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**Before The Subcommittee on Energy, Natural Resources  
and Infrastructure  
Committee on Finance  
U.S. Senate**

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Mr. Chairman and Members of the Committee, thank you for inviting me to testify before you today on the subject of Advanced Technology Vehicles. DaimlerChrysler is committed to developing new, advanced technologies that reduce the effects our products have on energy consumption, climate change, and the environment in general.

We believe it is not prudent for a vehicle manufacturer to rely too heavily on a single technology to address our nation's petroleum consumption and greenhouse gas concerns. Therefore, we are engaged in developing and producing technologies that will address these issues in the near-, mid-, and long-term. We continue to improve the fuel efficiency of our gasoline powered engines and our new 4-cylinder World Engine and announcement in April of a new, more fuel-efficient V-6 engine are evidence of that. We are in joint development with GM and BWM to develop advanced hybrid systems and our first products, the Dodge Durango and Chrysler Aspen hybrids, will be on sale in 2008. Our Orion bus subsidiary has sold, or has on order, more than 1,400 diesel-hybrid buses to transit authorities in the U.S. and Canada. We also are the only manufacturer to have a fleet of plug-in hybrids in service today and we have more than 100 fuel cell vehicles in operation around the world. While I would be pleased to discuss these important initiatives, I would like to focus my remaining remarks this morning on advanced, clean diesel technology.

DaimlerChrysler is the world leader in this technology. This leadership is demonstrated through a broad range of diesel-powered vehicles—from passenger cars to light duty trucks and from school and transit buses to truck tractors. In addition, we are actively contributing to the expansion of the biodiesel fuel industry, including processing, distribution infrastructure, and fuel standards. While DaimlerChrysler is best known for its Chrysler Group and Mercedes brands of light duty vehicles, we are also the world's largest manufacturer of commercial vehicles, nearly all of which are diesel-powered. In addition to owning Freightliner Corporation, the largest U.S. truck manufacturer, we own Detroit Diesel, a major supplier of heavy duty diesel engines.

Our worldwide experience with diesels has led us to conclude that they are an important addition to our product portfolio that will help all of us meet our common goals for energy security and reducing the effects of greenhouse gases on the environment. Thus, for 2007, we offer seven light duty, clean diesel offerings. They are: the Jeep Grand Cherokee; the Dodge Ram heavy duty pick-up and medium duty cab/chassis

trucks; the Mercedes-Benz E, M, R and GL classes; and the Dodge Sprinter van. DaimlerChrysler's Chrysler Group is the only manufacturer that fills its diesel-powered vehicles with B5 biodiesel fuel in its U.S. assembly plants. We started this policy several years ago when we introduced the Jeep Liberty diesel and continue it today with the Jeep Grand Cherokee and Dodge Ram pickup. DaimlerChrysler approves the use of B5 for all U.S. available diesel-powered models and selectively approves the use of B20 in the Ram heavy duty pick-up and medium duty cab/chassis trucks. The ability of diesels to use biofuels further enhances their ability to reduce petroleum consumption and greenhouse gas emissions.

Why diesels? A diesel engine provides superior fuel efficiency in a highway driving environment when compared to advanced gasoline or gasoline hybrid powertrains. In Europe, more than 50 percent of our light duty fleet is powered by diesels. In fact, diesels account for roughly half of all engines in Europe. The European consumer values diesel's improvement in fuel efficiency, performance, and associated reduction in CO2 emissions. In the U.S., however, the diesel share is less than 5 percent.

In addition to our worldwide experience with diesels, we want to demonstrate to the American consumer that these are not the diesels known by our parents and grandparents. Vehicles powered by today's advanced, clean diesel engines are vastly superior to the preceding generation of diesel-powered vehicles, which created the lingering consumer perception that diesel-powered vehicles are noisy, smoky, and generally customer-unfriendly. Today's diesel-powered vehicles are clean, quiet, energy-efficient, powerful, and exceed customer expectations for hauling, towing and general utility.

In terms of U.S. energy objectives, diesel use can be a key part of a strategy to reduce our reliance on foreign oil. Today's advanced technology clean diesels achieve 20 to 40 percent better fuel economy than an equivalent gasoline engine. And the lifetime fuel savings are substantial. For example, based on data from EPA's 2007 Fuel Economy Guide, a diesel Grand Cherokee will use 418 fewer gallons of fuel each year than the gasoline-powered Grand Cherokee. This fuel savings is nearly three times that of the hybrid Honda Civic—which would save only 154 gallons of fuel per year compared to the gasoline-only Civic.

And unlike the diesels of 25 years ago, today's advanced technology diesel engines are clean. Through engineering advancements that include exhaust-gas recirculation with electrically controlled valves, our new diesels can optimize the combustion process with the aim of further reducing fuel consumption and exhaust emissions. Our 2007 diesel lineup meets current EPA emissions standards by applying various combinations of advanced combustion control and exhaust aftertreatment technologies including DaimlerChrysler's trademark BLUETEC technology.

With all these benefits, one may wonder why we have not seen more significant penetration of diesels in the U.S. market. Several factors have influenced the consumer's decision on diesel-powered vehicle purchases. First, there are price

premiums on the diesel engine option. An advanced technology diesel engine costs several thousand dollars more than an equivalent gasoline engine, and we can not fully charge the consumer for this extra cost. In addition, diesel fuel is not as widely available as gasoline and it often costs more.

A further reason why diesel has not significantly penetrated the U.S. passenger and light-truck market is the lack of a consumer tax credit incentive. As part of the Energy Policy Act of 2005, Congress enacted the section 30B tax credit for purchases of advanced technology vehicles. The credit has been pivotal in establishing consumer acceptance of hybrid passenger cars and we believe it will be helpful in the future in encouraging more hybrid light trucks. To date, however, the section 30B tax credits have not helped to promote clean-diesel technologies.

The reason is that the section 30B rules require “lean burn” vehicles, such as diesels, to meet more stringent emissions standards than EPA currently requires. In short, 30B requires meeting emission standards that don’t take effect for another two years in order to qualify for consumer tax credits. Because of the different stages of technology development, no passenger car or light truck diesel vehicle offered today meets these emissions requirements.

New technologies such as BLUETEC will help DaimlerChrysler’s diesel passenger cars and light trucks meet the EPA emissions standards on schedule, by 2009. In the meantime, in 2007 and 2008, we will continue producing “early entrant” diesels that we hope will establish a marketplace foothold for deployment of these new technologies in a broad array of vehicles.

To help foster clean diesel, which is one of the goals of the 2005 legislation, DaimlerChrysler would urge the Committee to consider modifications to the section 30B tax credit that would encourage pre-2009 diesel purchases. For example, we strongly support legislation (S. 1055) introduced by Senator Biden that would eliminate the special emissions requirements under section 30B for lean burn vehicles. Enactment of this legislation would be a small – in terms of budgetary impact – but important step in Congress’s pursuit of a multifaceted U.S. advanced technology vehicle strategy.

I also would note that introduction of diesel passenger vehicles and light trucks would establish an altogether new market for biodiesel and renewable diesel. Thus, not only can we reduce our reliance on foreign oil by encouraging diesel, we also can help grow the marketplace for alternative diesel fuels whose production Congress is trying to encourage.

I appreciate the opportunity to testify before you today.