

Dealer Calls

Most people in the auto industry oppose higher gasoline taxes. Not Michael Jackson.

By NEAL E. BOUDETTE

FOR MICHAEL J. JACKSON, a career in the auto industry began when his car broke down. Driving through Hyannisport, Mass., 35 years ago with his new wife and not much cash, Mr. Jackson was stranded when his 1959 Mercedes-Benz SL died. He took a job as a mechanic at a nearby Mercedes dealership to pay for the repairs, and from that humble start eventually rose up to become the head of the German luxury brand's sales arm in the U.S.

Today, Mr. Jackson, 57 years old, is chairman and chief executive of Autonation Inc., the nation's largest car-dealer chain. Last year, the Fort Lauderdale, Fla., company had revenue of \$19.3 billion and sold more than five million vehicles—30% of the entire U.S. market.

Autonation's success in selling domestic and foreign cars gives Mr. Jackson a strong voice in an industry where for decades the manufacturers have been able to dictate terms to their fragmented dealer networks. In early 2005, when Detroit auto makers were leading up dealers with excess inventory, it was Mr. Jackson who told them to back off. His public stand was backed by other dealership chains, and prompted General Motors Corp. to start last summer's employee-pricing discounts. Last fall, Mr. Jackson started calling for an increase in gasoline taxes—anathema to auto makers because they get hefty profits from big vehicles that use a lot of gasoline.

Mr. Jackson recently talked with The Wall Street Journal about gasoline taxes and other topics, including the future of gas-electric hybrid vehicles, diesels and hydrogen fuel cells that could one day power emission-free cars.

The Party's Over

THE WALL STREET JOURNAL: You're one of the few people in the auto industry who thinks increasing taxes on gasoline is a good idea. Why do you favor higher fuel taxes?

MR. JACKSON: We've had five presidents in a row, including [the current] President

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Bush, tell us that America's dependence on imported oil is an issue of national security, and we don't have an energy policy that deals with the issue. We've gone from importing one-third of our oil to importing two-thirds. We need a strategy...which must include supply, technology and a change in consumer behavior. Increasing the gasoline tax by a dollar a gallon, phased in 10 cents a year over 10 years, is a very compelling statement to the American consumer that the party is over, that we're going a new way.

People say let the market forces do it, but the market forces haven't done it. Despite all the hoopla over fuel costs in 2005, fuel efficiency only improved two-tenths of a mile per gallon, from 20.8 to 21.0. Fuel efficiency has only just caught up with cup holders on the consideration list of consumers. We have a long way to go on the issue. I think as part of an overall energy strategy, a gasoline tax is needed.

When I first started talking about this a year ago, there was a lot of expectation that I'd be tarred and feathered and run out of town. But our research shows, and this has been confirmed by independent research, that the majority of American consumers would support this. They don't support a gasoline tax in and of itself, but if it's part of an energy strategy that is really going to deal with America's dependence on imported oil, they will support it.

WSJ: What about the argument from the auto industry that car makers are already doing everything they can to improve fuel efficiency and that pushing auto makers to move even faster puts an undue burden on them and could even risk jobs?

MR. JACKSON: The issue isn't with the industry. The issue is with the consumer. The industry has done a magnificent job developing technologies that will improve fuel efficiency: lighter materials, cylinder shutoff, multispread transmissions, hybrids.

The question is, are you going to be trying to push a wet noodle into the marketplace with these technologies, or are you going to have the consumer asking for them? What the consumer has asked for the past 10 years is more horsepower. They've asked for bigger vehicles. Fuel efficiency has been No. 20 on the consideration list. So you need



Michael Jackson Chairman and Chief Executive, Autonation Inc.

a pull from the consumer to make meaningful progress.

I don't want to turn the world upside down from one day to the next. We're talking about 10 cents per gallon phased in over 10 years. It's better to gradually sensitize the consumer and gradually change their behavior than have the earthquake come when we have a disruption in the supply of oil.

The Hybrid Equation

WSJ: Gas-electric hybrid vehicles get a lot of attention, but are they more of a fad?

MR. JACKSON: The hybrids are being pursued by those individuals who have a high degree of social responsibility, combined with the means to express that social responsibility. They're buying [hybrids] because they are super-clean in terms of emissions, they are the latest technology, and they have great fuel efficiency. But they're not making an economic calculation whatsoever. You pay a premium of a couple thousand dollars for hybrids today, and with gasoline over \$2 a gallon it can be anywhere from 12 to 15 years to get a payback in terms of fuel savings. I think hybrids will top out

around 500,000 [to] 600,000 units a year unless there's a dramatic change to the equation between the cost of the technology and the cost of fuel.

WSJ: Ethanol made from corn is also getting a lot of attention. Is it a real alternative?

MR. JACKSON: Again, it would be great to see some leadership from Washington with an energy policy that makes some sense. We have oil coming from OPEC that is not taxed, and ethanol that comes out of a very friendly country like Brazil is taxed like crazy. So that makes no sense. But I think there's a real issue with ethanol in producing it in large quantities cost-effectively. That's why you need a comprehensive policy that deals with the supply side, and ethanol can be a part of that, but it's not a silver bullet by any means.

The Outlook for Diesels

WSJ: Diesels get very good mileage and are popular in Europe. What's the outlook in the U.S.?

MR. JACKSON: The reason you don't see diesel in the U.S. has to do with the difference in the quality of fuel. Europe has [had] superclean diesel fuel for years, allowing manufacturers to develop very sophisticated technologies for diesels that give fabulous fuel efficiency and performance. Those engines in the U.S., with dirty fuel, aren't able to perform. The U.S. government is just now cleaning up diesel fuel this year. I predict that five years from now diesels will dramatically out-sell hybrids because the premium you pay for diesels is much lower.

WSJ: What about fuel-cell technology? The industry has talked about fuel cells for years, but the technology is progressing very slowly and it seems people are not as optimistic now as they once were.

MR. JACKSON: It takes more energy to create hydrogen fuel than what you get out of it when you're done. That's a losing equation, and until someone solves that, I think fuel cells are over the horizon.

WSJ: What are a few of the technologies that are here today to improve fuel efficiency that consumers can look for?

MR. JACKSON: Cylinder shutoff [which enables V-8 engines to run on only four cylinders when a car is cruising or coasting] is absolutely fantastic. It's relatively inexpensive, somewhere between \$500 and \$1,000 an engine for a 10% improvement in fuel efficiency. It works. It's imperceptible to the consumer. Multispeed transmissions, up to six, seven speeds, and now even Lexus coming with an eight-speed transmission. For several hundred dollars more in production costs, you get another 5% to 10% improvement in fuel efficiency, depending on what vehicle it's used in. Those are two big wins right there. ■

Julian Puckett