



December 8, 2008

Mary Nichols  
Chairperson, Air Resources Board  
1001 I Street  
Sacramento CA 95814

**Subject: AB 32 Scoping Plan – Comments on**

Dear Chairperson Nichols:

The Alliance of Automobile Manufacturers is a trade association of 11 car and light truck manufacturers. We support the goals of AB 32 and appreciate this opportunity to provide comments on the proposed AB 32 Scoping Plan.

Alliance members are spending tremendous resources to improve efficiency, safety, and emissions from vehicles. In fact, as your own staff would attest, vehicles today - *all new vehicles*, not just the cleanest - produce virtually zero pollution after the first 30 to 60 seconds of operation, and by almost any historical yardstick new vehicles today would be considered "near zero emitting vehicles."

Automakers have also turned their resources toward improving efficiency and reducing GHG emissions. The Energy Independence and Security Act (EISA) requires a minimum 40 percent increase in fuel efficiency and corresponding 30 percent decrease in GHG emissions from vehicles by 2020. The National Highway Safety Administration (NHTSA) has proposed standards through the 2015MY that trend toward fuel economy improvements and GHG emission reductions that far exceed the minimum EISA requirements and are comparable to the standards adopted by the ARB under Pavley.

This brings us to the purpose of our letter. We wish to express our opposition to the adoption of a "feebate" program. We understand that ARB is obligated to adopt a backstop in case the AB 1493 regulations do not become effective. However, we do not believe that a feebate program is the most efficient way to achieve the required reductions nor do we believe that alternatives have been properly considered.

First, we do not dispute that raising the price of a product (any product, vehicles included) will decrease demand for it in the same way that lowering the price will increase demand. Thus, a

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feebate program of sufficient magnitude will certainly reduce new vehicle sales for those that are taxed and increase sales for those that receive a rebate. However, there are a number of potential unintended consequences, a few of which are discussed below.

First, we would like to note that the Board will be asked to authorize an \$800,000 research study on feebates the day after the AB 32 Scoping Plan hearing. However, before this study is even authorized, much less completed, the Scoping plan proposes to adopt feebates as the only backstop to AB 1493 regulations. It would seem prudent to have the results from the study prior to adopting feebates as the only backstop. Moreover, the status of AB 1493 regulations will be more certain in just a few months.

### **Impact on Budget**

We have little hope that a feebate program could be designed which will be truly revenue neutral. An effective program must accurately compute the correct surcharge and rebate on the hundreds of models that manufacturers produce every year. With the multitude of features and models introduced almost daily, it is unimaginable how this could be accomplished. To this point, France implemented a feebate program this past January. Their “revenue neutral” feebate program is currently hundreds of millions of euro in the red after less than a year. Further, it is also impossible to predict how such a program could ever effectively respond to a situation such as the current economic upheaval, which would require the state to inject significant resources from the general fund to stabilize the program. We believe that this would be an unreasonable risk at any time, and particularly so during the state’s current budget crisis.

### **Impact on the Automobile Industry**

The imposition of a feebate program on our struggling industry would further depress sales and exacerbate the current situation. Recent industry financial results reflect one of the deepest recessions in the U.S. auto industry’s history. Auto sales are at their lowest level in 50 years declining from a projected 17 million units annually to just over 10 million. The financial market crisis is now damaging the auto industry. Many customers cannot access credit, and auto dealers are having difficulty financing their inventories. These are extraordinarily challenging economic times. It is quite possible that some of our members may not survive this current crisis resulting in the loss of tens of thousands of American and Californian jobs.

Some might think that the auto industry is not a “California Industry.” However, they would be wrong. The auto industry employs 189,749 Californians (7,430 at the NUMMI assembly plant, 17,846 in parts production, 11,503 in automotive wholesale, 24,894 in Parts wholesale, and 128,075 at new car dealerships) annual wages of \$3.337 billion. These jobs are jeopardized by the current economic situation, and a feebate program would add to the struggles.

### **Effect on Vehicle Scrappage**

A feebate program would unfairly penalize hard-working Californians, who need heavier transportation, have larger families, or are dependent on larger vehicles for their livelihoods. These Californians are likely to be forced to keep their older, higher polluting vehicles on the road

longer to avoid the high taxes. This is in direct conflict with current California scrappage programs (Voluntary Accelerated Vehicle Retirement program, Fleet Modernization Program, and the Consumer Assistance Program) all of which are designed to expedite the removal of these older higher-polluting vehicles.


**Summary**

We believe the Legislature has recognized these and other critical shortcomings of a feebate program, and therefore chose not to approve such a program during previous sessions. As you consider studying the merits of a feebate program, we ask that you carefully consider each of these concerns.

Again, we understand that ARB is obligated to adopt a backstop to AB 1493, but we do not believe alternatives to a feebate program have been explored in any depth. The Alliance recommends the Board to direct staff to develop a list of alternatives should AB 1493 not be implemented. The alternatives could be presented to the Board in February 2009, when the status of the AB 1493 waiver should be more certain.

Alliance members are committed to building clean environmentally-sound vehicles that Californians and other American consumers want, and in many cases need, to buy. CARB, the California Legislature and Alliance of Automobile Manufacturers members need to work together to ensure that public policy does not prevent consumers in California from purchasing new, cleaner vehicles which suit their needs and help us achieve our mutual environmental, energy and economic objectives.

Sincerely,



Steven P. Douglas  
Senior Director, Environmental Affairs