Incenting Auto Recyclers Towards Environmental Excellence

Board Presentation

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Prepared by Stanford Alumni Consulting Team for Sustainable Conservation
Basis of Project:

- U.S. EPA and the State Water Quality Control Board have identified end-of-life vehicles (ELVs) as a significant source of polluted stormwater runoff in California.
- How can Sustainable Conservation create a market mechanism to create a financial incentive for those that handle ELVs to adopt environmental management practices?

Recommendation:

- We believe that Sustainable Conservation should recruit environmental and local charities to use certified recyclers in their vehicle donation programs.
**Can we provide economic benefits to recyclers in excess of their costs of adopting environmental best practices?**

**Costs of Adoption (Net of Assistance):**
- Capital Expenditures
- Operating Costs:
  - Labor
  - Third Party Services

**Potential Benefits of Adoption:**
- Lower Cost of Vehicle Acquisition
- Higher Revenue from Vehicle Disposal
- Increased Market Share
- Reduced Cost of Potential Litigation/Fines
We focused on identifying potential sources of benefits.

- **Vehicle Supply Side**
  - Insurance Cos.
  - Government Fleets
  - Charities and their Agents
  - Auctions
  - Abandoned Vehicles

- **Component Demand Side**
  - Commercial (body & mechanical shops, cores remanufacturers)
  - Retail
  - Scrap Recyclers
  - Rebuilt Vehicle Purchasers

- **Implementation**
  - ID Industry Partners
    - Recyclers looking to grow?
    - Recyclers already certified?
  - ID Issues & Opportunities

- **Blue Sky Concepts**
  - Eliminate Auctioneer?
  - Recycler Roll-Up?
We spoke with key players in each part of the value chain.

**Auto Recycling Industry**
- John Acevedo, Owner, Pacific Auto Salvage
- Jack Duncan, Owner, J&M Auto Wreckers
- Dave Kendziorski, Industry Consultant, StormTech Inc.
- Herb Lieberman, Manager, LKQ Facility and Past President of ARA
- Terry Lindel, ITS
- Brad Martin, Owner, Subway Truck Parts
- Gavin McHugh, Lobbyist
- Bob Shultz, Owner, Antelope Foreign Dismantlers
- Ron Vincent, Owner, PMP Auto Dismantlers and Current SCADA President

**Scrap Recycling Industry**
- Gary Schnitzer, Executive Vice President, Schnitzer Steel Products
- Mark Madden, Schnitzer Steel Products

**Information Providers**
- Steve McNeil, Product Manager - Recycled Parts Locator, ADP Hollander
- Avi Pelc, Director of Product Management, ADP Hollander
- Jeff Wadlin, NextPart
- Genie Young, Product Manager, Mitchell
We spoke with key players in each part of the value chain...

Collision Repair Industry
- Jim Busch, Owner of Busch Collision
- Georgina Carson, Editor, Body Shop Business Magazine
- Sharon Merwin, Collision Division Manager, Automotive Service Association
- Tony Passwater, President of AEII, Consulting firm to the collision repair industry
- Mike West, Owner, Collision repair shop in Seattle

Insurance Companies
- Bob Daniels, Corporate Relations Manager, Allstate Insurance
- Michael Esposito, Product Manager, Direct Channel Sales/Midwestern Region, Progressive Insurance
- Rick Fowler, Senior VP and General Manager of West Coast Operations, USAA
- Laura Scott, Environmental Insurance Agency, Conservation Law Foundation Ventures
- Ray Trevathan, Director of Salvage Operations, Southern California Automobile Association

Fleet Managers
- Keith Lattaie, Fleet Manager for the City of Palo Alto
- Wayne Sonnenberg, Corporate Fleet Manager for Hewlett-Packard
...and also reviewed relevant documents.

Vehicle Donation Industry
- Noelle Coster, Sacramento Children's Home
- Joe Hern, Adesa Motor Corporation
- Summer Lopez, National Center for Equine Facilitated Therapy
- Pete Palmer, Vehicle Donation Processing Centers
- Wendy Rothenberg, Jewish Community Federation
- National Charity Support Foundation
- YMCA

Documents
We focused on recyclers.
Donations and abandonments account for more than half of net vehicles to recyclers. Insurance TLV’s are the smallest source.

