

109<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION

# S. 4000

To amend the Internal Revenue Code of 1986 to modify the alcohol credit and the alternative fuel credit, to amend the Clean Air Act to promote the installation of fuel pumps for E-85 fuel, to amend title 49 of the United States Code to require the manufacture of dual fueled automobiles, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

SEPTEMBER 29, 2006

Mr. LUGAR introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to modify the alcohol credit and the alternative fuel credit, to amend the Clean Air Act to promote the installation of fuel pumps for E-85 fuel, to amend title 49 of the United States Code to require the manufacture of dual fueled automobiles, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the  
5 “National Fuels Initiative”.

1 (b) TABLE OF CONTENTS.—The table of contents of  
 2 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Findings.
- Sec. 3. Declaration of United States policy on the development and use of renewable alternative fuels.
- Sec. 4. Modification to alcohol credit and alternative fuel credit.
- Sec. 5. Installation of E-85 fuel pumps by major oil companies at owned stations and branded stations.
- Sec. 6. Requirement to manufacture dual fueled automobiles.
- Sec. 7. Definition of automobile.
- Sec. 8. Average fuel economy standards.
- Sec. 9. Credit trading and compliance.
- Sec. 10. Consumer tax credit.
- Sec. 11. Advanced technology motor vehicles manufacturing credit.

3 **SEC. 2. FINDINGS.**

4 Congress makes the following findings:

5 (1) The national security and economic prosper-  
 6 ity of the United States is threatened by our oil  
 7 dependence, and the reliance of the United States on  
 8 oil imports impinges on our foreign policy. Adver-  
 9 sarial regimes rich in oil and natural gas are using  
 10 their energy supplies as leverage against import-de-  
 11 pendent countries and are using increased revenues  
 12 from oil and gas exports to gain international influ-  
 13 ence, fund anti-American appeals, entrench  
 14 authoritarianism, and support terrorism.

15 (2) Global competition for oil reserves is in-  
 16 creasing as supply is depleted, demand increases,  
 17 and foreign governments attempt to exert more con-  
 18 trol over reserves. Supplies of oil are vulnerable to  
 19 disruption resulting from war, political manipula-

1       tion, natural disasters, and terrorist attacks. A  
2       major loss in oil supply could result in a price shock  
3       extremely damaging to the economy of the United  
4       States and our way of life, and competition over  
5       scarce resources could create conflict.

6               (3) Inefficient and unclean use of oil damages  
7       the environment and worsens the threat of global cli-  
8       mate change.

9       **SEC. 3. DECLARATION OF UNITED STATES POLICY ON THE**  
10                       **DEVELOPMENT AND USE OF RENEWABLE AL-**  
11                       **TERNATIVE FUELS.**

12       Congress declares that:

13               (1) It is the policy of the United States to re-  
14       duce dependence on imported oil through increased  
15       efficiency and diversification of fuel sources through  
16       dramatically expanded use of clean alternative fuels.  
17       Such a reduction will increase the foreign policy  
18       flexibility of the United States, make the United  
19       States less vulnerable to oil supply disruption, and  
20       promote economic growth. The United States will  
21       continue to promote research and development of a  
22       range of alternatives fuels, and it will implement  
23       policies to accelerate the deployment and commer-  
24       cialization of existing efficiency and alternative fuels  
25       technologies.

1           (2) It is the policy goal of the United States to  
 2 produce and utilize the equivalent of at least  
 3 100,000,000,000 gallons of renewable fuel per year  
 4 by 2025. This amount of renewable fuel, along with  
 5 innovation in fuel efficiency, will substantially reduce  
 6 the need for oil imports in the United States.

7           (3) It is the policy of the United States to pro-  
 8 mote the development of a global biofuels market  
 9 through partnerships with other nations and to re-  
 10 duce trade barriers for renewable fuels.

11 **SEC. 4. MODIFICATION TO ALCOHOL CREDIT AND ALTER-**  
 12 **NATIVE FUEL CREDIT.**

13 (a) INCOME TAX CREDIT FOR ALCOHOL.—

14           (1) RATE BASED ON PRICE OF OIL.—Section 40  
 15 of the Internal Revenue Code of 1986 (relating to  
 16 alcohol used as fuel) is amended by striking “60  
 17 cents” each place it appears and inserting “the ap-  
 18 plicable amount”.

19           (2) APPLICABLE AMOUNT.—Subsection (h) of  
 20 section 40 of such Code is amended to read as fol-  
 21 lows:

22 “(h) APPLICABLE AMOUNT.—

23           “(1) IN GENERAL.—For purposes of this sec-  
 24 tion, the term ‘applicable amount’ means, with re-  
 25 spect to any quarter—

1           “(A) \$.05 for each \$1 (or any fraction  
2 thereof) by which \$45 exceeds—

3           “(i) in the case of the alcohol mixture  
4 credit, the average price of a barrel of oil  
5 for the quarter during which the qualified  
6 mixture in which the alcohol was used is  
7 sold or used, and

8           “(ii) in the case of the alcohol credit,  
9 the average price of a barrel of oil for the  
10 quarter during which the alcohol was sold  
11 or used, and

12           “(B) \$0 for any quarter in which the price  
13 of a barrel of oil is greater than \$45.

14           “(2) DETERMINATION OF AVERAGE PRICE.—  
15 The average price of a barrel of oil shall be deter-  
16 mined under regulations prescribed by the Secretary.

17           “(3) BARREL.—For purposes of this subsection,  
18 the term ‘barrel’ means 42 United States gallons.”.

