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April 3, 2003

Lorraine Hunt
Office of Information and Regulatory Affairs
Office of Management and Budget
New Executive Office Building
Room 10202
725 17th Street, NW
Washington, DC 20503

Dear Ms. Hunt:

Subject: Draft 2003 Report to Congress on the Costs and Benefits of Federal Regulations

The Alliance of Automobile Manufacturers (the Alliance) is pleased to provide comments on the draft Office of Management and Budget (OMB) report to Congress on the costs and benefits of Federal regulations. The Alliance is a trade association of 10 automobile manufacturers who account for more than 90 percent of U.S. vehicle sales. Alliance member companies are BMW Group, Daimler Chrysler, Ford Motor Company, General Motors, Mazda, Mitsubishi Motors, Nissan, Porsche, Toyota, and Volkswagen.

The Alliance strongly supports OMB's efforts to (1) estimate the total costs and benefits of regulations, (2) provide guidelines for regulatory analysis, (3) assess approaches to analyze and manage emerging risks to public health, safety, and the environment, and (4) to improve analysis of regulations related to homeland security. A rigorous analytical approach to assess the costs and benefits of regulations would substantially enhance the quality of Federal government decision making in these areas. This view is mirrored in OMB's conclusion that the "... examination of the benefits and costs of Federal regulation supports the need for a common-sense approach to modernizing Federal regulation that involves the expansion, modification, and rescission of regulatory programs as appropriate." (68 FR 5494) In order to achieve this important objective, the Alliance suggests that the consequences associated with the results of cost/benefit analyses be articulated. The specific ways in which cost/benefit analyses influence regulatory decision-making should be defined and transparent. This will help facilitate informed public debate of a "common sense approach to modernizing Federal regulation.."

**BMW Group • Daimler Chrysler • Ford Motor Company • General Motors
Mazda • Mitsubishi Motors • Nissan • Porsche • Toyota • Volkswagen**

Guidelines for Regulatory Analysis

The Alliance supports OMB's proposed changes in the proposed guidelines for regulatory analysis of (1) encouraging agencies to perform both cost-effectiveness and benefit-cost analyses of major rules, and (2) requiring agencies to perform formal probabilistic analysis of key scientific and economic uncertainties regarding the costs and benefits of rules with economic effects that exceed \$1 billion annually. We regard this latter change as particularly important. Too often, agencies fail to recognize that their cost and benefit estimates have large amounts of uncertainty associated with them, yet these estimates are used as justification for particular rulemaking decisions. In fact, the Alliance believes that OMB should encourage agencies to extend the proposed \$1 billion threshold downward to \$100 million.

However, the Alliance does not support the proposal to require agencies to report analytic results based on discount rates lower than seven percent, i.e., three percent, or even as low as one percent in certain cases. OMB historically has indicated a discount rate of seven percent should be used as the base case for regulatory analysis, as an estimate of the average before-tax rate of return to private capital in the United States. We believe this rate and its rationale remain the most appropriate approach to discounting future costs and benefits. As the draft guidance indicates that OMB Circular A-94 recommends using other discount rates to indicate the sensitivity of the estimates, agencies already can consider the use of different discount rates in their analyses. To the extent that OMB believes it is necessary to specify particular alternative discount rates, it should require agencies also to use a rate higher than seven percent, such as the 10-25 percent rate mentioned by OMB as a possible private investment opportunity cost. (68 FR 5522)

The Alliance also believes it is important that the draft guidelines continue to state, "If your regulatory intervention results from a statutory or judicial directive, you should describe the specific authority for your action, the extent of discretion available to you, and the regulatory instruments you might use." (68 FR 5514) Similar language appeared in earlier versions of OMB's guidelines. The Alliance believes OMB should closely examine agencies' interpretations of Congressional or judicial directives, to ensure that agencies do not unduly constrain the range of available regulatory options. In addition, the Alliance recommends that OMB more formally encourage agencies to pursue changes in such directives in cases where examination of alternatives indicates inadequate need for regulatory action or that the directive precludes alternatives that could achieve greater net benefits.

Emerging Risks and Homeland Security

The Alliance defers comment on the issue of improving the analysis of regulations related to homeland security to others who have more expertise in this area. On the issue of emerging risks, the Alliance applauds the Administration's formation of an Interagency Work Group on Risk Management. Analyses of emerging risks need to make their assumptions and analytic approaches more explicit, transparent, and, to the extent feasible, quantifiable. The Alliance believes the formation of this work group offers a clear opportunity to improve the quality of such analyses.

Thank you for providing this opportunity to comment on the draft report to Congress.

Sincerely,

Robert Strassburger

Vice President
Vehicle Safety and
Alliance of Automobile Manufacturers