes from vehicle tailpipes as part of the fuel-burning process, other toxins thought to be carcinogens and asthma triggers are formaldehyde, acetaldehyde and diesel particulate matter.

The groups said states like California have taken steps to reduce exposure to the dangerous emissions, but EPA had not evaluated the measures.

"Based on currently available control technologies, the California Air Resources Board has adopted regulations that require the use of emission control devices for several types of gasoline nonroad engines such as boats, personal watercraft and large industrial engines," the groups said.

Some of the catalysts cost only \$5 per engine.

Pew said the legal action would likely take between one year and 18 months to work its way through federal court.

### **21. Navistar Calls on Pemex To Lower Sulfur In Diesel Fuel**

U.S. truck and bus maker International called for Mexico's state-owned oil monopoly to begin producing a lower-sulfur diesel fuel so that it can introduce its new low-emissions diesel engines here.

"The only piece missing is the diesel. We are pushing so that these changes come about faster," said Jose Manuel Canal, vice president for the company's international operations.

International, a unit of Chicago-based Navistar International Corp., said it will introduce its

so-called green diesel technology in buses in California in September this year.

But Canal said the company cannot begin to make and sell buses or trucks using this technology in Mexico until Petroleos de Mexico (Pemex) the government-run producer and refiner of oil, begins making a diesel fuel with 15 parts per million of sulfur or lower.

International said the lowest sulfur diesel currently available in Mexico is 500 parts per million. Canal said the company has had no indication from Pemex when it could begin to produce low-sulfur diesel.

Roughly half of Mexico's oil is Maya crude, the world's third heaviest in terms of metals and sulfur content. It therefore requires more processing at the refinery end.

Pemex is slowly upgrading refineries to increase Mexico's capacity to process Maya. But budgetary constraints mean the upgrades will take years. It is unclear when low-sulfur diesel could be produced in any sizeable quantity.

International has one factory in Mexico, opened in 1998 in the northern state of Nuevo Leon, which manufactures 45 units a day of trucks, trailers and buses. Most are sold on the domestic market. Canal said in the first four months of the year, International increased its market share to 34 percent compared with 24 percent in the same period last year. In the first three months of 2001, International sold 2,500 units - including trucks and buses - in Mexico. Canal did not provide a comparative figure for last year.

Earlier this year, Mexico's Association of Bus, Truck and Trailer Manufacturers (ANPACT) said that heavy vehicle sales in Mexico fell 6 percent during the first quarter, to 7,504 units.

Canal said the reasons International was doing well compared with its competitors here were financing plans and products.

International executives said yesterday that their low-emission diesel engines last longer, are more powerful, and have a greater operating range than natural gas engines with comparable emissions. They said low-emission diesel engines will cost only 10 percent more than current diesel engines.

Mexico City, part of an urban area of some 19 million people, is one of the most polluted cities in the world, and the local government is currently trying to replace tens of thousands of buses for safer, less-polluting models.

Canal said on average its new low-emissions buses pollute only 1 percent as much as the tens of thousands of buses currently on the road in Mexico City.

He also said International has adapted the technology on the new engines so it could work well in the high altitude of Mexico City, which is more than 7,000 feet (2,200 meters) above sea level, worsening the emissions of some engines.

## **22. Senator Jeffords Leaves Republican Party; Democrats To Control Senate**

Senator James M. Jeffords's (I-VT) has announced that he is leaving the Republican Party to become an independent. For the first time in history, a defection of one member from one party has given control of the Senate to the other Party. Jeffords's decision gives the Democratic Party a 50-49-1 majority in the Senate and the ability to control the agenda for hearings and legislation. Senator Jeffords, a strong supporter of environmental issues, will become Chairman of the powerful Senate Environment and Public Works Committee. The Bush Administration will now face a

much tougher task in their attempts to push legislation with adverse impacts on the environment. Senator Joe Lieberman will take over the Chairmanship of the Clean Air Act Subcommittee.