19           (3) ELIMINATION OF SMALL ETHANOL PRO-  
20 DUCER CREDIT.—

21           (A) Section 40(a) of such Code is amend-  
22 ed—

23           (i) by striking “, plus” at the end of  
24 paragraph (2) and inserting a period, and

25           (ii) by striking paragraph (3).

1           (B) Section 40(b) of such Code is amended  
2           by striking paragraph (4) and by redesignating  
3           paragraph (5) as paragraph (4).

4           (C)(i) Section 40(d)(3) of such Code is  
5           amended by striking subparagraph (C) and re-  
6           designating subparagraph (D) as subparagraph  
7           (C).

8           (ii) Section 40(d)(3)(C) of such Code, as  
9           redesignated by clause (i), is amended by strik-  
10          ing “subparagraph (A), (B), or (C)” and insert-  
11          ing “subparagraph (A) or (C)”.

12          (D) Section 40 of such Code is amended  
13          by striking subsection (g) and by redesignating  
14          subsection (h), as amended by paragraph (2),  
15          as subsection (g).

16          (4) EXTENSION OF CREDIT.—Paragraph (1) of  
17          section 40(e) of such Code is amended—

18               (A) in subparagraph (A), by striking  
19               “2010” and inserting “2020”, and

20               (B) in subparagraph (B), by striking  
21               “2011” and inserting “2021”.

22          (5) CONFORMING AMENDMENT.—Section 40(b)  
23          of such Code, as amended by subsection (a), is  
24          amended by striking paragraph (3) and by redesi-  
25          gnating paragraph (4) as paragraph (3).

1 (b) MODIFICATIONS TO EXCISE TAX CREDIT AND  
2 PAYMENTS FOR ALCOHOL.—

3 (1) IN GENERAL.—Paragraph (2) of section  
4 6426(b) of the Internal Revenue Code of 1986 is  
5 amended to read as follows:

6 “(2) APPLICABLE AMOUNT.—For purposes of  
7 this subsection, the applicable amount shall be the  
8 amount determined under section 40(g).”.

9 (2) EXTENSION.—

10 (A) ALCOHOL FUEL MIXTURE CREDIT.—  
11 Paragraph (5) of section 6426(b) of such Code  
12 is amended by striking “2010” and inserting  
13 “2020”.

14 (B) PAYMENTS.—Subparagraph (A) of  
15 section 6427(e)(5) of such Code is amended by  
16 striking “2010” and inserting “2020”.

17 (c) MODIFICATIONS TO EXCISE TAX AND PAYMENTS  
18 FOR ALTERNATIVE FUEL.—

19 (1) ALTERNATIVE FUEL CREDIT.—

20 (A) RATE.—

21 (i) IN GENERAL.—Paragraph (1) of  
22 section 6426(d) of the Internal Revenue  
23 Code of 1986 is amended by striking “50  
24 cents” and inserting “the applicable  
25 amount”.

1                   (ii) APPLICABLE AMOUNT.—Sub-  
2                   section (d) of section 6426 of such Code is  
3                   amended by redesignating paragraphs (2),  
4                   (3), and (4) as paragraphs (3), (4), and  
5                   (5), respectively, and by inserting after  
6                   paragraph (1) the following new para-  
7                   graph:

8                   “(2) APPLICABLE AMOUNT.—For purposes of  
9                   this subsection, the applicable amount shall be the  
10                  amount determined under section 40(g).”.

11                  (B) EXTENSION.—Paragraph (5) of sec-  
12                  tion 6426(d) of such Code, as redesignated by  
13                  paragraph (1), is amended by striking “2009  
14                  (September 30, 2014, in the case of any sale or  
15                  use involving liquified hydrogen)” and inserting  
16                  “2020”.

17                  (2) ALTERNATIVE FUEL MIXTURE CREDIT.—

18                   (A) RATE.—

19                   (i) IN GENERAL.—Paragraph (1) of  
20                   section 6426(e) of the Internal Revenue  
21                   Code of 1986 is amended by striking “50  
22                   cents” and inserting “the applicable  
23                   amount”.

24                   (ii) APPLICABLE AMOUNT.—Sub-  
25                   section (e) of section 6426 of such Code is

1           amended by redesignating paragraphs (2)  
2           and (3) as paragraphs (3) and (4), respec-  
3           tively, and by inserting after paragraph (1)  
4           the following new paragraph:

5           “(2) APPLICABLE AMOUNT.—For purposes of  
6           this subsection, the applicable amount shall be the  
7           amount determined under section 40(g).”.

8           (B) EXTENSION.—Paragraph (4) of sec-  
9           tion 6426(e) of such Code, as redesignated by  
10          paragraph (1), is amended by striking “2009  
11          (September 30, 2014, in the case of any sal or  
12          use involving liquified hydrogen)” and inserting  
13          “2020”.

14          (3) PAYMENTS.—Paragraph (5) of section  
15          6427(e) is amended by inserting “and” at the end  
16          of subparagraph (B), by striking subparagraphs (C)  
17          and (D), and by inserting after subparagraph (B)  
18          the following:

19                 “(C) any alternative fuel or alternative fuel  
20                 mixture (as defined in subsection (d)(3) or  
21                 (e)(3) of section 6426) sold or used after Sep-  
22                 tember 30, 2020.”.

23          (d) EFFECTIVE DATE.—The amendments made by  
24          this section shall apply to fuel used or sold in quarters  
25          beginning after the date of the enactment of this Act.