Sources of End-of-Life Vehicles in California

- **Gross Removals from Service**: 1,550,000
- **Less Loss Factors**: 330,000
- **Net ELVs to Recyclers**: 1,220,000

- **Owner Retention, Salvage, Export**: 330,000
- **Fleet & Other**: 450,000
- **Abandon & Impound**: 450,000
- **Donated Vehicles**: 270,000
- **Insurance TLVs**: 200,000
The auction industry is concentrated. The top 3 companies have over 50% of total loss vehicles.

- The vast majority of ELVs - up to 88% - go through an auction.

- Top 3 companies process approximately 50% of total loss vehicles in U.S. (or over $700 million in cars each year).

- Auctions would need to implement or enforce most proposed incentives

- Allete and Copart growing aggressively. IAA shrinking and losing money.

- Auctioneer revenue per car estimates range from $50 per car to $500 per car

Source: Company annual reports
End-of-life vehicle recyclers have 45% of the auto recycling market.

**End-of-Life/Self-Service (ELV)**
- Most consolidated segment, with continuing consolidation and “evaporation”
- Primary customers are self-service walk-ins
- Environmental compliance fairly good

**Late-Model Segment**
- Moderately fragmented, with some consolidators (LKQ, formerly Greenleaf)
- Primary customers are commercial
- Environmental compliance fairly good among larger, more successful players

**Mixed**
- Highly fragmented; no consolidators
- Revenue from commercial, retail, scrap
- Environmental compliance tends to be poor

**Rebuilders**
- Extremely fragmented (many back-yard operations)
- Significant black/gray market activity
- Environmental compliance believed to be very poor
Recycler customer base varies widely by segment.
But overall, recyclers primarily sell parts to retail customers.

Retail - Parts
- Primarily walk-in (“do-it-yourselfers”)
- **Key factor:** product selection (find what you’re looking for) and price

Retail - Vehicles
- Purchasers of re-built cars
- **Key factor:** the cars that people want at below Bluebook cost

Commercial
- Body shops and mechanical repair shops
- Cores re-manufacturers
- Often full service (part is removed and delivered)
- **Key factor:** reliability

Scrap Recyclers
- A small number of very large companies
- Scrap picked up on-site or delivered
- Very depressed market now
- Some integrated companies (e.g. Schnitzer)
- **Key factor:** cost
Sustainable Conservation should recruit charities to use certified recyclers in their vehicle donation programs.

<table>
<thead>
<tr>
<th>Option</th>
<th>Likely Impact</th>
<th>Likelihood of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Recruit environmental and local charities to use certified recyclers in their vehicle donation programs</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>• Direct ELVs to network of certified recyclers, bypassing auctions</td>
<td>5</td>
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</tr>
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<td>• Use coupons to reduce car acquisition costs for certified recyclers</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>• Restrict auction participants to environmentally compliant auto recyclers</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>• Direct business to certified recyclers through tying certification to business practices</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>• Subsidize recyclers through tax credits or low interest loans to make structural improvements</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>• Use consumers and insurance carriers to fund coupon program</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
Runner-up opportunity #1: direct ELVs to certified recyclers

Recyclers could contract directly with insurers, eliminating auction houses.

Auction houses take a significant margin, $50 - $500 per car (25% of car value), for:
- Providing transportation for ELV or TLV to auction site
- Managing paperwork
- Maximizing sales price per vehicle

But services may no longer be worth 25%
- A network of recyclers could provide transportation - averages $75/car
- Recyclers could handle the paperwork
- Establishment of co-op demonstrates potential

Could a network of environmentally friendly recyclers be created and vehicles channeled directly to them?
- 10 – 15% savings could be shared between insurers and recyclers
- A geographically-focused pilot test could be run (similar to RPI and ITS co-ops of best-in-class recyclers)
- Pricing mechanism would need to be determined - may require exclusive relationships
  - Sharing of revenues
  - Set pricing
Runner-up opportunity #2: coupons for ELV purchases

**Coupons will reduce car acquisition costs for certified recyclers.**

A coupon program could have a significant impact

- Coupons relatively easy to implement and could be used widely;
- Coupons provide a direct dollar incentive to recyclers for meeting certification;
- Funding is the biggest constraint
  - Funding needs are significant
  - Insurance companies communicated with are not supportive of the program.

