

TESTIMONY REGARDING SB 214
AN ACT CONCERNING THE SALE OF ELECTRIC VEHICLES IN THE STATE
being heard by the Connecticut General Assembly Transportation Committee
on Monday, March 14, 2022 at 10:00 AM

Dear Chairman Lemar, Chairman Haskell, Vice Chair Cassano, Vice Chair Simms, Ranking Member Senator Somers, Ranking Member Representative Carney, and distinguished members of the Transportation Committee:

Thank you for the opportunity to testify here today in support of S.B. 214. This bill will finally enable manufacturers of electric vehicles without franchised dealers to sell directly to customers in Connecticut.

My name is Zach Kahn and I am a Senior Policy Advisor at Tesla. Tesla is an American car company that exclusively makes zero-emission vehicles. We started out with the Roadster, a relatively low volume sports car that set out to prove that electric vehicles can compete with gas cars in every respect. We have grown significantly since then and diversified our product offerings, and today the Tesla Model 3 starts at a price below the average transaction price of a new car in the United States and is the country's best-selling electric vehicle.

Tesla chose to sell its vehicles directly to consumers for several reasons, many of which make our model incompatible with the franchised dealer model. To begin with, we offer uniform, transparent pricing, and we do not derive profit from our service and repair operations. By contrast, about 50% of an average franchised dealership's gross profit comes from the service department.¹ We firmly believe that direct sales is central to the mission of scaling Tesla's vehicle delivery and service capacity and that it has been a key factor in popularizing electric vehicles in the United States. Over a decade ago, Tesla set out to build and sell compelling electric vehicles that could effectively compete with gas cars. The biggest challenge in doing that, other than vehicle engineering, has been overcoming barriers to adoption of electric vehicles. These include customer sensitivities around price, safety, performance, charging availability, and general unfamiliarity with electric vehicle technology. All of these have impacted adoption at the point of sale across the industry, but Tesla has found success in applying the same innovation principles to that challenge as it has to engineering vehicles. By utilizing the direct-to-consumer sales model, Tesla has created a sales experience completely unlike the typical car buying experience in a dealership. There is no endless negotiation, or intense pressure to leave the store with a new car, instead we spend the time to educate our customers on the technology, answering countless questions about charging, battery performance and the like, and prepare them for electric vehicle ownership. Just last week, Plug In America released their latest EV Consumer Report which continues to justify our chosen distribution path. In their survey, only 15% of EV owners rated dealership salesperson knowledge as very high.² States that have allowed space for innovation in the way in which electric vehicles are sold have seen significant improvement in electric vehicle adoption compared to states that have not.

Tesla has succeeded in growing the market for electric vehicles in the United States over the last decade in large part because of the choice to sell directly through a network of retail stores geared around rethinking the customer experience. The results speak for themselves. A decade ago, Tesla had sold fewer than 2,500 cars total. In 2021, we sold more than 935,000. Tesla now employs over 70,000 people in the United States, and according to a Cars.com study this summer, our most popular model, the Model 3, is the most American-made car on the market today in the United States. It is also the best-selling electric vehicle in the world.

¹ <https://www.nada.org/WorkArea/DownloadAsset.aspx?id=21474862698>

² <https://pluginaustralia.org/wp-content/uploads/2022/03/2022-PIA-Survey-Report.pdf>

Franchised auto dealers in Connecticut have made it their top priority to block companies like Tesla—with our transparent vehicle pricing, and zero-profit financing and service departments—from selling electric vehicles in Connecticut, while using their protected market status to generate historic profits. But this protectionism comes at a cost, both for consumers and for the near-term deployment of electric vehicles. In January, 4 out of 5 cars purchased across the country were sold above MSRP. For electric vehicles, the average markup was 2.6%, compared to 1.6% for gas cars. Insulating auto dealers from new sources of competition has not benefitted consumers. This has been made abundantly clear over the last two years—the two most profitable years ever for franchised auto dealers. In 2020, despite a 14% decline in sales from 2019, auto dealer profits increased by 48%. That record was shattered in 2021, again a year in which sales were 11% below 2019 levels. It sounds counter-intuitive that selling fewer cars would lead to record profits, but while there are several factors at play, the dominant factor has serious implications for the near-term deployment of electric vehicles in Connecticut and around the country. To let *Road and Track* explain it: “How did dealers manage to make so much more money selling fewer cars? The first answer appears to be simple: They put the squeeze on us.”³

We see this same scenario playing out around the country with the limited supply of new electric vehicles from legacy manufacturers sitting on dealer lots with “dealer adjustments” of \$10,000 or more. Barclays estimated the total value of Ford dealers’ price markups last year was \$3.6 billion.⁴ Car companies have expressed serious concern that dealer markups will severely impact adoption of their new electric vehicle models, but there is little they can do within the bounds of state franchise laws, which give dealers discretion over pricing of everything from the car to add-on products, service contracts, and even interest rates for indirect auto loans. The problems associated with this discretionary pricing model are not limited to electric vehicle deployment. A sales model in which different customers pay vastly different prices for the same products, even loans, based solely on the discretion of salespeople trained to maximize the value of each transaction, has been shown repeatedly by consumer protection organizations and the federal government, to produce adverse outcomes for members of disadvantaged communities.