## **23. Mack and Cummins Announce Compliance with EPA Consent Decree**

Mack has indicated that it plans to meet the October 2002 Consent Decree deadline for meeting the 2004 on-road HDE standards following an earlier announcement by Cummins. Each plans to utilize cooled-EGR. EPA is developing a non conformance penalty regulation which could be used to allow non conforming engines to continue to be sold but with a cost penalty.

## **24. New York To Set Rules On Diesel Generator Emissions**

The State Department of Environmental Conservation (DEC) said it will establish emission standards for the diesel generators used to bolster the tight energy supplies this summer when air conditioning pushes demand to annual peaks. Most of the state's diesel generators, which are a form of distributed or on-site generation, are located at hospitals, office towers and apartments.

"Small sources of energy have the potential to play an increasingly important role in providing electricity to New Yorkers," DEC Commissioner Erin Crotty said in a statement.

Environmental groups want the state to impose strict restrictions on the use of diesel generators, which produce a lot more emissions than larger, more efficient power plants.

"This initiative is another concrete step in our efforts to protect air quality in New York and to

promote clean distributed generation, such as wind, solar, fuel cells and other emerging technologies," Crotty said.

The DEC said it will begin a technology review to establish emission standards for new sources of distributed generation, and will examine the feasibility of requiring emissions controls on existing sources.

Older diesel generators, just like older large power plants, produce more emissions than newer diesel generators.

In addition, DEC will work with other states' air programs to promote consistency in the regulation of distributed generation.

Commissioner Crotty also said the DEC will issue an emergency regulation that allows the limited use of low-sulfur fueled backup generators in emergency situations in 2001 and 2002.

Current State regulations allow emergency generators to operate only when the usual source of power is interrupted, as in a transmission outage or blackout.

In order to maintain adequate energy supplies in the event of a summertime emergency, the New York Independent System Operator (NYISO), the nonprofit organization that dispatches electricity throughout the state, has developed an emergency program for the 2001 and 2002 peak demand periods.

As part of that program, NYISO is enlisting customers with existing emergency backup generators to reduce their demand on the system by operating their generators when power supplies drop below a specified level.

Much of the demand reduction will come from the operation of backup generators in New York City and on Long Island, where the

state's energy supply shortages are the most critical.

By encouraging electricity customers to voluntarily reduce their load on the system, the NYISO is acting to reduce the possibility of power interruptions this summer, which would result in uncontrolled emissions from these generators.

The emergency regulation would temporarily permit the use of up to 150 megawatts of emergency generators when power supplies drop below a certain level.

Since one megawatt provides enough electricity to light about 1,000 average homes, the program would provide enough energy for about 150,000 New York homes.

Generators would be required to use ultra low-sulfur fuel, reducing the amount of particulates, sulfur dioxide and nitrogen oxides that would otherwise be emitted by these units.

In addition, these generators would be capped at a maximum of 200 hours of annual operation.

The emergency regulation will be followed by a formal rulemaking to extend the regulations through the summer of 2002 and to impose additional requirements that would further control or offset emissions.

## ASIA-PACIFIC REGION

### 25. Australia Defers Ruling on MTBE Ban

The Australian government has deferred a decision on whether it would ban the sale of petrol containing the controversial additive Methyl Tertiary-Butyl Ether (MTBE) as part of new clean fuel standards. Environment Minister Senator Robert Hill said the

government had deferred the decision on standards for MTBE and olefins while it examined environmental issues and the availability of olefin/MTBE petrol in the region.

"The government is committed to addressing the issue of the wide-scale use of MTBE because of the risk to Australia's ground and surface water resources particularly in regional areas," he said in a statement.

The government was due to make a decision on the additive as part of new fuel quality standards to be phased in from 2002. Importers said a ban on MTBE fuel would limit their ability to source fuels for Australia while domestic refiners feared allowing MTBE additive fuel imports would undermine investments of A\$1.3 billion required to produce cleaner fuels.

API executive director Bryan Nye said the refining industry disputed claims that importers would not be able to source sufficient MTBE-free petrol and a ban would undermine their ability to compete.

"I am quite pleased that the government has not agreed to something that we were totally opposed to and they are going to carefully consider it," he said.