**Potential funding sources include:**

- Coalition with environmental membership organization;
- Small insurance company that focuses on environmentally friendly;
- Major US Manufacturers – additional cost in auto purchase; and
- Philanthropic or Government funding.
Runner-up opportunity #2: coupons

To operate effectively, a coupon program requires coordination between a number of bodies.

Environmental Accrediting Body
- Conducts environmental assessment of auto recyclers
- Issues environmental accreditation
- Assesses the work required to improve environmental performance

Auto Recyclers
- Applies for and receives accreditation
- Receives coupons from coordinating body
- Redeems coupons directly with coupon coordinating body with auto proof-of-purchase

Auto Auctioneers
- Conducts auctions as normal

Fund Manager
- Solicits funds from donors
- Manages funds
- Disperses funds to the coupon coordinating body to meet monthly cash flows

Coupon Coordinating Body
- Issues coupons, manages and controls coupon process – works with environmental accrediting body
- Sends remittance to auctioneers
- Works with fund manager to ensure liquidity requirements are met

Sustainable Conservation – Establishing body
- Establishes organizational capability required to operate the coupon initiative
- Designs, builds, pilots program
- Uses relationship network to ensure the right constituents are included
### Remaining opportunities

**Our remaining hypotheses were systematically rejected because of implementation difficulties and low likelihood of success.**

<table>
<thead>
<tr>
<th>Option</th>
<th>Assessment</th>
<th>Rationale</th>
</tr>
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</table>
| **Restrict auction participants to environmentally compliant auto recyclers** | • Difficult to implement  
• Strong resistance from insurers and auctioneers | • Reduces revenue to insurers and auctioneers  
• Requires implementation and enforcement by auctioneers |
| **Direct business to certified recyclers by tying certification to business practices** | • Difficult to change buying relationships  
• Difficult to encourage body shops to use more recycled parts | • Certification can’t replace personal relationships  
• Reimbursement and operations discourage use of recycle parts |
| **Provide subsidies to recyclers to make environmental improvements** | • Sustainable Conservation is researching this independently  
• Subsidies are insufficient to provide an sufficient incentive on their own | • Subsidies are unlikely to cover more than 50% of hard costs |
| **Use consumers and insurance carriers to fund coupon program** | • Extremely difficult to implement | • Insurance agencies are prevented from levying new fees to consumers  
• An environmental fee must be approved by government |

*Source: Project team assessment*
### Recommendations

**Sustainable Conservation should recruit charities to use certified recyclers in their vehicle donation programs.**

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</tr>
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Create a *Sustainable Recycling* program working with charities that use auto donations for funding.

*We must consider:*

- Why start with charities?
- Pros and cons
- Program implementation outline
- Path for expansion
To operate effectively, a coupon program requires coordination between a number of bodies.

- **Charities**
  - Typically contracts with outside fundraiser to manage vehicle donation program.

- **National Fundraisers**
  - Takes vehicle donations from donors across the country
  - Works with many different charities
  - Sends most cars to auctions; low value cars go directly to recyclers

- **Local Fundraisers**
  - Work on a regional basis
  - May have exclusive relationship with charity and auto recycler - may not use auctioneers at all

- **Auto Auctioneers**
  - Conducts auctions as normal

- **Auto Recyclers**
  - May obtain cars as usual from auction
  - May have direct relationships with National Fundraisers for low value cars
  - May have exclusive relationships with charities for all cars
Why start with charities?

Charities direct almost \( \frac{1}{4} \) of net End-of-Life vehicles and have the fastest growing share.

