Open Letter by Academics in Favor of Direct EV Sales and Service

April 14, 2021

We, the signatories of this letter, are active or emeritus professors employed at public or private universities in the United States. We specialize in economics, competition policy, market regulation, industrial organization, or other disciplines bearing on the questions presented in this letter. We come from across the political spectrum, and have a wide variety of views on regulation, environmental and consumer protection, and free enterprise as a general matter, but find common ground on the important issue of automotive direct sales.

We write to urge that any state laws still prohibiting car companies from selling their cars directly to consumers, or opening service centers for those vehicles, be amended to permit direct sales and service of electric vehicles (“EVs”). While once there may have been valid dealer protection reasons for prohibiting direct distribution, those reasons are long gone. Prohibiting direct distribution of EVs is not supported by legitimate public policy objectives, and has a variety of negative consequences, including: (1) slowing the market penetration of EVs; (2) correspondingly, maintaining a higher share of internal combustion vehicles on the roads, with negative environmental consequences; (3) interfering with manufacturers’ freedom to experiment with new distribution models for new technologies and market conditions, thus reducing the competitiveness of the U.S. EV industry and advantaging foreign competitors; (4) interfering with consumers’ freedom to decide how they will purchase cars; and (5) interfering with free and functioning markets to privilege economic special interests.

For the past six or seven years, the direct sales issue has been associated primarily with Tesla’s efforts to enter the market, and its state-by-state battles with the car dealers’ lobby. Today, the right to sell directly remains vital to Tesla, but it is equally important to a new crop of American EV start-up companies including Rivian, Lordstown, Lucid, Bollinger, and others about to enter the market. It is also important to the legacy automobile companies like General Motors, Ford, and Chrysler, which should be allowed to compete with the start-ups on a level playing field. About half the states now permit at least some direct sales, although the particulars vary by state. We respectfully contend that all states should allow all car manufacturers to sell EVs directly to consumers, if they so choose.

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1 We include in our definition of EVs any vehicle not powered by internal combustion, including fuel cell vehicles or any other new technologies that may come to market. We take no position in this letter regarding direct distribution of gasoline-powered cars, which have been mostly distributed through franchised dealer networks since the middle of the twentieth century. We use “direct distribution” as a shorthand to include selling vehicles directly to consumers through company-owned retail centers or online activity, and opening service centers to service vehicles.
A brief review of the history of dealer franchise laws may help explain how we got to where we are today. In the mid-twentieth century, car dealers were mostly “mom and pop” sole proprietorships. By contrast, the “Big Three” auto companies were hegemonic firms that faced relatively little domestic or foreign competition. The dealers began to complain to state legislatures that the car companies were taking advantage of them in a variety of ways. This led almost all of the states to pass dealer franchise laws intended to protect the dealers. Among other things, these laws prohibited a manufacturer from opening its own showrooms or service centers and transacting directly with customers. The dealers successfully argued that if the manufacturers were allowed to distribute directly to consumers, they could unfairly undermine their own franchised dealers.

Fast-forward to 2021. The situation is very different. First, the dealership system has grown from its “mom and pop” roots to one where enormous companies operate large dealer networks. The top 10 dealership groups alone earn over $97 billion in annual revenue. Second, the car manufacturer market has become far more competitive. Today, there are at least 15-20 major manufacturer groups selling cars in the U.S. This gives dealers more choices, and hence more leverage in contractual negotiations with manufacturers. Third, and perhaps most importantly, technological and market changes have led new entrants into the market—particularly companies selling EVs—to choose to distribute directly to consumers and not to use franchised dealers at all. As the Massachusetts Supreme Court has recognized, the original concerns that animated the direct distribution prohibitions—protecting a franchisee from its own franchisor—do not apply to a company that is not using franchisees.

Not only have the original justifications for prohibiting direct distribution evaporated, but the advent of EV technology has created an urgent need to permit direct distribution. Virtually every significant EV start-up has taken the position that mandatory distribution only through established franchised dealers is not viable for EVs for a variety of reasons, including:

1) **Dealership locations**: Dealerships are often found in out-of-the-way locations. EV companies need to “bring the new technology to the consumer” in places like shopping malls and city centers.

2) **Inventory differences**: Large inventory is the lifeblood of traditional dealerships, but many EVs work on a build-to-order model.

3) **Longer sales cycles**: The franchised dealer model is based on high volume of fast-paced sales. EV buyers take longer to educate

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4 The following list is drawn from testimony given by Tesla and Rivian at administrative and legislative hearings. See https://evannex.com/blogs/news/74602181-tesla-defends-direct-sales-model-at-ftc-talks-cites-unfair-opposition-from-gm.
themselves on EV sales, and therefore need to work with sales people who are not working on a commission model.