MTBE is an oxygenate that could be used to meet improved octane standards for Australian fuel, but Nye said its use was being phased out in the U.S. due to environmental concerns.

Hill said further study would also be undertaken before setting an ethanol content limit for petrol, with a decision expected within 12 months.

Hill said the new fuel standards that would be phased in from 2002 would halve emissions of benzene from petrol. The standards also

phase in lower sulphur levels for petrol and diesel.

## 26. Recent Developments in China

Sinopec, the largest supplier of fuel in China, has indicated its intention to provide diesel fuel with a maximum of 300 PPM sulfur to China's major cities by 2003 even though the government specification remains at 2000 PPM. Diesel fuel sold by Sinopec in Beijing is meeting 500 PPM according to Sinopec.

China Heavy-duty Automobile Group Corp. (CHAG) recently started feasibility talks with Volvo of Sweden for setting up a joint venture to manufacture tractor trailers and heavy duty trucks, according to Sun Jianshe, president of CHAG. The joint venture project was approved earlier by the State Council on March 16. The joint venture is expected to open for business as early as October 2001 and begin assembling CDK tractor trailers and heavy truck.

Honda Motor Co. plans to inject an additional 3.8 billion Japanese yen (\$31 million) into its China operations in order to expand the production of its cars assembled in China. The company's joint venture, Guangzhou-Honda, started assembling the Accord in China in 1999.

FAW-VW was listed as the most appreciated JV in China, according to a recently survey conducted by Forbes China edition. The survey covered items including products and service, management, effectiveness in after-market service, flexibility and creativity in integrating into the Chinese market, reliability, relationship with local partners and local community. FAW-VW replaces Shanghai-VW, which took the title in 1999.

Shell is moving out from China's propane gas industry, according a high official of Shell

China. Shell started investing in China in the mid-1980s, with a total cumulative investment of more than \$70 million. The company's business covers oil exploration and refinery, natural gas and electricity generation, gasoline products, chemicals and recycling development. It has 16 subsidiaries in China.

The Huadong Teksid Automotive Casting Co., Ltd. went into production recently in Zhenjiang of Jiangsu Province. The 30-year Sino-Italian joint venture has a total investment of \$80.88 million, split 25:25:50 between Shanghai Automotive Industry (Group) Corp., Yuejin Automobile Group Corp. and Teksid SpA of Italy. Huadong Teksid is China's largest manufacturing facility in engine castings.

The first authorized Jinbei-GM dealer recently opened for business in Shenzhen, Guangdong Province. The Chevrolet Blazer produced by Jinbei-GM formally entered the Chinese auto market. The Blazer is the first SUV made in China equipped with airbags. The following are the price tags of the different Blazers::

4.3L V6	385,000 yuan
2.4L 4x4 DLX	285,000 yuan
2.4L 4x2	250,000 yuan

A compact Buick model, the Sail, made by Shanghai-GM recently appeared in the auto market in Kunming in southwest China's Yunnan Province. More than 800 orders have been taken in the five months this year. Powered by a 1.6 liter engine and a five-speed manual transmission, the SL model comes with four-wheel ABS and dual safety air bags with a projected base price of around 10,000 yuan (\$12,000). The Sail consumes 6 liters of gasoline for every 100 km and the fuel injection and catalytic converter systems ensure that it meets the Euro II emission standards. The Sail is based on GM's Opel Corsa.

Chang'an Automobile Group Corp. recently established a center for post-doctoral research. Three candidates are now on the final list for further consideration. Chang'an recently wrapped up a deal with Ford Motor Company to form a 50:50 joint venture with a total investment of \$98 million.

**27. Viet Nam Issues Unleaded Decree**

Upon the request of the Ministry of Transport at their Proposal No. 965/GTVT – DK dated March 30, 2001 on the execution of Instruction No. 24/2000/CT-TTg dated January 23, 2000 on the use of unleaded gasoline, the Prime Minister has the following opinions:

From May 1, 2001, the Ministry of Trade proclaims officially types of unleaded gasoline with octane number of 83 upward permitted to be imported into Vietnam and prohibition of leaded gasoline and materials for making leaded gasoline, except an amount of leaded gasoline permitted by the PM to be imported for defense and security purposes.