1 **SEC. 5. INSTALLATION OF E-85 FUEL PUMPS BY MAJOR OIL**  
2 **COMPANIES AT OWNED STATIONS AND**  
3 **BRANDED STATIONS.**

4 Section 211(o) of the Clean Air Act (42 U.S.C.  
5 7545(o)) is amended by adding at the end the following:

6 “(11) INSTALLATION OF E-85 FUEL PUMPS BY  
7 MAJOR OIL COMPANIES AT OWNED STATIONS AND  
8 BRANDED STATIONS.—

9 “(A) DEFINITIONS.—In this paragraph:

10 “(i) E-85 FUEL.—The term ‘E-85  
11 fuel’ means a blend of gasoline approxi-  
12 mately 85 percent of the content of which  
13 is derived from ethanol produced in the  
14 United States.

15 “(ii) MAJOR OIL COMPANY.—The  
16 term ‘major oil company’ means any per-  
17 son that, individually or together with any  
18 other person with respect to which the per-  
19 son has an affiliate relationship or signifi-  
20 cant ownership interest, has not less than  
21 4,500 retail station outlets according to  
22 the latest publication of the Petroleum  
23 News Annual Factbook.

24 “(iii) SECRETARY.—The term ‘Sec-  
25 retary’ means the Secretary of Energy,  
26 acting in consultation with the Adminis-

1           trator of the Environmental Protection  
2           Agency and the Secretary of Agriculture.

3           “(B) REGULATIONS.—The Secretary shall  
4           promulgate regulations to ensure that each  
5           major oil company that sells or introduces gaso-  
6           line into commerce in the United States  
7           through wholly-owned stations or branded sta-  
8           tions installs or otherwise makes available 1 or  
9           more pumps that dispense E-85 fuel (including  
10          any other equipment necessary, such as includ-  
11          ing tanks, to ensure that the pumps function  
12          properly) at not less than the applicable per-  
13          centage of the wholly-owned stations and the  
14          branded stations of the major oil company spec-  
15          ified in subparagraph (C).

16          “(C) APPLICABLE PERCENTAGE.—For the  
17          purpose of subparagraph (B), the applicable  
18          percentage of the wholly-owned stations and the  
19          branded stations shall be determined in accord-  
20          ance with the following table:

<b>“Calendar year:</b>	<b>Applicable percentage of wholly-owned stations and branded stations (percent):</b>
2008 .....	5
2009 .....	10
2010 .....	15
2011 .....	20
2012 .....	25
2013 .....	30
2014 .....	35
2015 .....	40

<b>“Calendar year:</b>	<b>Applicable percentage of wholly-owned stations and branded stations (percent):</b>
2016 .....	45
2017 and each calendar year thereafter .....	50.

1                   “(D) GEOGRAPHIC DISTRIBUTION.—

2                                 “(i) IN GENERAL.—Subject to clause

3                                 (ii), in promulgating regulations under

4                                 subparagraph (B), the Secretary shall en-

5                                 sure that each major oil company described

6                                 in subparagraph (B) installs or otherwise

7                                 makes available 1 or more pumps that dis-

8                                 pense E-85 fuel at not less than a min-

9                                 imum percentage (specified in the regula-

10                                 tions) of the wholly-owned stations and the

11                                 branded stations of the major oil company

12                                 in each State.

13                                 “(ii) REQUIREMENT.—In specifying

14                                 the minimum percentage under clause (i),

15                                 the Secretary shall ensure that each major

16                                 oil company installs or otherwise makes

17                                 available 1 or more pumps described in

18                                 that clause in each State in which the

19                                 major oil company operates.

20                                 “(E) FINANCIAL RESPONSIBILITY.—In

21                                 promulgating regulations under subparagraph

22                                 (B), the Secretary shall ensure that each major

23                                 oil company described in that subparagraph as-

1           sumes full financial responsibility for the costs  
2           of installing or otherwise making available the  
3           pumps described in that subparagraph and any  
4           other equipment necessary (including tanks) to  
5           ensure that the pumps function properly.

6                   “(F) PRODUCTION CREDITS FOR EXCEED-  
7           ING E-85 FUEL PUMPS INSTALLATION REQUIRE-  
8           MENT.—

9                   “(i) EARNING AND PERIOD FOR AP-  
10           PLYING CREDITS.—If the percentage of the  
11           wholly-owned stations and the branded sta-  
12           tions of a major oil company at which the  
13           major oil company installs E-85 fuel  
14           pumps in a particular calendar year ex-  
15           ceeds the percentage required under sub-  
16           paragraph (C), the major oil company  
17           earns credits under this paragraph, which  
18           may be applied to any of the 3 consecutive  
19           calendar years immediately after the cal-  
20           endar year for which the credits are  
21           earned.

22                   “(ii) TRADING CREDITS.—Subject to  
23           clause (iii), a major oil company that has  
24           earned credits under clause (i) may sell  
25           credits to another major oil company to en-

1           able the purchaser to meet the requirement  
2           under subparagraph (C).

3                   “(iii) EXCEPTION.—A major oil com-  
4           pany may not use credits purchased under  
5           clause (ii) to fulfill the geographic distribu-  
6           tion requirement in subparagraph (D).”.