### Top CA Vehicle Donation Programs by Charity

<table>
<thead>
<tr>
<th>Charity</th>
<th>Car proceeds</th>
<th>Net to charity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agape Villages, Inc.</td>
<td>$5,194,027</td>
<td>$1,667,691</td>
</tr>
<tr>
<td>American Red Cross</td>
<td>$5,181,255</td>
<td>$1,967,777</td>
</tr>
<tr>
<td>Make a Wish Foundation</td>
<td>$3,744,483</td>
<td>$1,303,652</td>
</tr>
<tr>
<td>Polly Klaas Foundation</td>
<td>$2,429,174</td>
<td>$1,264,793</td>
</tr>
<tr>
<td>Aids Project LA</td>
<td>$1,651,396</td>
<td>$288,165</td>
</tr>
<tr>
<td>Alzheimer's Association</td>
<td>$1,311,815</td>
<td>$294,637</td>
</tr>
<tr>
<td>Arthritis Foundation</td>
<td>$1,126,180</td>
<td>$135,142</td>
</tr>
<tr>
<td>Stanford Home for Children</td>
<td>$946,605</td>
<td>$391,347</td>
</tr>
<tr>
<td>Sacramento Children's Home</td>
<td>$913,263</td>
<td>$346,658</td>
</tr>
<tr>
<td>United Way of LA</td>
<td>$712,890</td>
<td>$283,309</td>
</tr>
<tr>
<td>Youth Rescue Fund of LA</td>
<td>$635,423</td>
<td>$95,416</td>
</tr>
<tr>
<td>United Way of Orange County</td>
<td>$626,555</td>
<td>$248,918</td>
</tr>
<tr>
<td>Leukemia Society of America</td>
<td>$599,759</td>
<td>$317,384</td>
</tr>
<tr>
<td>California Council for the Blind</td>
<td>$595,405</td>
<td>$189,446</td>
</tr>
<tr>
<td>Big Brothers of Greater LA</td>
<td>$564,252</td>
<td>$67,638</td>
</tr>
<tr>
<td>Shiloh International Ministries</td>
<td>$525,053</td>
<td>$30,001</td>
</tr>
<tr>
<td>National Children's Cancer Society</td>
<td>$469,797</td>
<td>$143,692</td>
</tr>
<tr>
<td>Leukemia Society</td>
<td>$443,830</td>
<td>$226,607</td>
</tr>
</tbody>
</table>

Source: Attorney General’s Summary of Charitable Solicitations by Commercial Fundraisers. Supplement Report: Donations of Personal Property (Thrift Stores, Vehicle Donation Programs, etc.) March 2001

- Large share of ELVs
  - CA Attorney General’s data accounts for 134,000 – 268,000 cars in 2001.
  - We conservatively estimate 300,000 gross donations, resulting in 22% of net ELV’s
  - Annual growth rate 70% through 1998, 33% in 1999

- Not solely motivated by economics
  - Charities are image conscious. [Example: car donation revenue split controversy.]
  - Environmental stewardship could be an effective marketing tool for charities

- Cars in donation programs attract old, low value cars – less loss to salvage and re-registration
Why start with charities?

Charity fundraisers have scale, resources, and potential motivation to assist in implementing incentives.