The Ministry of Trade prepares for switching to the use of unleaded gasoline all over Vietnam from July 1, 2001.

The Ministry of Transport takes the leading role, in collaboration with the Ministry of Science, Technology and Environment, to carry out the tasks as defined in the Instruction No. 24/2000/CT-TTg of the PM:

- < To control and identify the level of pollution by exhaust emission discharged from road vehicles, primarily in Hanoi and Ho Chi Minh City;
- < To issue standard for exhaust emission discharged from motors using unleaded gasoline;
- < To continue awareness activities to

disseminate the benefits of using unleaded gasoline.

The Ministry of Defense and Ministry of Police should submit to the PM as soon as possible a plan of using unleaded gasoline for specific vehicles as stipulated in the Instruction No. 24/2000/CT – TTg

The Ministry of Finance takes the leading role, in collaboration with the Ministry of Transport, Trade and MOSTE, to review the proposal of Saigonpetro in order to provide favorable conditions for this company to convert its petroleum production to a new product of M83 unleaded gasoline.

Resources used for carrying out the tasks entrusted by the PM to ministries as defined in Instruction No. 24/2000/CT – TTg can be charged to the regular operating cost of these ministries or their affiliates if the later are delegated with the tasks.

## **28. Japan METI Panel Calls For More Use Of Natural Gas**

Japan aims to promote more use of natural gas and reduce coal usage by 2010 to curb carbon dioxide emissions, an official with the Ministry of Economy, Trade and Industry (METI) has announced. "A draft plan compiled for the long-term energy supply plan suggests that Japan will promote the use of natural gas through fiscal 2010 while reducing the use of coal," the METI official said.

The move was aimed at keeping Japan's commitment against global warming, as carbon dioxide (CO2) emissions in Japan are expected to increase under the current long-term supply plan, she said.

The METI panel will finalize the plan by this summer, she said.

That target was to cut emissions of six greenhouse gases, including CO2, by six percent by the 2008-2012 period from 1990 levels, and of these the government pledged to keep CO2 emission levels unchanged in fiscal 2010 from 1990 levels.

Yet CO2 emissions in fiscal 2010 will rise by around seven percent from 1990 levels, increasing 20 million tonnes per year.

Based on the assumption that Japan will build 10 to 13 nuclear power reactors by 2010, CO2 emissions of 15 million tonnes can be avoided by energy-saving measures and steps to use more renewable energy sources including wind power, she said.

Another five million tonnes could be reduced by promoting the more use of natural gas and curbing the use of coal, the official said.

"To promote more use of natural and to reduce that of coal, we are considering establishing some tax measures such as support for LNG power generation, but nothing concrete has been finalized yet," she said.

Japan is the world's largest LNG importer.

The plan would hike the ratio of natural gas to total energy consumption to 14 percent in 2010, compared with 13.2 percent in the current plan and an actual 12.9 percent in fiscal 1999.

The ratio of coal to total energy use in 2010 will be revised down to 19 percent from 21.9 percent in the current plan.

The ratio of oil in 2010 will stand at 45 percent, unchanged from the current long-term plan, but down from 52 percent in fiscal 1999.

## **MIDDLE EAST**



### **29. Oman Shifts To Unleaded Only Gasoline**

Oman will sell only unleaded petrol at its pumps from August 1 according to a government announcement. Oman news agency ONA quoted Oil and Gas Ministry official Nasser bin Ali al-Midilwi as saying the move was in line with a decision by the six-nation Gulf Cooperation Council (GCC) to only sell "green" fuel by 2002.

"Oman's crude refinery will only produce unleaded fuel from now, and July is the last month where regular, leaded fuel will be available at the pumps," Midilwi added.

Oman will be the second GCC member to introduce unleaded fuel. Saudi Arabia, the world's largest oil producer, has been selling it since January.

The GCC comprises Bahrain, Qatar, Saudi Arabia, Oman, the United Arab Emirates and Kuwait.