7 **SEC. 6. REQUIREMENT TO MANUFACTURE DUAL FUELED**  
8                   **AUTOMOBILES.**

9           (a) REQUIREMENT.—

10                   (1) IN GENERAL.—Chapter 329 of title 49,  
11           United States Code, is amended by inserting after  
12           section 32902 the following:

13 **“§ 32902A. Requirement to manufacture dual fueled**  
14                   **automobiles**

15                   “(a) REQUIREMENT.—Each manufacturer of new  
16           automobiles that are capable of operating on gasoline or  
17           diesel fuel shall ensure that the percentage of such auto-  
18           mobiles, manufactured in any model year after model year  
19           2007 and distributed in commerce for sale in the United  
20           States, which are dual fueled automobiles is equal to not  
21           less than the applicable percentage set forth in the fol-  
22           lowing table:

<b>“For the model year:</b>	<b>The percentage of dual fueled automobiles manufactured shall be not less than:</b>
2008 .....	10 percent
2009 .....	20 percent
2010 .....	30 percent

<b>“For the model year:</b>	<b>The percentage of dual fueled automobiles manufactured shall be not less than:</b>
2011 .....	40 percent
2012 .....	50 percent
2013 .....	60 percent
2014 .....	70 percent
2015 .....	80 percent
2016 .....	90 percent
2017 and beyond .....	100 percent

1       “(b) PRODUCTION CREDITS FOR EXCEEDING FLEXI-  
2 BLE FUEL AUTOMOBILE PRODUCTION REQUIREMENT.—

3               “(1) EARNING AND PERIOD FOR APPLYING  
4 CREDITS.—If the number of dual fueled automobiles  
5 manufactured by a manufacturer in a particular  
6 model year exceeds the number required under sub-  
7 section (a), the manufacturer earns credits under  
8 this section, which may be applied to any of the 3  
9 consecutive model years immediately after the model  
10 year for which such credits are earned.

11              “(2) TRADING CREDITS.—A manufacturer that  
12 has earned credits under paragraph (1) may sell  
13 credits to another manufacturer to enable the pur-  
14 chaser to meet the requirement under subsection  
15 (a).”.

16              (2) TECHNICAL AMENDMENT.—The table of  
17 sections for chapter 329 of title 49, United States  
18 Code, is amended by inserting after the item relating  
19 to section 32902 the following:

“32902A. Requirement to manufacture dual fueled automobiles.”.

1 (b) ACTIVITIES TO PROMOTE THE USE OF CERTAIN  
 2 ALTERNATIVE FUELS.—The Secretary of Transportation  
 3 shall carry out activities to promote the use of fuel mix-  
 4 tures containing gasoline or diesel fuel and 1 or more al-  
 5 ternative fuels, including a mixture containing at least 85  
 6 percent of methanol, denatured ethanol, and other alcohols  
 7 by volume with gasoline or other fuels, to power auto-  
 8 mobiles in the United States.

9 **SEC. 7. DEFINITION OF AUTOMOBILE.**

10 (a) IN GENERAL.—Section 32901(a)(3) of title 49,  
 11 United States Code, is amended by striking “rated at—  
 12 ” and all that follows through the period at the end and  
 13 inserting “rated at not more than 10,000 pounds gross  
 14 vehicle weight.”.

15 (b) FUEL ECONOMY INFORMATION.—Section  
 16 32908(a) of title 49, United States Code, is amended, by  
 17 striking “section—” and all that follows through “(2)”  
 18 and inserting “section, the term”.

19 (c) EFFECTIVE DATE.—The amendments made by  
 20 this section shall apply to model year 2009 and each sub-  
 21 sequent model year.

22 **SEC. 8. AVERAGE FUEL ECONOMY STANDARDS.**

23 (a) STANDARDS.—Section 32902 of title 49, United  
 24 States Code, is amended—

25 (1) in subsection (a)—

1 (A) in the header, by inserting “MANUFAC-  
2 TURED BEFORE MODEL YEAR 2012” after  
3 “NON-PASSENGER AUTOMOBILES”; and

4 (B) by adding at the end the following:  
5 “This subsection shall not apply to automobiles  
6 manufactured after model year 2011.”;

7 (2) in subsection (b)—

8 (A) in the header, by inserting “MANUFAC-  
9 TURED BEFORE MODEL YEAR 2012” after  
10 “PASSENGER AUTOMOBILES”;

11 (B) by inserting “and before model year  
12 2009” after “1984”; and

13 (C) by adding at the end the following:  
14 “Such standard shall be increased by 4 percent  
15 per year for model years 2009 through 2011  
16 (rounded to the nearest 1/10 mile per gallon)”;

17 (3) by amending subsection (c) to read as fol-  
18 lows:

19 “(c) AUTOMOBILES MANUFACTURED AFTER MODEL  
20 YEAR 2011.—(1) Not later than 18 months before the be-  
21 ginning of each model year after model year 2011, the  
22 Secretary of Transportation shall prescribe, by regula-  
23 tion—

1           “(A) an average fuel economy standard for  
2           automobiles manufactured by a manufacturer in  
3           that model year; or

4           “(B) based on 1 or more vehicle attributes that  
5           relate to fuel economy—

6                   “(i) separate standards for different class-  
7                   es of automobiles; or

8                   “(ii) standards expressed in the form of a  
9                   mathematical function.

10          “(2)(A) Except as provided under paragraphs (3) and  
11          (4) and subsection (d), standards under paragraph (1)  
12          shall attain a projected aggregate level of average fuel  
13          economy of 27.5 miles per gallon for all automobiles man-  
14          ufactured by all manufacturers for model year 2012.

15          “(B) The projected aggregate level of average fuel  
16          economy for model year 2013 and each succeeding model  
17          year shall be increased by 4 percent from the level for the  
18          prior model year (rounded to the nearest 1/10 mile per  
19          gallon).

20          “(C) Notwithstanding subparagraphs (A) and (B),  
21          the fleetwide average fuel economy standard for passenger  
22          automobiles manufactured by a manufacturer in a model  
23          year for that manufacturer’s domestic fleet and for its for-  
24          eign fleet as calculated under section 32904 as in effect  
25          before the date of enactment of the National Fuels Initia-

1 tive shall not be less than 92 percent of the average fuel  
2 economy projected by the Secretary for the combined do-  
3 mestic and foreign fleets manufactured by all manufactur-  
4 ers in that model year.

