

California Rail News

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Subsidies Can't Save the SUV

GAS PRICES DRY UP GM PROFITS, FUEL RAIL GROWTH

Do Californians love big cars and SUVs so much that they would pay any price to keep driving them? Maybe not. According to California car dealers, price matters a lot.

Two years of major oil price increases seem to have put some surprising changes into motion. The hottest-selling car today is the fuel-saving Toyota Prius hybrid, central city residential property has become a hot commodity, and California rail ridership has hit all-time record highs.

Meanwhile SUVs were selling so poorly because of \$50 refills that General Motors debt bonds were downgraded to junk. GM's response was a huge fire sale of SUVs, first to employees and retirees, now to nearly anyone. This has caused short-term gains, but is unsustainable. With this subsidy, GM is closely mimicking the short-sighted economics used by highway builders.

State and federal taxes at the gas pump annually fall about \$35 billion short of covering the basic costs of highway construction and maintenance. Decades ago, highway lobbyists might have been able to honestly claim that "user fees" paid all the costs.

These days, the 44 cents a gallon US average doesn't even keep the asphalt in good shape, and roads suck billions from the general fund. What level of gasoline tax would eliminate the subsidy of roads? Most experts familiar with transportation funding say it would take at least a \$2 per gallon levy today to stop the red ink on roads.

The subsidy of oil fueled the mindless urbanization of vast areas of California, an arms race of aggressively large vehicles, and a dependence on foreign oil that even George W. Bush now admits is an addiction. In July, Bush said, "We're hooked on oil from the Middle East, which is a national security problem and an economic security problem."

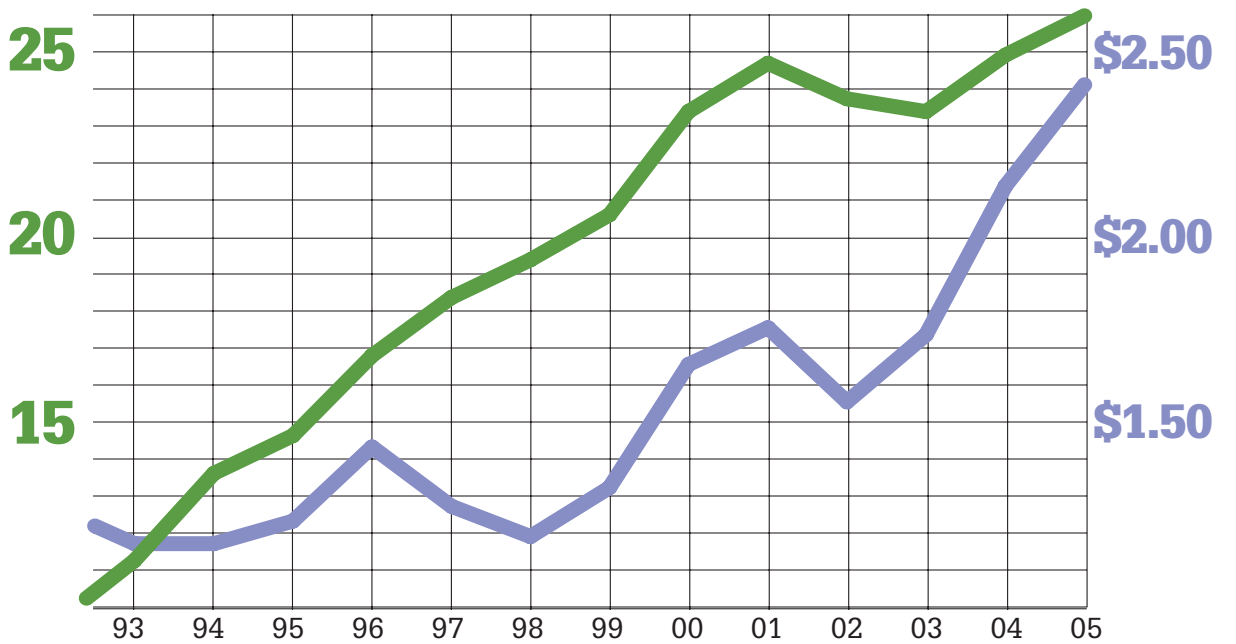
Several times already, oil has broken through the \$65 level, and Goldman Sachs predicts that \$105 a barrel oil is a possibility in the next year, because of massive increases in third world consumption and long-term limits to refining capacity.

It is obviously time for a change in tax policies to encourage energy conservation, public transportation use, and alternative power, including electrification of rail. Past policies no longer make sense, now that we

Rail Ridership vs. Gas Price

(millions) CA Amtrak & Commuter Rail

Source: USDOE, West Coast Regular Avg.



are at the end of the road on highway-based development.

Transportation Secretary Norm Mineta was in full-scale denial last month as he announced faintly tightened fuel economy rules for trucks. "This is a plan that will save gas and result in less pain at the pump," said Mineta.

However, the new regulations ironically excluded some of the worst fuel offenders on the road, including the Hummer H2, Ford Excursion and Chevy Suburban. Mineta, staying defensive, told reporters the timing of the announcement "was not related to the price of gas at all."

As usual, the public has seen the light far sooner than politicians. Californians focus on what they pay at the pump, and they don't like the prices. As gasoline prices have reached new peaks in the past decade, rail ridership has done the same. The only break in rail growth was the two year softness in gasoline prices from 2001 to early 2003.

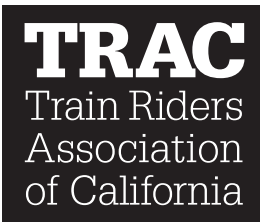
With \$65 a barrel oil, state and federal subsidies just can't keep gas prices in a comfort zone for motorists. Even absent reform of gas subsidies, it's becoming obvious that trains are the future..

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