

Business Week Online
March 26, 2007 Monday

Diesels Come Clean; In Europe, where gas costs much more, 50% of all cars are diesel. In the U.S., the number is less than 4%. But that could all change soon

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SECTION: AUTOS

In Europe gas costs more than \$5 a gallon. In the U.S., it's under \$3. In Europe, diesel-powered cars and trucks account for 50% of all auto sales. In the U.S., they are less than 4%. What do the Europeans know that Americans don't?

They know that diesels provide superior fuel-economy without sacrificing performance, as anyone who has ever had a diesel-powered BMW blast by them on the autobahn can attest. The main concern for most Americans is that the hangover from the smoky, smelly diesels of the 1970s remains fresh in many minds and many states have banned their sale. But changes in the supply of diesel fuel, emerging cleaner-burning technologies, and growing consumer concern over the environment and fuel economy in particular are creating new opportunities for automakers willing to dabble in diesel. So significant are the changes that market researcher J.D. Power & Associates (MHP) forecasts diesel sales will nearly triple in the coming years, nabbing 11.8% of the U.S. market by 2015.

A driving force behind the growing potential for U.S. diesel is the quality of the fuel being pumped by U.S. filling stations. American diesel fuel has long been significantly dirtier than European blends, emitting nasty particulates that are harmful to the environment.

Federal Mandate to Lower Sulfur

But last fall new federal standards came into effect mandating a countrywide switch to low-sulfur diesel, which eliminates the dirty soot. At the time, Environmental Protection Agency Administrator Stephen Johnson said, "This is the single greatest achievement in clean fuel since lead was removed from gasoline a generation ago."

Strict emissions standards in five states have confined sales of past diesel models to only 45 states, excluding some of the country's most lucrative markets, such as California and New York. The changes in the fuel supply standards go a long way toward closing the gap between cleaner diesel fuel and the toughest emissions regulations.

That's good news, since diesel models carry some significant advantages over gas-sipping vehicles. Diesels are 20% to 40% more fuel-efficient than the same models with conventional engines.

Pumping Biodiesel

Further greening diesel's prospects are several proposals in Congress that would increase the national supply of **biodiesel**. Presidential candidate Barack Obama has proposed a law that would pump 65 billion gallons of alternative fuels into U.S. tanks by 2025. Expect to hear about many more alternative-fuel initiatives as the Iowa caucus draws near.

Those kinds of economy improvements and policy changes could even pose a challenge to the high-tech, gas-electric hybrids, including the Toyota (TM) Prius and Ford (F) Escape Hybrid, that have proved popular with consumers concerned about the environmental impact of their driving. Diesels improve economy while carrying a much smaller premium than hybrids. Mercedes-Benz (DCX), a leader in U.S. diesels, says the premium for a diesel model like its E-Class sedan is less than \$2,000, compared with about \$4,000 for a hybrid.

Diesel also holds promise as a so-called alternative fuel that could help the U.S. kick its addiction to foreign oil. According to EPA estimates, if a third of American passenger cars ran on diesel, the U.S. could save as much as 1.4 million barrels of oil per day, approximately the amount of oil imported from Saudi Arabia.

And, unlike other alternative fuels, notably ethanol-based E85, the diesel infrastructure is better developed. Approximately 40% of U.S. filling stations offer the fuel, compared with only several hundred that provide E85.

Cleaner Engines in the Pipeline

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There's been a flurry of diesel development: Volkswagen and Mercedes-Benz have been hard at work on cleaner-burning diesel engines that reduce emissions. Mercedes has said it could begin selling 50-state models next year.

There are some compelling precedents for the rapid acceptance of diesel when the market is right, namely, when consumers and manufacturers are concerned about pumping up fuel economy. In Britain, which long was cool on the fuel, sales of diesel vehicles have risen to 40% of car sales, up from about 15% in 2000.

Though Japanese companies have largely stayed away from the fuel, Honda (HMC) made waves in 2003 by introducing an ultra-efficient diesel-burning engine in European markets. Last fall the company said it would bring its 2.2-liter engine, dubbed the i-CTDi, to Americans, likely by 2009.

Growing Demand

The Big Three also offer diesels but have mostly focused on workhorse trucks. Ford, General Motors (GM), and DaimlerChrysler all offer full-size pickups with bawdy engines. Only Daimler's Jeep brand offers a diesel passenger sport-utility vehicle, the Jeep Grand Cherokee CRD.

Registrations for diesel-powered vehicles have risen in the past few years, largely bolstered by the availability of such trucks. According to R.L. Polk and the Diesel Technology Forum, registrations rose 80% between 2000 and 2005, from 300,000 to nearly 545,000 vehicles. In the light-truck market, diesel registrations rose 95% during that period and, in 2005 alone, by 31%.

Even so, consumers shopping for diesels in 2007 have rather limited choices, with just a handful of passenger vehicles on the market. But that's slated to change in the next two years, as meaner, cleaner models begin showing up on dealers' lots.

Click here to see a slide show of diesel models currently available in the U.S.

URL: http://www.businessweek.com/autos/content/mar2007/bw20070326_220157.htm

LOAD-DATE: March 26, 2007

LANGUAGE: ENGLISH

PUBLICATION-TYPE: Web Publication

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