5       “(3) If the actual aggregate level of average fuel  
6 economy achieved by manufacturers for each of 3 consec-  
7 tive model years is at least 5 percent less than the pro-  
8 jected aggregate level of average fuel economy for such  
9 model year, the Secretary shall make appropriate adjust-  
10 ments to the standards prescribed under this subsection.

11       “(4)(A) Notwithstanding paragraphs (1) through (3)  
12 and subsection (b), the Secretary of Transportation may  
13 prescribe a lower average fuel economy standard for 1 or  
14 more model years if the Secretary of Transportation, in  
15 consultation with the Secretary of Energy, determines that  
16 the minimum standards prescribed under paragraph (2)  
17 or (3) or subsection (b) for each model year—

18           “(i) are technologically unachievable;

19           “(ii) cannot be achieved without materially re-  
20 ducing the overall safety of automobiles manufac-  
21 tured or sold in the United States; or

22           “(iii) is shown, by clear and convincing evi-  
23 dence, not to be cost effective.

1       “(B) If a lower standard is prescribed for a model  
2 year under subparagraph (A), such standard shall be the  
3 maximum standard that—

4               “(i) is technologically achievable;

5               “(ii) can be achieved without materially reduc-  
6 ing the overall safety of automobiles manufactured  
7 or sold in the United States; and

8               “(iii) is cost effective.

9       “(5) In determining cost effectiveness under para-  
10 graph (4)(A)(iii), the Secretary of Transportation shall  
11 take into account the total value to the Nation of reduced  
12 petroleum use, including the value of reducing external  
13 costs of petroleum use, using a value for such costs equal  
14 to 50 percent of the value of a gallon of gasoline saved  
15 or the amount determined in an analysis of the external  
16 costs of petroleum use that considers—

17               “(A) value to consumers;

18               “(B) economic security;

19               “(C) national security;

20               “(D) foreign policy;

21               “(E) the impact of oil use—

22                       “(i) on sustained cartel rents paid to for-  
23 eign suppliers;

1           “(ii) on long-run potential gross domestic  
2 product due to higher normal-market oil price  
3 levels, including inflationary impacts;

4           “(iii) on import costs, wealth transfers,  
5 and potential gross domestic product due to in-  
6 creased trade imbalances;

7           “(iv) on import costs and wealth transfers  
8 during oil shocks;

9           “(v) on macroeconomic dislocation and ad-  
10 justment costs during oil shocks;

11           “(vi) on the cost of existing energy security  
12 policies, including the management of the Stra-  
13 tegic Petroleum Reserve;

14           “(vii) on the timing and severity of the oil  
15 peaking problem;

16           “(viii) on the risk, probability, size, and  
17 duration of oil supply disruptions;

18           “(ix) on OPEC strategic behavior and  
19 long-run oil pricing;

20           “(x) on the short term elasticity of energy  
21 demand and the magnitude of price increases  
22 resulting from a supply shock;

23           “(xi) on oil imports, military costs, and re-  
24 lated security costs, including intelligence,

1 homeland security, sea lane security and infra-  
2 structure, and other military activities;

3 “(xii) on oil imports, diplomatic and for-  
4 eign policy flexibility, and connections to geo-  
5 political strife, terrorism, and international de-  
6 velopment activities;

7 “(xiii) all relevant environmental hazards  
8 under the jurisdiction of the Environmental  
9 Protection Agency; and

10 “(xiv) on well-to-wheels urban and local air  
11 emissions of ‘pollutants’ and their  
12 uninternalized costs;

13 “(F) the impact of the oil or energy intensity  
14 of the United States economy on the sensitivity of  
15 the economy to oil price changes, including the mag-  
16 nitude of gross domestic product losses in response  
17 to short term price shocks or long term price in-  
18 creases;

19 “(G) the impact of United States payments for  
20 oil imports on political, economic, and military devel-  
21 opments in unstable or unfriendly oil exporting  
22 countries;

23 “(H) the uninternalized costs of pipeline and  
24 storage oil seepage, and for risk of oil spills from

1 production, handling, and transport, and related  
2 landscape damage; and

3 “(I) additional relevant factors, as determined  
4 by the Secretary.

5 “(6) When considering the value to consumers of a  
6 gallon of gasoline saved, the Secretary of Transportation  
7 may not use a value less than the greatest of—

8 “(A) the average national cost of a gallon of  
9 gasoline sold in the United States during the 12-  
10 month period ending on the date on which the new  
11 fuel economy standard is proposed;

12 “(B) the most recent weekly estimate by the  
13 Energy Information Administration of the Depart-  
14 ment of Energy of the average national cost of a  
15 gallon of gasoline (all grades) sold in the United  
16 States; or

17 “(C) the gasoline prices projected by the En-  
18 ergy Information Administration for the 20-year pe-  
19 riod beginning in the year following the year in  
20 which the standards are established.

21 “(7) In prescribing standards under this subsection,  
22 the Secretary may prescribe standards for 1 or more  
23 model years.

24 “(8)(A) Not later than December 31, 2016, the Sec-  
25 retary of Transportation, the Secretary of Energy, and the

1 Administrator of the Environmental Protection Agency  
2 shall submit a joint report to Congress on the state of  
3 global automotive efficiency technology development, and  
4 on the accuracy of tests used to measure fuel economy  
5 of automobiles under section 32904(c), utilizing the study  
6 and assessment of the National Academy of Sciences re-  
7 ferred to in subparagraph (B).

