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IS FISKER AUTOMOTIVE FRISKING TAXPAYERS?

Supported by Al Gore and Joe Biden, Fisker Automotive received a \$528.7 million loan from the U.S. Department of Energy and has announced plans to produce an electric premium sports car at the former GM Boxwood plant in Delaware. Fisker says that cars will begin rolling off the assembly line in late 2012 and by 2014 production of 75,000-100,000 units a year will require the employment of 2000 "factory" workers. How feasible is all this?

The leadership team of Fisker Automotive is quite capable. CEO Henrik Fisker has been designing luxury sports cars for 20 years. Fisker was CEO of BMW's DesignworksUSA and Director of Ford's Global Advanced Design Studio (Aston Martin). COO Bernhard Koehler spent 22 years at BMW, rising to Director of Operations, and joined Fisker at the Ford Design Studio as Director of Business and Operations.

Production seems feasible but mass production is a question mark. To date Fisker has focused on building tailor made cars based upon high end platforms from BMW and Mercedes-Benz. Shifting into mass production means climbing a new learning curve.

Competition in the hybrid market is fierce. All the major automobile producers are moving into the hybrid market. By 2015 GM plans for 26 out of 33 models to be some form of hybrid. Chrysler plans to have 8 hybrid or electric vehicles by that year. The current U.S. hybrid market averages across the business cycle 25,000 cars per month (300,000 per year). Three quarters of the sales are Toyota's Prius or Lexus, with Prius accounting for 55% of the total hybrid market. Ford and Mercury (Fusion, Milan) currently have a 9% market share, with Honda at 8% and GM at 5%. Sales have dipped during the recession and are directly influenced by the price of gas.

Will the market support Fisker's 2014 sales projection? U.S. car sales should top 8 million by 2014. If the hybrids share of cars rises from its current 1% and climbs to 5%, hybrid sales in 2014 will be around 400,000. This means that Fisker, with a limited retail and service network and no established reputation, will capture 19% to 25% of the U.S. hybrid market. Should 50% of Fisker's cars be sold as exports, the highest proportion of exports for any current American company, Fisker is assuming a U.S. hybrid market share of 9% to 13%, greater than the current shares of Honda and GM.

And this assumes that Fisker will be selling across the hybrid market spectrum. At this point Fisker is targeting the luxury sports car segment, and perhaps, eventually, the luxury sedan segment. Luxury sports cars are where Fisker and Koehler have expertise. The current Fisker price point is \$40,000 after a \$3,000 to \$4,000 federal tax credit. The current price for a Prius is \$22,000. Honda Insight sells for around \$20,000 and the hybrid civic for \$26,000. The lower tier Lexus HS250 hybrid sells for \$34,000 and annual sales are 1,600 cars at this time.

Based upon current information, Fisker's projected sales seem to be a stretch. In addition, the states with the highest hybrid sales are California, New York, Florida and Texas (in rank order). Three of the four current major markets are a considerable distance from Delaware. Moreover, with current technology, intensive

driving (not just trips to work and to school) and gas at \$5.00 per gallon, the estimated pay back on a hybrid is decades.

On the positive side, gasoline prices may be above \$5.00 per gallon by 2014. A weak dollar will also facilitate exports to Europe, although there isn't much demand for luxury hybrids in the Czech Republic, Hungary and Poland. Sensitivity to the environment is income elastic and should rebound with financial markets.

What is the bottom line? Vice-president Biden has made an offer that Fisker cannot refuse. One-third of the \$528 million loan will go to renovating the Boxwood plant and will spillover to Delaware construction contractors. The new operation is unlikely to achieve its 2014 production goals and will never employ 2,000 workers in Delaware. The more than \$5,000 of Department of Energy funds per car is unlikely to be "repaid with interest" and taxpayers will also bear the tax credit burden per car of \$3,000 to \$4,000. The demand for oil will not be significantly impacted unless electric utilities find alternative fuels. The project may be, however, one more stepping stone in the development of alternative automotive technology. This will benefit the nation, but does not merit any subsidies from Delaware citizens.

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