### Top Fundraisers for Vehicle Donation Programs

<table>
<thead>
<tr>
<th>Fundraiser</th>
<th>Revenue</th>
<th>Charity income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donated Property Systems, Inc.</td>
<td>$9,095,695</td>
<td>$3,351,772</td>
</tr>
<tr>
<td>Car Program, LLC</td>
<td>$5,194,027</td>
<td>$1,667,691</td>
</tr>
<tr>
<td>O.N.N.E. Corp</td>
<td>$4,967,110</td>
<td>$736,235</td>
</tr>
<tr>
<td>Vehicle Donation Processing Center</td>
<td>$4,824,194</td>
<td>$1,995,990</td>
</tr>
<tr>
<td>Charities Automobile Recycling Enterprises</td>
<td>$2,348,577</td>
<td>$848,190</td>
</tr>
<tr>
<td>Charity Fundraising Services</td>
<td>$1,459,813</td>
<td>$579,986</td>
</tr>
<tr>
<td>Future Fundraising</td>
<td>$954,770</td>
<td>$394,420</td>
</tr>
<tr>
<td>Your Doughnations</td>
<td>$913,263</td>
<td>$346,658</td>
</tr>
<tr>
<td>Sterling Star Group</td>
<td>$739,534</td>
<td>$44,501</td>
</tr>
<tr>
<td>Penney's Towing</td>
<td>$696,490</td>
<td>$320,342</td>
</tr>
<tr>
<td>Richard Botto &amp; Associates</td>
<td>$247,085</td>
<td>$123,552</td>
</tr>
<tr>
<td>A.S.K. wholesale</td>
<td>$196,095</td>
<td>$64,702</td>
</tr>
<tr>
<td>Cars for Kids</td>
<td>$152,375</td>
<td>$4,850</td>
</tr>
<tr>
<td>Charity Car Donations</td>
<td>$145,175</td>
<td>$65,499</td>
</tr>
<tr>
<td>G.A. Corp</td>
<td>$141,434</td>
<td>$23,939</td>
</tr>
<tr>
<td>Donation Station</td>
<td>$103,226</td>
<td>$21,957</td>
</tr>
<tr>
<td>Automobiles Plus Donation Services</td>
<td>$66,957</td>
<td>$7,377</td>
</tr>
<tr>
<td>Autos Plus Donation Program</td>
<td>$4,360</td>
<td>$1,339</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$32,250,180</td>
<td>$10,598,999</td>
</tr>
</tbody>
</table>

Source: Attorney General’s Summary of Charitable Solicitations by Commercial Fundraisers. Supplement Report: Donations of Personal Property (Thrift Stores, Vehicle Donation Programs, etc.) March 2001

- Reasonably concentrated market. Top 5 raised 82% of the funds
  - Donated Property Systems is non-profit and is geographically focused. Good first target?
  - Vehicle Donation Processing Center has expressed interest. They run program for Polly Klaas Foundation
  - Penney’s Towing is connected to Adesa Motor Corp. Adesa is much larger than Penney’s alone - Kidney Foundation brought in 72,000 cars nationwide in 2000.

- Vehicle Donation is the only business for some of these organizations
Create a **Sustainable Recycling** program with charities that use auto donations for funding, as follows:

1. Target key charities and fundraisers according to size, mission and geographic focus. Recruit both charities and fundraisers, focusing on both the positive marketing messages (environmental, safety) and potential dangers to the programs if donors become concerned about the disposal of cars.
   
   1. Donated Property Systems is based in LA, is non-profit and large - could be good initial target.
   2. Vehicle Donation Processing Center has environmental clients and has expressed interest in participating
   3. American Lung Association has internal (and unpublished) concerns about environmental impact of programs

• Develop recycler network as recyclers meet environmental certification requirements.
  
  – Goal should be to have sufficient recycler participation to cover geographic area that charities pull from.
  
  – Cars should be transferred directly to charities using an alternative pricing method (revenue sharing or historical pricing). Both charities and recyclers should benefit from elimination of auctioneers.

• Develop promotion and identity program for participating recyclers and charities. Enable both to market environmental benefit

• Sustainable Conservation to fund initial administration and promotion.
Pros and cons

Working with charities can be started immediately, but only addresses one source of cars for the auto recycling industry.

**Advantages**

- Ability to start locally, develop & test program, and scale
- Participants partly motivated by non-economic factors
- Competitive market for donations – need for differentiation
- No regulatory issues
- Simple operating model – easy to explain
- Simple funding model – capturing auctioneer’s markup
- Addresses almost 25% (and fastest growing) share of ELV’s
- Addresses lowest funded, worst polluting segment

**Challenges/Issues**

- Need to provide alternative pricing method for ELVs
- Small and local starting impact - does not encourage certification and geographic areas outside of test pilot area
- Requires infrastructure development to replace auction houses and manage administration, certification, and promotion
- Does not address non-charity sources initially
Path for expansion

Potential opportunity to extend the program to municipalities, encompassing impounded and abandoned vehicles.

Advantages

- Addresses largest net ELV segment
- Addresses lowest value, highest polluting segment
- Municipalities are not primarily driven by economic incentives
- Cities compete for leadership in environmental and quality of life measures
- Learning and structure developed for charities should be adaptable and scalable

Challenges

- Administrative structure may need to be more robust to handle title transfer and legal requirements
- Auction houses may fight back to preserve major revenue sources
Appendix

Auction Industry Supporting Data
Consumer Survey
Governmental Solutions
Demand Side Hypotheses
Supply Side Hypotheses
Funding Sources
Only Copart and Allete are profitable.