8       “(B) The Secretary shall enter into appropriate ar-  
9 rangements with the National Academy of Sciences to con-  
10 duct a comprehensive study of the technological opportuni-  
11 ties to enhance fuel economy and an analysis and assess-  
12 ment of the accuracy of fuel economy tests used by the  
13 Administrator of the Environmental Protection Agency to  
14 measure fuel economy for each model under section  
15 32904(c). Such analysis and assessment shall identify any  
16 additional factors or methods that should be included in  
17 tests to measure fuel economy for each model to more ac-  
18 curately reflect actual fuel economy of automobiles. The  
19 Secretary and the Administrator of the Environmental  
20 Protection Agency shall furnish, at the request of the  
21 Academy, any information which the Academy determines  
22 to be necessary to conduct the study, analysis, and assess-  
23 ment under this subparagraph.

24       “(C) The report submitted under subparagraph (A)  
25 shall include—

1           “(i) the study of the National Academy of  
2 Sciences referred to in subparagraph (B); and

3           “(ii) an assessment by the Secretary of techno-  
4 logical opportunities to enhance fuel economy and  
5 opportunities to increase overall fleet safety.

6           “(D) The report submitted under subparagraph (A)  
7 shall identify and examine additional opportunities to re-  
8 form the regulatory structure under this chapter, includ-  
9 ing approaches that seek to merge vehicle and fuel require-  
10 ments into a single system that achieves equal or greater  
11 reduction in petroleum use and environmental benefits.

12          “(E) The report submitted under subparagraph (A)  
13 shall—

14           “(i) include conclusions reached by the Admin-  
15 istrator of the Environmental Protection Agency, as  
16 a result of detailed analysis and public comment, on  
17 the accuracy of current fuel economy tests;

18           “(ii) identify any additional factors that the Ad-  
19 ministrator determines should be included in tests to  
20 measure fuel economy for each model to more accu-  
21 rately reflect actual fuel economy of automobiles;  
22 and

23           “(iii) include a description of options, formu-  
24 lated by the Secretary and the Administrator, to in-  
25 corporate such additional factors in fuel economy

1 tests in a manner that will not effectively increase  
2 or decrease average fuel economy for any automobile  
3 manufacturer.

4 “(F) There is authorized to be appropriated to the  
5 Secretary such amounts as are required to carry out the  
6 study, analysis, and assessment required by subparagraph  
7 (B).”; and

8 (4) in subsection (g)(2), by striking “(and sub-  
9 mit the amendment to Congress when required  
10 under subsection (c)(2) of this section)”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) IN GENERAL.—Chapter 329 of title 49,  
13 United States Code, is amended—

14 (A) in section 32903—

15 (i) by striking “passenger” each place  
16 it appears;

17 (ii) by striking “section 32902(b)–(d)  
18 of this title” each place it appears and in-  
19 sserting “subsection (e) or (d) of section  
20 32902”;

21 (iii) by striking subsection (e); and

22 (iv) by redesignating subsection (f) as  
23 subsection (e); and

24 (B) in section 32904(a)—

1 (i) by striking “passenger” each place  
2 it appears; and

3 (ii) in paragraph (1), by striking  
4 “subject to” and all that follows through  
5 “section 32902(b)–(d) of this title” and in-  
6 serting “subsection (c) or (d) of section  
7 32902”.

8 (2) EFFECTIVE DATE.—The amendments made  
9 by paragraph (1) shall apply to automobiles manu-  
10 factured after model year 2011.

11 **SEC. 9. CREDIT TRADING AND COMPLIANCE.**

12 (a) CREDIT TRADING.—Section 32903(a) of title 49,  
13 United States Code, is amended—

14 (1) by inserting “Credits earned by a manufac-  
15 turer under this section may be sold to any other  
16 manufacturer and used as if earned by that manu-  
17 facturer; except that credits earned by a manufac-  
18 turer described in section 32904(b)(1)(A)(i) may not  
19 be sold to or purchased by a manufacturer described  
20 in 32904(b)(1)(A)(ii),” after “earns credits.”; and

21 (2) by striking “3 consecutive model years im-  
22 mediately” each place it appears and inserting  
23 “model years”.

24 (b) TREATMENT OF IMPORTS.—

1           (1) CONFORMING AMENDMENT.—Section  
2           32904(b) is amended by striking “passenger” each  
3           place it appears.

4           (2) APPLICABILITY.—The amendments made  
5           by paragraph (1) shall apply to automobiles manu-  
6           factured after model year 2011.

7           (c) MULTI-YEAR COMPLIANCE PERIOD.—Section  
8           32904(c) of such title is amended—

9           (1) by inserting “(1)” before “The Adminis-  
10          trator”; and

11          (2) by adding at the end the following:

12          “(2) The Secretary, by rule, may allow a manufac-  
13          turer to elect a multi-year compliance period of not more  
14          than 4 consecutive model years in lieu of the single model  
15          year compliance period otherwise applicable under this  
16          chapter.”.

17   **SEC. 10. CONSUMER TAX CREDIT.**

18          (a) ELIMINATION ON NUMBER OF NEW QUALIFIED  
19          HYBRID AND ADVANCED LEAN BURN TECHNOLOGY VE-  
20          HICLES ELIGIBLE FOR ALTERNATIVE MOTOR VEHICLE  
21          CREDIT.—

22          (1) IN GENERAL.—Section 30B of the Internal  
23          Revenue Code of 1986 is amended—

24                  (A) by striking subsection (f); and

1 (B) by redesignating subsections (g)  
2 through (j) as subsections (f) through (i), re-  
3 spectively.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Paragraphs (4) and (6) of section  
6 30B(h) of such Code are each amended by  
7 striking “(determined without regard to sub-  
8 section (g))” and inserting “determined without  
9 regard to subsection (f))”.