## **LATIN AMERICA**

### **30. Brazil Increases Alcohol In Gasoline To 22%**

Brazil will raise the alcohol content of all gasoline sold domestically to 22 percent from 20 percent beginning on May 31, the Agriculture Ministry said.

"The final step to approving the increase to 22 percent happened today when the Interministerial Council on Sugar and Alcohol sent the decree to the National Council on Farm Policy," said Pedro Camargo Neto, the Agriculture Ministry's secretary of production and trade.

Brazil's gasoline had contained 24 percent of

the sugarcane-based ethanol, or alcohol as it is referred to locally, but the government had to reduce the ratio of the clean-burning fuel in gasoline four percentage points late last year. A prolonged drought over Brazil's main center-south sugarcane crop cut the region's output by 20 percent and the government feared the consumption of alcohol at the time would create sharp price fluctuations and supply problems on sugar and alcohol markets.

This season's center-south crop was pegged between 222 million and 227 million tonnes, well above the 207 million turned out during the 2000/01 drought-stricken season. But a shortage of rain in January and March in certain top-cane-producing regions of the Center-South have raised concerns that the harvest figures may tend toward 222 million tonnes rather than the upper end of the estimate.

The government has responded conservatively at this point while production figures from the field - only recently having begun harvest - are still pending, said a sector analyst. But a sugar trader based in Rio de Janeiro said the move to raise the mixture to only 22 percent had been widely expected for a month now and the market has already factored it into prices.

## **GENERAL**

### **31. Atmosphere's Principal Scavenger In Decline**

The atmosphere's ability to cleanse itself naturally has weakened over the past decade, possibly because of a change in the mix of pollutants emanating from industrialized nations, researchers announced in a recent issue of the journal, *Science*. Atmospheric levels of the atmosphere's main cleansing agent, hydroxyl radical (OH) - which scrubs

the air of carbon monoxide, methane, sulfur dioxide and nitrogen dioxide - rose during the 1980s but fell by even larger amounts during the 1990s, according to their study.

An international team of researchers led by Massachusetts Institute of Technology atmospheric scientist Ronald Prinn studied OH levels since 1978. The chemical promotes the destruction of air pollutants and many gases involved in ozone depletion and the greenhouse effect. From 1978 to 2000, the concentration of OH in the southern hemisphere was up to a third higher than that of the northern hemisphere, the study showed. Globally, it increased from 1978 until around 1988 and then declined.

The cause of the fluctuation is unclear, the researchers said. But because the decrease in the global concentration of OH is driven by changes in the northern hemisphere - where most of the world's industrialization and emission of human-made gases takes place - the findings likely stem from man-made rather than natural causes, they said.

The chemical exists only fleetingly in the lower atmosphere and cannot be measured directly. But its existence can be inferred from long-term global measurements of a man-made gas that it obliterates, the study found.

The researchers said factors may include the changing mix of air pollutants in the northern hemisphere such as nitrogen oxides and carbon monoxide, along with **tiny particulates** known as aerosols that may be removing hydroxyl radical and its related molecules from the atmosphere. The aerosols also may be reflecting and absorbing the sun's ultraviolet radiation, which could lower OH production, the researchers said.

### 32. Advanced Technology Competition

### Heating Up

Hybrid electric vehicles (HEVs) promise to cut emissions and fuel consumption. Seen by some as the car of the future, the HEV got a boost this month from the U.S. president's energy strategy. Bush announced plans for \$4 billion in tax breaks for buyers of the more environmentally-friendly hybrid and fuel cell vehicles, in a package otherwise widely condemned by critics as a threat to the environment.

A number of industry analysts said the announcement, while welcome, would do little to speed output of hybrids.

"It might encourage a few more people to go for them (HEVs), but the major bugbear is not so much the price but their performance parameters," said Angus MacMillan of metal consultants Brook Hunt, who sees the move on HEVs as a relatively insignificant gesture. "It's (a) small sop to the environmental lobby, given what the other legislation is going to exact on the environment."

Patrick Moseley, research program manager at the U.S.-based Advanced Lead Acid Battery Consortium (ALABC), expressed a contrary view. "Hybrids are already selling pretty well as they are," he said.