Salvage Auto Auction Market

- Auction segment is concentrated. Top 3 companies process approximately 50% of total loss vehicles in U.S. (or over $700 million in cars each year).
- The vast majority of ELVs - up to 88% - cars go through an auction.
- Auctions would need to implement or enforce most proposed incentives.
- Allete and Copart growing aggressively. IAA shrinking and losing money.
- Revenue per car estimates range from $50 per car to $500 per car.
Environmentally concerned consumers will support insurance programs to promote environmentally sound auto recycling.

Key Findings
- 98% interested in environmental preservation
- 92% willing to pay an extra fee in insurance premiums
- People willing to pay more during total loss settlement
- Insurance company matching contributions is effective incentive
- 66% will consider switching insurance companies that are endorsed by environmental organization
- No correlation between income and amount willing to contribute
- Existing environmental contributors willing to pay more
- Women more likely to switch insurance companies

Survey Details
- 238 participants in Zoomerang survey support this hypothesis.
  Password: susconact
- Raw data in spreadsheet form on YahooGroups: http://groups.yahoo.com/group/susconact/files/
  filename: spreadsheet10398106.xls
Governmental solutions of tax credits and low cost loans are unlikely to provide sufficient incentive on their own.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| **Provide tax credits for making structural improvements for environmental compliance.** | • In Oregon, the government gives a tax credit allowing recyclers to write off 1/3 of the cost of constructing an environmental facility over several years  
• A legislated, non-market solution |
| **Provide low-cost loans to auto recyclers to make environmental improvements.** | • Low-cost loans will help those auto recyclers on the margin – but not the worst environmental and financial performers  
• Requires more data on range of costs to auto recyclers of environmental compliance in order to determine funding requirements  
• Requires funding mechanism |
Hypothesis: drive business to certified recyclers

*Environmental certification is not a key buyer value for customers or auto recyclers.*

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Drive more business to environmentally compliant auto recyclers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How</strong></td>
<td>Tie environmental certification to a business certification that addresses the concerns of body shops. Flag parts from certified recyclers in parts database, and promote program</td>
</tr>
<tr>
<td><strong>Why</strong></td>
<td>Body shops are the largest customer segment for some recyclers, but body shops primarily use OEM parts for repairs. Insurers have an economic incentive to encourage the use of recycled parts for auto repair because they are cheaper</td>
</tr>
</tbody>
</table>
| **Conclusion** | Highly unlikely to work. Certification can’t address key issues hindering the use of salvage parts.  
  – Body shops have adverse economic incentives to use salvage parts-less reimbursement coupled with an increased cost of repair.  
  – Trust concerns between body shops and recyclers hinder use of salvage parts  
  – Recyclers have disincentives to provide accurate parts data in public databases |
Body shop economic issues

- Less reimbursement from insurers. Insurers pay a lower percent margin to body shops on salvage parts. Since salvage parts cost less to begin, the total dollar margin from a salvage part is much less than from an OEM part.
- Higher cost of repairs. Salvage parts are more expensive for repair shops to work with. There is no centralized supply of salvage parts, so they invariably take longer to get - increasing repair cycle time. Salvage parts often need more preparation than OEM parts and are much more likely to require repairs or replacement.

Trust issues

- Body shops have been burned by inaccurate descriptions of parts or turn-around time. The “seal of approval” from certification cannot replace personal experience.
- Recyclers have been burned by bankrupt or unethical body shops. They are reluctant to sell to body shops they don’t know. There are many stories of body shops returning different parts or claiming that a good part is bad.

Recyclers disincentives

- Accurate parts data in public databases give competitors key knowledge on pricing and inventory. In addition, recyclers would rather locate a part on behalf of a client than advertise that they don’t have it.
- Updating data accurately is resource-intensive, for very little benefit.

Demand side incentive unlikely to work

Other barriers to implementation:
Hypothesis: restrict auctions to certified recyclers

Restricting auctions faces opposition from insurers because it may result in lower car prices and therefore higher costs for insurers.

