THE WALL STREET JOURNAL.

http://www.wsj.com/articles/SB124873997073285323

BUSINESS

Fuel Rules to Spare BMW, Daimler

By **STEPHEN POWER**

Updated July 28, 2009 11:59 p.m. ET

German luxury auto makers including BMW AG and Daimler AG's Mercedes-Benz are close to benefitting from a U.S. concession that will allow them and a few other foreign makers to keep selling cars that emit more greenhouse gases than those made by mass-market rivals such as General Motors Co. and Toyota Motor Corp.

Under a provision of a plan to curb greenhouse gas emissions, the Obama administration has proposed to set less stringent standards for car makers that sell fewer than 400,000 vehicles a year in the U.S. That target defines the major German brands as well as a few smaller Asian manufacturers such as Suzuki Motor Corp. and Mitsubishi Motors Corp.

The easier targets are expected to apply to a limited portion of a car maker's sales volume, and last for about four years -- unless the government grants an extension.

"Once companies become dependent on these provisions, they have an incentive to hire lobbyists and exert political pressure to extend those same provisions," said John Graham, who helped craft automobile fuel-economy regulations under President George W. Bush.

"The German provision" -- as it is known to industry lobbyists -- resembles a California law that effectively exempts some foreign car makers from having to meet the same emissions standards as their U.S. rivals. BMW and Daimler declined to say whether they lobbied for the provision.

In effect, the provision would make it easier for Mercedes to keep selling cars like its $147,000, 12-cylinder S600 sedan, rated at 13 miles per gallon, while GM or Toyota would be required to meet tougher mileage standards with smaller, more efficient cars.

The rules are expected to be formally proposed later this year by the Environmental Protection Agency and the Department of Transportation to enforce the administration's mandate that makers boost the average fuel efficiency of their fleets to 35.5 miles mpg by 2016.

Executives from most major car makers doing business in the U.S. backed Mr. Obama's fuel economy plan at a White House ceremony in May.

"We wanted to make sure that the entire proposal was something the industry could support," said Jody Freeman, counselor in the White House Office of Energy and Climate Change, who helped negotiate the agreement among car makers.

Between 2007 and 2008, the U.S. collected $76 million in fines from German auto makers for violating fuel-economy regulations, according to a government report published this year. The German companies say the U.S. rules are unfair, since as makers of sporty, powerful vehicles they cannot offset their most gas-guzzling models with smaller, more fuel-efficient models as easily as can high-volume car manufacturers with broader product ranges.

A spokesman for GM -- now majority-owned by the federal government -- said the Obama administration's proposal "creates fewer concerns" than California's policy because it is expected to exempt only a quarter of each qualifying auto maker's fleet, rather than all vehicles sold by those companies. It also would be in effect for only four years, compared with seven under the California program.

Other industry experts and some former government policy makers take a more critical view of the administration's plan.

David Cole, chairman of the Center for Automotive Research at the University of Michigan, said the provision would hand "a distinct competitive advantage" to German and other exempted companies that compete with the major U.S. and Japanese brands in the U.S.

Daniel Becker, director of the Washington-based Safe Climate Campaign, which advocates tougher regulation of automotive fuel economy and greenhouse-gas emissions, said BMW and Mercedes "should be required to meet the same standards as General Motors and Ford."

"Once companies become dependent on these provisions, they have an incentive to hire lobbyists and exert political pressure to extend those same provisions," said John Graham, who helped craft automobile fuel-economy regulations under President George W. Bush.

Spokespeople for Daimler and BMW said the provision would be consistent with similar regulations adopted by the European Union as well as California regulators.

Vehicles made by Mercedes and some other lower-volume manufacturers, a Daimler spokesman added, "typically are heavier due to more safety equipment and enhanced electronics that are absent from vehicles in the large-volume manufacturer segment."

A spokesman for Porsche AG said the German sports-car company "will comply with any future fuel and emission standards but cannot discuss the details on how this will affect us until we have seen the key provisions and exact language of the rules."

Write to Stephen Power at stephen.power@wsj.com

WHAT TO READ NEXT...

THE SATURDAY ESSAY

Brexit: A Very British Revolution

CAPITAL JOURNAL

How the 1930s Echo in Today's Politics

JOURNAL REPORTS: HEALTH CARE

Six New Medical Technologies Worth Watching

RUMBLE SEAT

The Fiat 124 Spider: Now, That's Not Italian