We don’t view this as Tesla and the other EV manufacturers versus Connecticut’s auto dealers. The opponents for us are the barriers to adoption of EVs - price, charging, and unfamiliarity with the technology - and we have spent over a decade finding ways to address them with customers. Tesla has demonstrated success with this model, going from selling a few thousand cars a year ten years ago to selling nearly a million EVs last year.

Franchise laws were never intended to dictate that every new car must be sold through a franchised dealer. In April 2014, the Director of the FTCs Bureau of Competition noted:

Instead of “protecting,” these state laws became “protectionist,” perpetuating one way of selling cars—the independent car dealer.

...

*Regulators should differentiate between regulations that truly protect consumers and those that protect the regulated. We hope lawmakers will recognize efforts by auto dealers and others to bar new sources of competition for what they are—expressions of a lack of confidence in the competitive process that can only make consumers worse off.*⁵

The National Bureau of Economic Research in a 2020 Working Paper concluded that there is no true price competition in the franchised dealer market, and that this business model, in fact, leads customers to have

³ <https://www.roadandtrack.com/news/a35695042/car-sales-tanked-in-2020-but-dealerships-had-their-most-profitable-year-ever/>

⁴ <https://www.thedrive.com/news/44172/ford-boss-puts-the-kibosh-on-unreasonable-dealer-markups>

⁵ <https://www.ftc.gov/news-events/blogs/competition-matters/2014/04/who-decides-how-consumers-should-shop>

to pay 3-5% more per car.⁶ Dealers use tailored price bundles to evade price competition by including things like interest rates for auto loans into the negotiation. In this “dual role” as car and loan salespeople, dealers originate 80% of indirect auto loans in the U.S. and have broad discretion to mark-up interest rates and keep the profit. Nearly 78% of those loans are marked up, on average by 1%, which is 40% higher than the average rate. And as noted by National Consumer Law Center,⁷ these mark ups are often discriminatory in nature. There is no price competition among franchised dealers when customers are presented with bundles of products with little visibility into their true cost or profit margin. None of this exists in the direct sales model, and customers prefer transparent pricing and an easy-to-understand purchasing process.

Over the last three years, direct sales account for about 75% of battery electric vehicle sales in the United States, and around 71% of the battery electric vehicles registered in Connecticut over that period are EVs that were sold directly to CT residents by EV manufacturers from licensed sales locations in neighboring states. Several other EV manufacturers have come to the same conclusion that direct sales provide them with the best opportunity to succeed, and we join them today in once again supporting a change to Connecticut’s outdated and protectionist franchise law.

As you are well-aware, the transportation sector is the largest emitter of greenhouse gases in the state, with DEEP reporting that it makes up more than 38% of emissions. Beyond the environmental and climate impacts of these emissions, more and more data about the public health concerns related to fossil fuel pollution has shown just how damaging they are to our society. According to research published in the journal, Environmental Research, fossil fuels are alone responsible for more than 8 million premature deaths annually, which is double the previous high-end estimate of fine-particle pollution mortality. The American Lung Association put out a report looking at the benefits of transitioning to EVs, which found that Connecticut would see more than \$600M in avoided health impact costs in 2050 from a transition to EVs.

Connecticut has taken numerous steps to begin to address these emissions, including creating the CHEAPR EV incentive Program, committing to putting 125,000-150,000 EVs on the road by 2025 through the ZEV MOU, committing to having 30% of new medium and heavy-duty vehicles sold in the state being zero emissions by 2030 and 100% by 2050 through the Medium and Heavy-Duty MOU, and creating utility incentive programs for charging infrastructure. This Committee had a hearing on Friday that included a number of important bills that would demonstrate Connecticut continued leadership in EV policy – SB4 and HB 5039. These policies highlight how out of step the current ban on direct sales from EV manufacturers is with the state’s policy goals when it comes to transportation electrification. The data is clear that making it easier to buy electric vehicles is a key driver of adoption. States that allow EV manufacturers to sell directly to customers without a store cap, saw nearly 3.5 times more EVs sold per capita than states that are closed to direct sales.

Connecticut has made EV adoption a priority and SB 214 supports this same goal without impacting the state’s budget, other than through additional tax revenue and job creation. Thank you for your consideration of this important piece of legislation. Please do not hesitate to contact me, should I be able to provide any additional information.

Zachary Kahn
Senior Policy Advisor, Northeast

⁶ https://www.nber.org/system/files/working_papers/w28136/w28136.pdf

⁷ https://www.nclc.org/images/pdf/car_sales/report-time-to-stop-racing-cars-april2019.pdf