July 11, 2016

The Honorable Gina McCarthy
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue NW
Washington, DC 20460

Dear Administrator McCarthy,

With the Greenhouse Gas and Fuel Efficiency “Phase 2” rulemaking now submitted for Inter-Agency review, the four major U.S. heavy-duty truck OEMs, Daimler, Navistar, PACCAR and Volvo Group, thought it important to restate an important position we’ve consistently expressed during the course of the rulemaking.

EPA and NHTSA staff have invested a tremendous amount of time and resources to address the issues we and others raised in comments to the Notice of Proposed Rulemaking (NPRM). A rule of this scope and complexity is an enormous undertaking, made even more challenging by an aggressive timeline. Our experience from earlier rulemakings gives us confidence that EPA and NHTSA staff have seriously considered our concerns, and that they have thoughtfully balanced the input from all stakeholders in the development of the Final Rule. Our main concern is with the possibility that the Final Rule will include stringency that exceeds the levels proposed in the NPRM.

The rule, as proposed, is already very aggressive. Improving tractor efficiency by as much as 24% and vocational by more than 14% over the course of less than a decade is a tremendous step forward for an industry that has been treating fuel efficiency as a first order priority for our customers for many decades. The 4% engine efficiency improvement proposed will force continued development of engine technology while providing OEMs the needed flexibility to deploy the most effective balance of engine and vehicle technologies to our customer base. This approach avoids the unintended consequences the Agencies carefully described in the NPRM preamble and the Regulatory Impact Analysis (RIA).

Since the time that EPA and NHTSA drafted the proposal, some important changes have occurred which have profound implications for the success of the Phase 2 program.

- First, the price of fuel has dropped dramatically. Current diesel prices are 40% lower than the *lowest* annual price used by the Agencies for economic analysis in the RIA, which drastically extends estimations of customer payback period. Most customers require a payback of 2 years or even less to invest in technologies enhancing fuel efficiency. The Agencies’ payback projections according to the demands of the Phase 2 rule, already as high as 5 years, will be extended even further if fuel prices remain lower than forecast. Fuel price volatility is a serious risk to economic viability of the Phase 2 program.
- Second, Americas Commercial Transportation Research Company (“ACT”) has issued an independent report that forecasts a pre-buy/no-buy market outcome for 2021, the first year of implementation of the Phase 2 rule. ACT is predicting that the combined cost increases to heavy-duty vehicles and trailers in 2021 as required to comply with Phase 2 could lead to drastic sales volume increases in 2020 followed by dramatic reductions in 2021. The Agencies are well aware of the concern we have about the specter of this level of market disruption echoing the experience of the 2007 model year launch.
- Finally, EPA’s recently reduced ambient ozone standards, and California’s clearly stated intentions to drastically reduce NOx standards and to seek aggressive similar action from

EPA, make it abundantly clear that radical NOx reduction demands could be facing our industry. It's well understood that engine efficiency demands are in direct conflict with future NOx reduction.

These three factors -- extended payback periods due to reduced fuel prices, expert predictions of serious market disruptions, and looming NOx reduction requirements – should have EPA and NHTSA considering relaxation of the proposed Phase 2 efficiency requirements. But in fact, it has been reported that the contrary is actually the case. We're very concerned about the market implications of any increase in stringency beyond those proposed in the NPRM.

Daimler, Navistar, PACCAR and Volvo Group fully understand the important role we play in addressing the global challenge of mitigating climate change. We are committed to accept the very aggressive standards the Agencies have put forth in the proposed Phase 2 rule. We absolutely cannot support any increase in the already very aggressive standards – both engine standards and vehicle standards – beyond those outlined in the proposal.

We feel we have provided the data and information the Agencies need to finalize a pragmatic, cost effective regulation that delivers the dramatic reductions in fuel consumption and greenhouse gas emissions called for in their proposal. We believe our request to maintain NPRM levels of stringency is critical to the success of the Phase 2 rule -- success for the environment, for our customers, and for our industry.

Best regards,

Martin Daum
Chief Executive Officer
Daimler Trucks North America LLC

Troy Clarke
President and Chief Executive Officer
Navistar, Inc.

Ron Armstrong
Chief Executive Officer
PACCAR INC

Dennis Slagle
Executive Vice President, Volvo Group,
and President, Mack Trucks

Cc: Ms. Janet McCabe
Acting Assistant Administrator, Office of Air and Radiation
U.S. Environmental Protection Agency

Brian Deese
Senior Advisor to the President
The White House