4) **Different profit models**: Traditional dealerships earn low profit margins on new car sales, and make it up on service. EVs have a much smaller service component since they don’t have service needs like oil changes or engine tune-ups. Traditional dealerships therefore lack much of an incentive to sell EVs.

5) **Conflict of interest**: EV sales cannibalize internal combustion sales, which are the dealers’ lifeblood. Dealers therefore lack the motivation to sell EVs.

6) **Direct customer relationship**: Optimal EV performance requires a direct relationship between the EV manufacturer and the customer for things like over-the-air updates and vehicle performance monitoring.

To be very clear, we take no position on how a manufacturer should decide to distribute EVs, or whether any particular strategy would be better than another one—those are matters to be determined by experimentation and market competition rather than academic opinion or government fiat. Dealers may still be able to play some role in EV distribution and servicing, and some of the legacy companies have suggested they may try hybrid direct/dealer models. The important point is that there are credible reasons to believe that the EV start-ups, which know their business better than anyone else does, are correct in claiming that mandating traditional dealer distribution will significantly impair their ability to sell EVs. That, in turn, leads to a variety of negative consequences.

Most immediately, direct distribution prohibitions threaten to slow EV market penetration. This denies consumers the opportunity to take advantage of new technologies, and also flies in the face of federal and state policies prioritizing a transition to clean, renewable energy. The slower the adoption of EVs, the longer internal combustion cars stay on the road, contributing to carbon emissions. Environmental organizations have made reforming direct distribution laws a policy priority for this very reason. Further, by locking in incumbent technologies, direct distribution prohibitions threaten to limit the dynamism and growth of the U.S. EV industry, putting U.S. firms behind foreign competition.

Direct distribution prohibitions are also bad for consumer interests. The staff of the U.S. Federal Trade Commission—the leading consumer protection agency in the country—has taken the position that direct distribution bans are bad for consumers, as have the Consumer Federation of America, Consumer Action, Consumers for Auto Reliability and Safety, and the American Antitrust Institute. While the dealers have argued that

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6 [https://www.autonews.com/assets/PDF/CA98362217.PDF](https://www.autonews.com/assets/PDF/CA98362217.PDF).
manufacturers will overcharge customers if they can sell directly to them,¹ the argument that adding a mandatory layer of costs between the manufacturer and the consumer will reduce consumer prices has no basis in economics. There is no credible consumer protection argument in favor of prohibiting direct distribution. Consumers should be given the choice of how they buy their cars.

Finally, direct distribution prohibitions conflict with free enterprise and first principles of regulation. Prohibiting direct distribution benefits car dealers by protecting them from competition, but that is not a legitimate basis for interfering with manufacturer and consumer freedom to decide how to buy and sell cars themselves.

The dealer protection laws were written for the mid-twentieth century. It is time for a new approach. We call on those states that still place limitations on direct sales and service by EV manufacturers to reform their laws to allow for direct distribution by any manufacturer selling EVs.

Signatories (schools listed for identification purposes only):⁸

R. Warren Anderson  
Associate Professor of Economics  
University of Michigan-Dearborn

Nicholas Bagley  
Professor of Law  
University of Michigan

Jonathan B. Baker  
Research Professor of Law  
American University Washington College of Law

Roger D. Blair  
Professor of Economics  
Affiliate Faculty of Law  
University of Florida

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⁸ Signatories join in their individual capacities only, and their joining should not be construed as a statement about the views of their employers, clients, or any organization with which they are affiliated. No signatory has been compensated by any entity to prepare, organize, or join this letter, nor did any entity apart from the signatories have any part in its drafting or organization. In short, this letter represents our views only and was not paid for or procured by anyone else.
Per L. Bylund
Assistant Professor of Entrepreneurship
Oklahoma State University – Spears School of Business

Steve Calandrillo
Jeffrey & Susan Brotman Professor of Law
University of Washington School of Law

Stephen Calkins
Professor of Law,
Wayne State University Law School

Dennis W. Carlton
David McDaniel Keller Professor of Economics
The University of Chicago Booth School of Business

Edward D. Cavanagh
Professor of Law
St. John’s University School of Law

Felix B. Chang
Professor and Co-Director, Corporate Law Center
University of Cincinnati College of Law

Jay Pil Choi
University Distinguished Professor
Department of Economics
Michigan State University

James C. Cooper
Associate Professor of Law
Director, Program on Economics & Privacy
Antonin Scalia Law School
George Mason University

Daniel A. Crane
Frederick Paul Furth, Sr. Professor of Law
University of Michigan Law School

Joshua Paul Davis
Professor, Director of the Center for Law and Ethics, and Dean’s Circle Scholar
University of San Francisco
Robin D. Hanson
Associate Professor of Economics
George Mason University

George A. Hay
Charles Frank Reavis Sr. Professor of Law & Professor of Economics
Cornell Law School

Thomas Hazlett
Hugh H. Macaulay Endowed Professor of Economics
Clemson University