**Incentive**
- Decrease car acquisition costs to certified recyclers.

**How**
- Through partnership with insurers, restrict access to certain auto auctions to certified recyclers. Due to reduced competition, especially from illegal operators, car acquisition costs should decrease.

**Why**
- Certified recyclers have a higher cost of doing business in order to implement best environmental practices. As a result, it is more difficult for them to place winning bids on many cars, especially when facing competition from recyclers from Mexico or unlicensed entities rebuilding cars.

**Conclusion**
- Highly unlikely to work.
  - This program wouldn’t work unless a sufficient number of recyclers participated, so that a market could be created. This seems unlikely based on ARA’s experience with a less demanding certification.
  - Program would need to be implemented and enforced by auction houses. They have no incentive to participate.
  - Typically, buyers represent multiple recyclers at auctions. It would be very hard to regulate who the buyer was representing.
### Hypotheses: control vehicle supply

*Eliminating auction houses will not be supported by insurers and coupons have no identified funding source.*

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Rationale</th>
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| Insurance companies sell cars to approved recyclers at lower prices | • Initiative was rejected by insurers  
  • Insurance companies do not want to become environmental police  
  • Insurers are unprofitable and will return any savings to shareholders |

| Use coupons to reduce car acquisition costs for environmentally approved auto recyclers | • Viable funding source is not available  
  • Funding sources considered  
  • Insurance companies  
    – California regulatory environment extremely strict (rate setting)  
    – Industry outlook dim, profits squeezed  
    – “We don’t want to be the environmental police!”  
  • Venture philanthropists or high net worth individuals may see value in supporting the coupon program |
Hypothesis: use insurance carriers as funding source

**Difficult due to tough regulatory and competitive environment in CA**

- **Incentive:** Decrease car acquisition costs to certified recyclers by using consumers and insurance carriers as funding source for coupon program

- **How:** Green consumers pay a higher premium (or agree to a deduction from TLV payout) to cover the cost of environmentally compliant car disposal; insurance carriers match consumer contributions. Money funds coupon program for certified recyclers

- **Why:** Insurance carriers will be motivated to use green auto policies to build an environmental brand and to differentiate themselves from competitors

- **Conclusion:** Highly unlikely to work.
  - Insurance carriers face highly restrictive regulatory environment in California that dictates allowable factors for rate setting
  - Insurance companies are generally in poor financial health and see this effort as “yet another cost in the face of what is already a money-losing proposition.” - Rick Fowler, USAA
  - Requires broad-based participation, not singular action, by insurance companies to raise enough money to make a difference
  - Insurance company brands focus on promising reliable customer service; environmental message is tangential to brand promise
  - First mover disadvantage/second mover advantage: “If more companies jump on the bandwagon, the first mover will have incurred disadvantages in costs and paperwork to get approval from the insurance commissioner.” – Ray Trevethan, Southern California Auto Club
Hypothesis: insurers apply environmental levy

**Insurers rejected the idea of collecting an environmental levy from consumers.**

“Mandatory surcharges don’t differentiate one company from another, but something at state-wide level should still be considered because one or a handful of companies can’t collect enough money to make a difference.” – Michael Esposito.

“Co-branding is the best option: it offers clear segmentation, differentiation, and a way to attract new customers.” – Michael Esposito.

“Will Dept. of Insurance allow this (co-branding) to happen? If more companies jump on the bandwagon, the first mover will have incurred disadvantages: costs and paperwork to get approval from the insurance commissioner.” – Ray Trevethan

“You’ve got a wild bull by its horns. I don’t envy you” – Ray Trevethan (generally unfavorable towards insurance based funding schemes)

“If people that are environmentally conscious are in fact a better insurance risk, insurance companies would love to attract this market. first thing to do would be to convince insurance companies of this; HOWEVER, use of credit scoring for risk profiles is a big debate right now. The argument is that credit scoring schemes discriminate against poor and minority customers, and are a way to get around the mandated rating factors.” – Rick Fowler

“If environmental laws were enforced, we probably wouldn’t be having this conversation.” – Rick Fowler