The first generation includes Toyota Motor Corp's Prius model and Honda Motor Co's Insight.

In February, worldwide sales of the Prius were reported at around 50,000. In the second half of 2000 some 5,562 cars had been sold or leased in the United States, according to the Electric Vehicle Association of the Americas' website .

This compares with some 3,805 of Honda's Insight model since the fourth quarter of 1999.

HEVs - which have a small internal combustion engine and a battery pack - are seen holding the most promise for cutting emissions and fuel consumption in the short-term. HEV engines are designed to run at constant speed to keep batteries charged on open roads. Battery-only operation is used in towns and cities to cut pollution. Overall emissions are estimated to be 50 percent lower than normal cars.

But many see HEVs as little more than an interim technology to some form of pure electric vehicle.

Fuel cell cars, also favored by Bush's tax break, comprise an onboard charger which can also directly drive the system. Hydrogen and electricity are burnt to create electricity, while emissions are hot, distilled water.

The technology would still need a battery to power electronic devices but configurations are being investigated.

Others were more skeptical of the tax break benefits.

"The tax incentive doesn't matter if the technology is not there," said Brook Hunt's MacMillan.

Gerry Woolf, head of Britain's Electric Vehicle Association, saw a move towards HEVs in the popular, gas-guzzling sports utility vehicles (SUVs) sector as a sign of their increased acceptance.

Ford aims to offer hybrid Escape models from 2003. On its website it said the vehicles will achieve up to 40 miles (64 km) per gallon in city driving and travel up to 500 miles (804.7 km) on a single tank of gasoline.

Woolf said the vehicle would initially use nickel-metal hydride batteries, but added that General Motors was leaning towards lead-acid batteries for its SUV models.

In the industry, a battle for HEV battery configuration is raging between nickel-metal hydride and lead-acid technologies and this was also seen as being unaffected by the tax breaks.

Toyota's Prius and Honda's Insight have opted for nickel-metal hydride batteries.

Analysts said nickel-metal hydride batteries had better chemistry and further development was needed for lead-acid technology to cope with the heavy duty cycle required for HEVs.

But some were confident the lead-acid camp could make up lost ground, simply because of cost advantages.

The Electric Vehicle Association's Woolf said a lead-acid battery pack for HEVs costs around \$200.

Other technologies were at least three or four times as expensive and the car industry was not willing to pay such a price in the longer term, he said.

"In the early year or two, lead won't be there - but it will be in the longer term," ALABC's Moseley said.

Potentially, lead would have much to lose if nickel maintained a stranglehold on HEVs, given that around three-quarters of the six million tonnes per year market is used in batteries - mainly for automotive uses.

### **33. PROPOSED WORK PROGRAM FOR MVEG AND ITS SUB-GROUPS 2001**

## WORK PROGRAM WITHIN MVEG:

SUBJECT AREA	TASKS FOR MVEG	PRIORITY FOR MVEG
<b>Directive 70/220/EEC (for passenger cars and light commercial vehicles)</b>	Consider proposal for revised reference fuel specifications applicable from 2005;	1
	Develop proposal regarding the Type V durability test of Directive 70/220/EEC for passenger cars and light commercial vehicles;	1
	Develop non-methane hydrocarbon and methane limits for passenger cars and light commercial vehicles applicable from 2005 (Euro 4);	2
	Review the effect of mobile air conditioning systems on emissions and CO <sub>2</sub> and develop, where necessary, appropriate modifications to test procedures;	2
	Make a proposal to expand the scope to include vehicles using ethanol fuel;	2
	Review existing durability periods for passenger cars and light commercial vehicles (taking into account the results of the Auto-Oil II program);	3
	Monitor discussions in Motor Vehicle Working Group (MVWG) regarding the definition of vehicle mass (amendment to the framework directive);	3
<b>Directive 70/220/EEC (for light commercial vehicles)</b>	Review the three weight classifications of light commercial vehicles and make proposals to revise where necessary, to be taken-up in the Motor Vehicle Working Group (MVWG)	3
<b>Directive 88/77/EEC (for heavy-duty vehicles)</b>	Develop proposal to introduce relevant durability requirements in Directive 88/77/EEC for heavy-duty vehicles fueled with diesel and gas;	1
	Develop proposal to introduce a method of in-use conformity testing in Directive 88/77/EEC that is applicable for heavy-duty vehicles;	1
	Consider the feasibility of meeting the proposed NO <sub>x</sub> limit of 2.0 g/kWhr in 2008.	1