Erik Hovenkamp
Assistant Professor of Law
USC Gould School of Law

Herbert Hovenkamp
James G. Dinan University Professor
University of Pennsylvania Carey School of Law

Max Huffman
Professor of Law and Director, Online Programs
Indiana University – McKinney School of Law

Justin (Gus) Hurwitz
Associate Professor of Law
Menards Director, Nebraska Governance and Technology Center
Co-director, Space, Cyber, & Telecom Law Program
University of Nebraska College of Law

Benjamin Klein
Professor Emeritus of Economics
UCLA

Francine LaFontaine
Associate Dean for Business + Impact
William Davidson Professor of Business Economics and Public Policy
Professor of Economics, LSA
University of Michigan

Thom Lambert
Wall Chair in Corporate Law and Governance and Professor of Law
Center for Intellectual Property and Entrepreneurship
University of Missouri
A. Douglas Melamed  
Professor of the Practice of Law  
Stanford Law School

Peter S. Menell  
Koret Professor of Law  
Director, Berkeley Center for Law & Technology  
Faculty Director, Berkeley Judicial Institute  
University of California at Berkeley School of Law

Thomas Morgan  
Oppenheim Professor Emeritus of Antitrust & Trade Regulation Law  
George Washington University Law School

John Newman  
Associate Professor of Law  
University of Miami

Sean M. O’Connor  
Professor of Law  
Founding Director, Innovation Law Clinic  
Executive Director. Center for the Protection of IP (CPIP)  
George Mason University Antonin Scalia Law School

Barak Orbach  
Professor of Law  
University of Arizona  
James E. Rogers College of Law

Mark J. Perry  
Professor of Economics  
University of Michigan- Flint

J.J. Prescott  
Henry King Ransom Professor of Law  
Co-director, Empirical Legal Studies Center  
Co-director, Program in Law and Economics  
University of Michigan

Barak Richman  
Bartlett Professor of Law and Business Administration  
Duke University
Stephen F. Ross  
Professor of Law and Lewis H. Vovakis Distinguished Faculty Scholar  
Executive Director, Penn State Center for the Study of Sport in Society

Daniel L. Rubinfeld  
Robert L. Bridges Professor of Law and Professor of Economics Emeritus U.C. Berkeley  
and Professor of Law, NYU

Chris Sagers  
James A. Thomas Professor of Law  
Cleveland State University

Laura Phillips Sawyer  
Associate Professor of Law  
University of Georgia School of Law

Fiona M. Scott Morton  
Theodore Nierenberg Professor of Economics  
Yale School of Management

Gregory H. Shill  
Associate Professor of Law, University of Iowa College of Law  
Affiliated Faculty Member, National Advanced Driving Simulator, University of Iowa College of Engineering

Vernon Smith  
Professor, George L. Argyros Endowed Chair in Finance and Economics, Professor of Economics and Law  
Smith Institute for Political Economy and Philosophy  
Winner, Nobel Prize in Economic Sciences (2002)  
Chapman University

Richard Squire  
Alpin J. Cameron Chair in Law  
Fordham University School of Law

Christopher Jon Sprigman  
Murray and Kathleen Bring Professor of Law  
New York University School of Law  
Co-Director, Engelberg Center on Innovation Law and Policy

Maurice E. Stucke  
Douglas A. Blaze Distinguished Professor of Law  
University of Tennessee College of Law
Michael Sykuta  
Associate Professor of Applied Economics  
University of Missouri

Alex Tabarrok  
Director: Center for Study of Public Choice  
Bartley J. Madden Chair in Economics at the Mercatus Center  
Department of Economics  
George Mason University

Avishalom Tor  
Professor of Law  
Director, ND LAMB  
Notre Dame Law School

Rory Van Loo  
Associate Professor of Law  
Peter Paul Career Development Professor  
Boston University

Alexander “Sasha” Volokh  
Associate Professor of Law  
Emory University

Spencer Weber Waller  
John Paul Stevens Chair in Competition Law  
Loyola University Chicago School

Samuel N. Weinstein  
Associate Professor of Law  
Benjamin N. Cardozo School of Law

Lawrence J. White  
Robert Kavesh Professor of Economics  
General Editor, Review of Industrial Organization  
Stern School of Business  
New York University

Abraham L. Wickelgren  
Fred and Emily Marshall Wulff Centennial Chair  
University of Texas School of Law
Jane K. Winn  
Professor of Law  
University of Washington School of Law  
Adjunct Professor, UW Human Centered Design & Engineering, College of Engineering  
Adjunct Professor, UW Jackson School of International Studies

Gary Wolfram  
William Simon Professor of Economics  
Hillsdale College

Ramsi Woodcock  
Assistant Professor  
University of Kentucky Rosenberg College of Law and Gatton College of Business & Economics

Joshua D. Wright  
University Professor of Law  
Antonin Scalia Law School  
George Mason University