10 (B) Section 38(b)(25) of such Code is  
11 amended by striking “section 30B(g)(1)” and  
12 inserting “section 30B(f)(1)”.

13 (C) Section 55(c)(2) of such Code is  
14 amended by striking “section 30B(g)(2)” and  
15 inserting “section 30B(f)(2)”.

16 (D) Section 1016(a)(36) of such Code is  
17 amended by striking “section 30B(h)(4)” and  
18 inserting “section 30B(g)(4)”.

19 (E) Section 6501(m) of such Code is  
20 amended by striking “section 30B(h)(9)” and  
21 inserting “section 30B(g)(9)”.

22 (b) EXTENSION OF ALTERNATIVE VEHICLE CREDIT  
23 FOR NEW QUALIFIED HYBRID MOTOR VEHICLES.—Para-  
24 graph (3) of section 30B(i) of such Code (as redesignated

1 by subsection (a)) is amended by striking “December 31,  
2 2009” and inserting “December 31, 2010”.

3 (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to property placed in service after  
5 December 31, 2005, in taxable years ending after such  
6 date.

7 **SEC. 11. ADVANCED TECHNOLOGY MOTOR VEHICLES MAN-**  
8 **UFACTURING CREDIT.**

9 (a) IN GENERAL.—Subpart B of part IV of sub-  
10 chapter A of chapter 1 of the Internal Revenue Code of  
11 1986 (relating to foreign tax credit, etc.) is amended by  
12 adding at the end the following new section:

13 **“SEC. 30D. ADVANCED TECHNOLOGY MOTOR VEHICLES**  
14 **MANUFACTURING CREDIT.**

15 “(a) CREDIT ALLOWED.—There shall be allowed as  
16 a credit against the tax imposed by this chapter for the  
17 taxable year an amount equal to 35 percent of the quali-  
18 fied investment of an eligible taxpayer for such taxable  
19 year.

20 “(b) QUALIFIED INVESTMENT.—For purposes of this  
21 section—

22 “(1) IN GENERAL.—The qualified investment  
23 for any taxable year is equal to the incremental costs  
24 incurred during such taxable year—

1           “(A) to re-equip, expand, or establish any  
2           manufacturing facility in the United States of  
3           the eligible taxpayer to produce advanced tech-  
4           nology motor vehicles or to produce eligible  
5           components,

6           “(B) for engineering integration performed  
7           in the United States of such vehicles and com-  
8           ponents as described in subsection (d),

9           “(C) for research and development per-  
10          formed in the United States related to advanced  
11          technology motor vehicles and eligible compo-  
12          nents, and

13          “(D) for employee retraining with respect  
14          to the manufacturing of such vehicles or compo-  
15          nents (determined without regard to wages or  
16          salaries of such retrained employees).

17          “(2) **ATTRIBUTION RULES.**—In the event a fa-  
18          cility of the eligible taxpayer produces both advanced  
19          technology motor vehicles and conventional motor  
20          vehicles, or eligible and non-eligible components, only  
21          the qualified investment attributable to production  
22          of advanced technology motor vehicles and eligible  
23          components shall be taken into account.

24          “(c) **DEFINITIONS.**—In this section:

1           “(1) ADVANCED TECHNOLOGY MOTOR VEHI-  
2           CLE.—The term ‘advanced technology motor vehicle’  
3           means—

4                   “(A) any qualified electric vehicle (as de-  
5                   fined in section 30(c)(1)),

6                   “(B) any new qualified fuel cell motor ve-  
7                   hicle (as defined in section 30B(b)(3)),

8                   “(C) any new advanced lean burn tech-  
9                   nology motor vehicle (as defined in section  
10                  30B(c)(3)),

11                  “(D) any new qualified hybrid motor vehi-  
12                  cle (as defined in section 30B(d)(2)(A) and de-  
13                  termined without regard to any gross vehicle  
14                  weight rating),

15                  “(E) any new qualified alternative fuel  
16                  motor vehicle (as defined in section 30B(e)(4),  
17                  including any mixed-fuel vehicle (as defined in  
18                  section 30B(e)(5)(B)), and

19                  “(F) any other motor vehicle using electric  
20                  drive transportation technology (as defined in  
21                  paragraph (3)).

22           “(2) ELECTRIC DRIVE TRANSPORTATION TECH-  
23           NOLOGY.—The term ‘electric drive transportation  
24           technology’ means technology used by vehicles that  
25           use an electric motor for all or part of their motive

1 power and that may or may not use off-board elec-  
2 tricity, such as battery electric vehicles, fuel cell ve-  
3 hicles, engine dominant hybrid electric vehicles, plug-  
4 in hybrid electric vehicles, and plug-in hybrid fuel  
5 cell vehicles.

6 “(3) ELIGIBLE COMPONENTS.—The term ‘eligi-  
7 ble component’ means any component inherent to  
8 any advanced technology motor vehicle, including—

9 “(A) with respect to any gasoline or diesel-  
10 electric new qualified hybrid motor vehicle—

11 “(i) electric motor or generator;

12 “(ii) power split device;

13 “(iii) power control unit;

14 “(iv) power controls;

15 “(v) integrated starter generator; or

16 “(vi) battery;

17 “(B) with respect to any hydraulic new  
18 qualified hybrid motor vehicle—

19 “(i) accumulator or other energy stor-  
20 age device;

21 “(ii) hydraulic pump;

22 “(iii) hydraulic pump-motor assembly;

23 “(iv) power control unit; and

24 “(v) power controls;

1           “(C) with respect to any new advanced  
2 lean burn technology motor vehicle—

3                   “(i) diesel engine;

4                   “(ii) turbo charger;

5                   “(iii) fuel injection system; or

6                   “(iv) after-treatment system, such as  
7 a particle filter or NOx absorber; and

8           “(D) with respect to any advanced tech-  
9 nology motor vehicle, any other component sub-  
10 mitted for approval by the Secretary.