	Monitor progress of work in GRPE working group for possible application of a world harmonized test cycle for stage 2005 (Euro 4) or 2008 (Euro 5);	2
<b>Motorcycles</b>	Monitor progress on durability studies relating to 2 and 3-wheeled vehicles;	1
	Monitor progress of work in GRPE working group for possible application of a world test cycle for 2006 and develop appropriate emission limits;	1
	Make proposals for measurement of CO <sub>2</sub> and fuel consumption of motorcycles	2
	Develop particulate emissions test procedure and particulate emission limits for 2-stroke and diesel 2 and 3-wheeled vehicles.	2
	Replacement catalysts for 2 and 3-wheeled vehicles;	2
<b>Development of new particulate measuring methods</b>	MVEG to monitor progress of Commission and Member State research programs looking to develop methods to measure particulate size, number and composition.	1
<b>Development of emission test cycle and test procedures for hybrid vehicles</b>	Make proposals for a relevant and representative test cycle and test procedures for the measurement of, fuel consumption and CO <sub>2</sub> emissions from hybrid vehicles.	2
<b>CO<sub>2</sub> / fuel consumption - Directive 93/116/EEC</b>	Make proposals to amend the test procedures to include light commercial vehicles;	1
	Make a proposal to expand the scope to include vehicles using ethanol fuel;	2
	Correct NG density.	2
<b>Fuels and fuel quality</b>	MVEG to monitor progress of low sulphur fuel standards for petrol and diesel.	2
	MVEG to monitor progress towards a procedure for assessing the performance of additives on exhaust emissions from light-duty and heavy-duty vehicles;	2
	Make appropriate proposals relating to the use of RME in diesel vehicles.	2

## WORK PROGRAMME FOR MVEG AD-HOC GROUPS:

SUBJECT AREA	TASKS FOR MVEG	PRIORITY
<b>On-Board Diagnostics (OBD)</b>	Complete proposals for OBD applicable to heavy-duty vehicles at stage 2005 (Euro 4) and at stage 2008 (Euro 5);	1
	Review the necessity or otherwise in 2005 of lowering the present OBD threshold limits applicable to passenger cars and light commercial vehicles equipped with positive-ignition engines. Develop proposals where appropriate;	1
	Develop proposals for OBD applicable to new alternative fuelled passenger cars from 1 January 2003 and new alternative fuelled light commercial vehicles from 1 January 2006, including proposals applicable to vehicles with OBD systems that are subsequently retro-fitted to run on alternative fuels;	1
	Complete proposals for measures (technical or non-technical) related to the replacement parts market for vehicles equipped with OBD systems;	1
	Review the situation with regard to the provision of emission-related service information through the internet together with appropriate proposals;	1
	Consider any necessary amendments through the technical adaptation procedure to deal with problems in interpretation of the OBD requirements and to take account OBD development and modifications in other world OBD standards;	2
	Review the progress of development of On-Board Monitoring (OBM in whatever form this is) in relation to its future use as a complementary technology to OBD;	3
	Consider the need for a separate OBD Directive dealing with all applications of OBD (emissions and, for the future, vehicle safety systems). [This might be possible when heavy-duty vehicle OBD is ready];	4

<b>In-use conformity checking</b>	Develop a proposal for in-use conformity testing applicable to heavy-duty vehicles at stage 2005 (Euro 4);	<b>1</b>
	Review the performance of the present scheme for in-use conformity testing audit and statistical sampling procedures;	<b>2</b>
<b>Enhanced Environmental Vehicles (EEV's)</b>	MVEG to monitor progress on the development of EEV target values for light-duty vehicles.	<b>2</b>