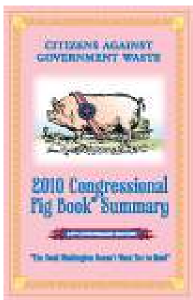

Taxpayers Charged Billions to Anoint Green Car Manufacturing Winners

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In an effort to alleviate the burden of rising gasoline prices on the economy and reduce vehicle emissions, Congress passed the Energy Independence and Security Act (EISA) in 2007. The legislation ramped up fuel economy standards and encouraged the use of renewable fuels.

Included in the EISA is the authorization for the Advanced Technology Vehicles Manufacturing (ATVM) loan program, designed to assist automobile manufacturers with capital investments on facilities that would create vehicles with increased fuel efficiency. ATVM was authorized to give out $25 billion in loans, but was not initially given the funding to do so, nor was it given a timeline. It was an unfunded, open-ended loan program for the federal government to pick winners from the advanced fuel efficiency auto manufacturers.

In 2008, Congress appropriated $7.5 billion to the Department of Energy (DOE) for the ATVM program. This appropriation, however, was only sufficient to cover the subsidy costs of providing $25 billion in low-interest loans. In the four years since the creation of ATVM, only four companies have received loans, which total $9.1 billion. A majority of that amount, $5.9 billion, went to the Ford Motor Company. The result of that taxpayer “investment” has been the sale of approximately 21,000 Ford hybrid vehicles in 2011, or 1 percent of the company’s sales.

GM and Chrysler applied for $14.4 billion and $7 billion in ATVM loans, respectively. However, both companies withdrew their applications, citing overbearing restrictions and a desire to operate with minimal debt.

The stated goal of the ATVM program is to improve the fuel efficiency of the overall American auto fleet. However, it is hard to justify this federal investment, as vehicles being subsidized are far beyond the means of average taxpayers. Tesla Motors, a California-based startup company, received $465 million. Although the company has two more models expected to debut in the next two years, currently the only model offered for sale is the Tesla Roadster. Owners of the roughly 2,000 worldwide Roadsters on the road today shelled out six figures for the flashy electric sports car. The electric batteries alone cost $40,000.

Fisker Automotive, the recipient of $529 million in ATVM loans, also has just a single six-figure model for sale, the Karma. The hybrid luxury vehicle is only beginning to roll out now, and sales are not expected to reach Fisker’s goal of 3,000 in 2012.

While the federal government should not be in the business of providing low-interest loans to automotive manufacturers, it is even worse that the loans are subsidizing high-end models in limited production that few can afford. Fuel efficiency goals will never be met through the ATVM under these circumstances.

A stipulation in the DOE’s criteria for ATVM loans requires the manufacturing of the proposed vehicles or parts to occur in the United States. Taxpayers should be incensed to know that the Fisker Karma is being built in Finland. In addition, the requirement has not prohibited the DOE from granting loans to Nissan ($1.4 billion, Japan) and Severstal ($730 million, Russia). The manufacturing jobs may go to plants in the United States, but the bottom line profit will go to corporate headquarters. The U.S. government should not be subsidizing capital investments for foreign corporations, especially in a globally competitive economy.

The fiscal health of the ATVM loans may not be as poor as other DOE lending programs, such as the $535 million wasted on Solyndra, but the ATVM is not trouble-free. Fisker has downgraded its sales expectations for the Karma several times, and as a result of missed milestones, has been blocked by the

DOE from drawing more ATVM loan funds. The company laid off workers and construction ceased at a closed manufacturing plant in Delaware intended to be the future site of production. Rumors of impending demise hang on the company like an albatross.

The $7.5 billion subsidy appropriated for ATVM by Congress in 2008 is also drawing down more rapidly than anticipated. A report from the Government Accountability Office now estimates that the appropriation will not be enough to cover the full cost of the $25 billion worth of low-interest loans authorized through the ATVM program.

In September 2011, House Republicans unsuccessfully attempted to cut $1.5 billion remaining from the original $7.5 billion subsidy appropriation as an offset for increased disaster relief. For American taxpayers weary of continued corporate welfare, a cut is not enough. Congress should eliminate the remainder of the subsidy appropriation not already tied to disbursed loans and apply it to deficit reduction. Removing the authorization for any further ATVM loans is also necessary.

Until Congress acts, the DOE has the authority to loan out $16 billion more through ATVM to select winners of its choosing in the automotive industry. Taxpayers beleaguered by a stagnant economy can scarcely afford to subsidize multi-billion dollar capital investments for the production of a few thousand exorbitantly expensive fuel-efficient vehicles.