11           “(4) ELIGIBLE TAXPAYER.—The term ‘eligible  
12 taxpayer’ means any taxpayer if more than 20 per-  
13 cent of the taxpayer’s gross receipts for the taxable  
14 year is derived from the manufacture of motor vehi-  
15 cles or any component parts of such vehicles.

16           “(d) ENGINEERING INTEGRATION COSTS.—For pur-  
17 poses of subsection (b)(1)(B), costs for engineering inte-  
18 gration are costs incurred prior to the market introduction  
19 of advanced technology vehicles for engineering tasks re-  
20 lated to—

21                   “(1) establishing functional, structural, and  
22 performance requirements for component and sub-  
23 systems to meet overall vehicle objectives for a spe-  
24 cific application,

1           “(2) designing interfaces for components and  
2           subsystems with mating systems within a specific ve-  
3           hicle application,

4           “(3) designing cost effective, efficient, and reli-  
5           able manufacturing processes to produce components  
6           and subsystems for a specific vehicle application,  
7           and

8           “(4) validating functionality and performance of  
9           components and subsystems for a specific vehicle ap-  
10          plication.

11          “(e) LIMITATION BASED ON AMOUNT OF TAX.—The  
12          credit allowed under subsection (a) for the taxable year  
13          shall not exceed the excess of—

14                 “(1) the sum of—

15                         “(A) the regular tax liability (as defined in  
16                         section 26(b)) for such taxable year, plus

17                         “(B) the tax imposed by section 55 for  
18                         such taxable year and any prior taxable year  
19                         beginning after 1986 and not taken into ac-  
20                         count under section 53 for any prior taxable  
21                         year, over

22                 “(2) the sum of the credits allowable under sub-  
23                 part A and sections 27, 30, and 30B for the taxable  
24                 year.

1       “(f) REDUCTION IN BASIS.—For purposes of this  
2 subtitle, if a credit is allowed under this section for any  
3 expenditure with respect to any property, the increase in  
4 the basis of such property which would (but for this para-  
5 graph) result from such expenditure shall be reduced by  
6 the amount of the credit so allowed.

7       “(g) NO DOUBLE BENEFIT.—

8               “(1) COORDINATION WITH OTHER DEDUCTIONS  
9       AND CREDITS.—Except as provided in paragraph  
10       (2), the amount of any deduction or other credit al-  
11       lowable under this chapter for any cost taken into  
12       account in determining the amount of the credit  
13       under subsection (a) shall be reduced by the amount  
14       of such credit attributable to such cost.

15               “(2) RESEARCH AND DEVELOPMENT COSTS.—

16                       “(A) IN GENERAL.—Except as provided in  
17       subparagraph (B), any amount described in  
18       subsection (b)(1)(C) taken into account in de-  
19       termining the amount of the credit under sub-  
20       section (a) for any taxable year shall not be  
21       taken into account for purposes of determining  
22       the credit under section 41 for such taxable  
23       year.

24                       “(B) COSTS TAKEN INTO ACCOUNT IN DE-  
25       TERMINING BASE PERIOD RESEARCH EX-

1           PENSES.—Any amounts described in subsection  
2           (b)(1)(C) taken into account in determining the  
3           amount of the credit under subsection (a) for  
4           any taxable year which are qualified research  
5           expenses (within the meaning of section 41(b))  
6           shall be taken into account in determining base  
7           period research expenses for purposes of apply-  
8           ing section 41 to subsequent taxable years.

9           “(h) BUSINESS CARRYOVERS ALLOWED.—If the  
10          credit allowable under subsection (a) for a taxable year  
11          exceeds the limitation under subsection (e) for such tax-  
12          able year, such excess (to the extent of the credit allowable  
13          with respect to property subject to the allowance for depre-  
14          ciation) shall be allowed as a credit carryback to each of  
15          the 15 taxable years immediately preceding the unused  
16          credit year and as a carryforward to each of the 20 taxable  
17          years immediately following the unused credit year.

18          “(i) SPECIAL RULES.—For purposes of this section,  
19          rules similar to the rules of section 179A(e)(4) and para-  
20          graphs (1) and (2) of section 41(f) shall apply

21          “(j) ELECTION NOT TO TAKE CREDIT.—No credit  
22          shall be allowed under subsection (a) for any property if  
23          the taxpayer elects not to have this section apply to such  
24          property.

1       “(k) REGULATIONS.—The Secretary shall prescribe  
2 such regulations as necessary to carry out the provisions  
3 of this section.

4       “(l) TERMINATION.—This section shall not apply to  
5 any qualified investment after December 31, 2010.”.

6       (b) CONFORMING AMENDMENTS.—

7           (1) Section 1016(a) of the Internal Revenue  
8 Code of 1986 is amended by striking “and” at the  
9 end of paragraph (36), by striking the period at the  
10 end of paragraph (37) and inserting “, and”, and by  
11 adding at the end the following new paragraph:

12           “(38) to the extent provided in section  
13 30D(g).”.

14           (2) Section 6501(m) of such Code is amended  
15 by inserting “30D(k),” after “30C(e)(5),”.

16           (3) The table of sections for subpart B of part  
17 IV of subchapter A of chapter 1 of such Code is  
18 amended by inserting after the item relating to sec-  
19 tion 30C the following new item:

“Sec. 30D. Advanced technology motor vehicles manufacturing credit.”.

20       (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to amounts incurred in taxable  
22 years beginning after December 31, 1999.

○