

Testimony of Sam Paschel, CEO, Zero Motorcycles
Post Tax Reform Evaluation of Recently Expired Tax Provisions
Subcommittee on Tax Policy
Committee on Ways and Means
US House of Representatives

Mr. Chairman, members of the Committee, thank you for the opportunity to testify about the section 30D provisions for consumer tax credits for certain 2 and 3-wheel plug-in vehicles. This credit began in 2009 and has been on again and off again for the past several years. It was extended recently, but only retroactively for 2017, on February 9, 2018 in the last continuing resolution. Renewing this tax credit creates American engineering, manufacturing, supply chain and sales jobs in a proud American powersports industry that is continuing to recover and an emerging technology industry that is poised to grow rapidly.

I am the CEO of Zero Motorcycles Inc., and I'm coming to you at a critical time in our company's development and the development of an emerging American industry. The recent momentum in the 4-wheel space is encouraging but, domestic sales and growth in the 2 and 3-wheel spaces are trailing the progress seen in 4-wheel vehicles. There is a rapid and massive expansion of the number of international competitors on a weekly basis that is threatening our current foothold. A federal tax credit that helps us here at home and encourages an acceleration of sales volume now will have the long-lasting effect of scaling an American industry and creating American jobs and will help to establish a long-term, global leadership position.

Zero is the only company still producing high-performance American motorcycles that qualified for the consumer tax credit at the credit's inception. We are an inspiring story of American ingenuity and entrepreneurship. In our eleven years, we have grown from a startup in a Santa Cruz garage to an internationally respected brand that is revolutionizing the motorcycle industry and leading a revolution in powersports. However, I'm also testifying today on behalf of a coalition of other manufacturers in this ever-evolving industry. Arcimoto, a three-wheel vehicle manufacturer, is one such start-up in Oregon. This company, like Zero, used private capital for vehicle development. Subsequent to Arcimoto's public listing in August of last year, it built a manufacturing facility that is now beginning to fill the backlog of orders for its fully electric 200+ MPG equivalent vehicles for commuters.

There has been a shakeout and rebirth in our space over the past 10 years. Some major manufacturers, such as Brammo, Vectrix, and Polaris dropped plans for electric motorcycles. More recently, others like Harley Davidson are moving forward with new product announcements. In addition, other members of our group of companies include another new three-wheel sport vehicle manufacturer in Utah, Vanderhall Motor Works, which is expanding production this year to offer plug-in vehicles in addition to their traditional gas-powered models. At least a dozen companies are shipping or plan to ship products soon.

The recent introductions and resurgence has finally put us back where we were 10 years ago, before the 2009 US economic downturn so dramatically impacted the powersports industry. We estimate that the renewed growth of this industry will create thousands of new well-paying American jobs over the next five years.

Zero has produced our plug-in motorcycles for individual American consumers, local municipal police forces, international consumers and even the US Navy. Our company now employs 150 people directly and relies on more than 70 suppliers in 25 states. On the distribution side, we sell our motorcycles through nearly 100 dealers in 30 states, including Hap's Cycle Sales in Sarasota, in the subcommittee Chairman's district and AAT Powersports in Willis, TX in Chairman Brady's district. Our dealers have businesses in districts that overlap with nearly every member of this subcommittee and the impact of the proposed credit will be felt on those sales floors in each of your districts.

I have five major points for the consideration of the subcommittee today.

First, this is a critical time for the implementation of the tax credit, which will help with consumer demand to build strength in an emerging American industry. The economy is again conducive to growth and there are enough players entering the marketplace to advance our industry with the consumer tax credit in place. Our experience on the showroom floor is that a renewed, forward-facing credit helps domestic sales grow more rapidly. This will help American participants in our industry build and cement their competitive advantage by enabling faster scaling. The credit goes to the consumer so it helps a manufacturer only indirectly, but it makes a significant difference in closing the final sale at a critical time for the industry.

This leads to my second point. While the 2 and 3-wheel electric vehicle industry has evolved over the past 10 years or so, it is still nascent. Battery technology still creates a cost barrier to plug-in vehicle adoption, even though technology and costs continue to improve, and this is what the consumer tax credit addresses. It closes the price/value gap with gas motorcycles, enables quicker scaling and makes electric equivalents a real consideration for many new consumers. It is a win for consumers, dealers, and manufacturers that create jobs all across our country.

My third point is the 2 and 3-wheel consumer tax credit has not been a significant cost or burden to the federal government or American taxpayers. As a coalition of sub-scale vehicle manufacturers, incremental unit volume increases have a massive impact on our profitability, stability and ability to further build and defend our leadership position. We estimate that perhaps 3,000 Zero consumers have been eligible for the credit over the past 8 years, and we are the largest manufacturer in the category today. There are other small producers as well but the entire cost to the government of the program remains small while the potential impact in securing the future of an emerging American industry and American jobs can be massive. Finally, the companies in this industry are mostly entrepreneurial start-ups which are not yet profitable, so they cannot take advantage of the recently passed corporate tax cut which makes the extension of this particular tax credit all the more important.

My fourth point is that good federal public policy ensures a diversity of fuel choices for transportation. We should promote alternative fuel options at a time when there is not an oil crisis, so we are ready when the next one arrives. Current 2 and 3-wheel plug-ins also have barriers that liquid fuel vehicles do not. The three primary of which are still range, charge time and potential lack of fueling infrastructure. Our sales history has shown that the tax credit is a huge benefit in overcoming these hurdles at the critical moment of final sale. These 2 and 3-

wheeled vehicles are also excellent platforms to develop, test, and continue to improve systems that are pushing the fuel economy envelope to new extremes and lowering transportation cost for everyone but, we need all the help we can get while we continue to push American driven innovation.

Soon we will have more competition from China and Europe who have been instituting more aggressive credits to strengthen this segment, so the timing of the tax credit is critical to help a coalition of American companies secure their competitive advantage.

In addition, in the face of this competition, the past and future benefits to the nation (should the credit be extended) have and will continue to be multifaceted with the credit.

- Helping the resurgence of American manufacturing and jobs
- More direct and indirect jobs in the supply chain and distribution channel
- Increased exports of American products
- More consumer choices for alternatively fueled vehicles
- Advancements in American-engineered new vehicle technology with improving efficiency
- Zero-tailpipe emission vehicles that are important in Clean Air Act non-attainment areas and for the air our children breathe
- A more diverse manufacturing base

My fifth point is that regardless of where each member of this subcommittee is personally or politically on the global climate change issue, efficiency is something almost everyone can agree on as a goal. We should not squander energy resources and federal public policy should promote and incentivize efficient transportation. Every one of the motorcycles that receives the tax credit is powered by American electrons and will represent one of the most efficient vehicles on the road.

For someone new to Washington, I understand that political dynamics can have an impact on proceedings and measures like this one. Yet I trust that the members of this subcommittee will remember the sensible public policy basis for continuing this credit. Congress has a chance to do something here that will matter a great deal in the lives of the Americans who are designing, building and using the next generation of 2 and 3-wheel energy efficient transportation. We are not a powerful or well-connected special interest but, a coalition of small American businesses. The people who you will help are Republicans and Democrats who devote themselves every day to the hard work required to lead transportation innovation to try to make many the lives of Americans easier, more efficient, and cleaner.

For us, the clock is ticking and this is a critical time for our industry. Spring is here and the riding and purchasing season is about to hit its stride. I urge you to extend this key tax credit and, if possible to make that decision quickly in the context of your deliberations.

Thank you.