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Why Is the Government Subsidizing a \$104,000 Car?

By **WILLIAM TUCKER** on 2.14.12 @ 6:08AM

Is Fisker Automotive the next Solyndra? Maybe, but that misses the larger point.

Fisker Automotive suspended efforts in Delaware last week to retool an abandoned GM production plant into a manufacturing facility for its new electric hybrid NINA, derived from the \$104,000 luxury Karma.

Fisker's problem is that it is the recipient of a \$529 million loan from the Department of Energy. Having already pocketed \$193 million to help push the \$104,000 Karma onto the market, Fisker is now "failing to meet DOE benchmarks" in converting the Wilmington, Delaware factory into an assembly line for the \$40,000 NINA. In the kind of accounting the government likes in order to show it isn't just throwing away money, DOE wanted some proof of performance. Fisker is already far behind schedule, and so it had to lay off 26 of the 100 construction workers on site and tell subcontractors to hold the phone. Negotiations on whether DOE will come through with the second \$336 million installment are now expected to take months.

Pundits immediately pounced, asking whether this was the next Solyndra. Some said yes, others said no. Yet through all the editorial fulminating, no one asked the much more obvious question: Why on earth is the government subsidizing a \$104,000 luxury sports car in the first place?

Fisker Automotive is the brainchild of Henrik Fisker, a

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48-year-old Danish auto designer who first made his mark working at BMW's advanced design studio in Munich. Among his accomplishments were the Z07 concept car showcased at the 1997 Tokyo Motor Show and the exterior of the BMW Z8 roadster. He then headed to Newbury Park, California, where he founded DesignworksUSA, a BMW subsidiary concentrating solely on futuristic designs. In 2001 he jumped to Ford, where he was creative director of Ingeni, Ford's London-based design center, then back to California, where he became director of Ford's Global Advanced Design Studio in Irvine.

Like many ambitious auto executives before him -- John DeLorean comes to mind -- Fisker's real dream was to build his own car. So in 2004 he left Ford to found Fisker Coachbuild, a boutique designer of one-of-kind luxury cars. He also produced the initial design for the Tesla Model S, the scaled-down version of the \$109,000 Tesla Roadster that is supposed to reach auto showrooms this year. In 2008, Fisker unveiled his own luxury hybrid, the Karma, designed to compete with the Roadster at \$104,000. Although still headquartered in southern California, Fisker elected to build the Karma in Finland at a plant that once produced the Porsche Boxster and Cayman. Fisker promised to deliver the first Karmas by 2009. He claimed to have 1,300 orders already.

Like all electrics, the Karma would have some severe limitations. Without its gasoline engine, its range is limited to 35 miles -- meaning it only goes 35 miles before requiring another charge, which can take several hours. Fortunately, it is also fitted with a 2-liter, turbocharged Ecotec engine that extends its range to 230 miles and its top speed to 125 mph. The EPA rated the Karma's mileage at only 20 miles per gallon for its gasoline engine, but 52 mpg for full hybrid mode. The company offered rooftop solar panels that extend the range another four miles. *Time* named the car to its "Green Design 100" list in 2009, before it had even been produced.

Fisker Automotive received initial funding of \$500 million from Kleiner Perkins, Silicon Valley's premier venture capital firm, which had started to follow board member Al Gore's advice in moving away from computers and into "green" investments. In the old days, such venture funding primed a company for its initial public offering, when the early backers would recoup their investment. Since the Gore era began, however, the target for second-round investment has become the federal government. Almost as soon as the Obama administration arrived in 2009, Fisker was at the door with a proposal for a loan under the Department of Energy's new Advanced Technologies Vehicle Manufacturing Loan Program, a \$25 billion pot of money thrown in with the auto bailout of 2008. The investment fund would allow Washington bureaucrats to point the auto industry in the right direction. Solyndra, remember, was a loan *guarantee*, where the federal government promises to indemnify private lenders if things go wrong. Fisker received a check directly from the U.S. Treasury.

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The first \$193 million went to save the floundering Karma venture, while the next \$336 million would launch the NINA, a "people's" version of the Karma that would sell for \$45,000 -- only \$39,000 with federal tax credits.

By October 2009, less than ten months after Obama had taken office, Fisker signed an agreement to take over an abandoned General Motors assembly in -- wouldn't you know -- Wilmington, Delaware. Whether Vice President Joe Biden had anything to do with bringing home the bacon is still anyone's guess, but the VP was on hand for the ceremonies, gushing that this cutting-edge green machine would "only cost \$40,000!" As the Fisker press release described it:

Production is scheduled to begin in late 2012. Fisker Automotive anticipates Project NINA will ultimately create or support 2,000 factory jobs and more than 3,000 vendor and supplier jobs by 2014, as production ramps up to full capacity of 75,000-100,000 vehicles per year. More than half will be exported, the largest percentage of any domestic manufacturer.... Fisker plug-in hybrid cars will help remove the country's dependence on foreign energy by eliminating the need for 42 million barrels of oil by 2016. They will also offset 8 million tons of carbon dioxide emissions.

Meanwhile, back in Finland, Fisker was having a little trouble meeting its Karma production schedules. Although promised for 2009, the first models did not roll off the assembly line until July 2011. Instead of the 1,300 supposedly already under wraps, the first delivery to the United States consisted of 239 cars. Six months later, when a leak in the cooling system that might cause battery fires prompted a recall, an inventory discovered fewer than 50 cars sold. The rest were still sitting on the lots. To compensate for poor sales, Fisker upped the price to \$116,000.

Not that the green establishment hadn't given the Karma its four-star treatment. As *Fortune* reported, the Karma "has been celebrated by environmentalists, blessed by the federal government with a guaranteed loan, and endorsed by celebrities. Leo DiCaprio ignited a swirl of publicity when he took delivery of the first production model.... The seating foam is made from soy-based bio fiber, the carpet backing composed of recycled post-consumer materials, and the trim sourced from 'fallen, sunken and rescued wood,' including some that has spent the last 300 years resting at the bottom of Lake Michigan." Nonetheless, the fanfare hasn't produced many sales, and DOE was reportedly concerned about revenue. Company officials refused to release figures, however, and the DOE cooperated by blacking out sales numbers in a copy of its report released to the *Delaware News Journal*.

Whether or not this constitutes "another Solyndra" is still up to the press to decide. The real question, though, is this: Why on earth is the federal government subsidizing a \$104,000 car being



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manufactured in Finland? Supposedly the answer is to promote its little brother the NINA. But the NINA is barely distinguishable from the Chevy Volt, which also costs \$40,000, has had its own battery fires, and is selling so poorly that dealers are refusing further shipments. Autodata Corp. recorded seven months' worth of unsold inventory in January. The unheralded Chevy Cruze, on the other hand, had a poor month in November when it only sold 13,000 cars. The Nissan Leaf is hardly bettering the Volt, selling only 676 in January and 10,000 all last year. The Tesla Roadster -- which received its own \$465 million loan from DOE -- seems to have cornered the market for \$100,000 hybrids, selling 2,500 in 2011, although the company is still losing money. But 100,000 NINAs by 2014? Where else but in the federal government would you find anyone willing to accept such projections?

The Karma is not just an investment. It is another milestone in the Obama administration's effort to build an entirely separate economy, where coal is forever banished, cars no longer emit exhaust, and there is a windmill in everyone's backyard -- all subsidized by the federal government. In that sense, the \$193 million thrown at the Karma isn't really a loss at all. It's just another step in watering the shoots of the Green Economy -- this time sprouting in Joe Biden's back yard.

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