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U.S. TRADE AND INVESTMENT POLICY: IMPORTS AND THE FUTURE OF THE AMERICAN AUTOMOBILE INDUSTRY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SIXTH CONGRESS

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WEDNESDAY, MARCH 19, 1980

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 1202, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senators Bentsen, Sarbanes, Javits, and Roth; and Representatives Brown, Heckler, and Wylie.

Also present: John M. Albertine, executive director; Louis C. Krauthoff II, assistant director-director, SSEC; Charles H. Bradford, minority counsel; Kent H. Hughes, Keith B. Keener, Mary E. Eccles, and Mayanne Karmin, professional staff members; Betty Maddox, administrative assistant; and Carol A. Corcoran and Mark R. Policinski, minority professional staff members.

OPENING STATEMENT OF SENATOR BENTSEN, CHAIRMAN

Senator BENTSEN. This hearing will come to order.

These are very troubled times for the American automobile industry. Very high and rising prices for gasoline, coupled with the spectre of rationing, have drastically changed the American automobile market. The demand for the fabled American gas guzzler has been replaced by a taste for smaller, more energy-efficient cars. Lost profits for the American companies have meant lost jobs for over 200,000 American autoworkers. Their current prospects for work are none too bright.

In the midst of this economic turmoil, small, fuel-efficient imports, the vast majority from Japan, have captured a much larger share of the American market. In January, imports amounted to 30 percent of all domestic sales. Toyota sold more cars in the United States that month than Chrysler did.

Just months after the extensive debate over extending aid to Chrysler, the Congress must take a second and a harder look at the American automobile industry. Douglas Fraser, president of the United Auto Workers, has called for limitations on automobile imports and the adoption of local-content laws to induce major foreign suppliers of the American market to build manufacturing facilities in this country. And there are other countries that are talking about requiring part of an automobile to be manufactured domestically. Bills have already been introduced that would put Mr. Fraser's proposals into practice.

The current plight of the American automobile industry and the growth of Japanese imports raise a host of economic questions. What would restrictions on imported automobiles imply for domestic inflation or energy conservation? Will the U.S. auto industry recover its market share?

Many of us are puzzled at the pattern of world trade and investment in automobiles. Volkswagen has invested in the United States and it has prospered under American conditions. Honda has recently decided to build a factory outside Columbus, Ohio. Why did they wait so long? Why have they come now? Toyota and Nissan have resisted investment in the United States. What makes their economic situation different from Volkswagen or Honda?

This is not the first United States-Japan trade dispute that has been presented to the Congress. The large and persistent bilateral trade deficit with Japan, and the clear evidence that Japanese markets are closed to many American exports, has contributed to a climate for American retaliation.

To take a hard look at these and other questions and to establish a timely economic record, we have invited a number of witnesses vitally concerned with the American automobile industry. The honorable Birch Bayh, the Senior Senator from Indiana, Douglas Fraser, president of the United Auto Workers, Philip Hutchinson of Volkswagen of America, Norman Lean of Toyota Motor Sales of America, Mr. Y. Suzuki of Nissan Motor Corp. of the U.S.A., and William Triplett of American Honda Motor Co.

Before I ask you to start us off, Mr. Fraser, there are one or two items that I would like to enter into the record. The pressure of time and a mix of prior commitments have forced us to keep the witness list shorter than I would have liked.

Without objection, I want to have printed in the record at the close of this hearing, the prepared statement of Mr. Robert M. McElwaine, president of the American Imported Automobile Dealers Association before the Subcommittee on Trade of the Committee on Ways and Means on March 7, 1980, as well as the text of a speech of Lee A. Iaccoca, chairman of board of Chrysler Corp. before the Automotive Service Industry Association, in Chicago, Ill., on March 11 1980. These two papers are full of the kind of detailed analyses that are so helpful to the Congress.

Senator Bentsen. Mr. Fraser, I know of your deep concern about the current state of the automobile industry and your major responsibility in dealing with the problems that are now facing American automobile workers. We are very pleased to have you here this morning to express your views.

STATEMENT OF DOUGLAS A. FRASER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW, DETROIT, MICH.

Mr. Fraser. Thank you, Mr. Chairman. I am pleased to appear here and appreciate the opportunity to appear before your committee. If it is agreeable with the Chair, I'd just like to enter my statement into the record, and then I'll make extemporaneous remarks.

Senator BENTSEN. That will definitely be done, without objection.

Mr. FRASER. As you pointed out this morning, Mr. Chairman, we meet this morning in very distressing times. At the moment there are over 200,000 autoworkers unemployed. I see no short-term turnaround. As a matter of fact, it would surprise me if the condition didn't worsen somewhat as we go along.

Just last week I was out on the west coast and visited with a local union where the Pico Ford plant there is closed indefinitely. While I was out there, General Motors announced they were closing their South Gate, Calif., plant, which produces large cars, for 18 months. At the time they start producing again, they will be producing small cars.

I might say in that connection, Mr. Chairman, there are people that say, "Why doesn't the American automobile industry instead of producing big cars now produce little ones?"

If you were just talking about an assembly plant you could turn that assembly plant around in 2 or 3 months, tool it up, and put the necessary fixtures in there to produce small cars rather than large cars. But it is not that simple. You have to have the four cylinder engines and axles and transmissions to go into that car, and it takes an enormous amount of lead time. The tooling industry in the United States is working at capacity as is the tooling industry throughout the world. So we are not faced with a short-term problem but a problem that I believe will take us into the longer term.

What is happening here is we are paying for the past neglect of the American auto industry by not turning their attention to the small-car segment of the market before they did. It is ironic that the auto industry vigorously opposed the fuel-efficient requirements as imposed by the Congress but yet, because of the fuel-efficient requirements, General Motors, Ford, and Chrysler started moving towards smaller cars before they otherwise would have.

Now, the fuel-efficient requirements are really academic because we have to move in the direction of small cars irrespective of the 20-mile-per-gallon fleet average this year that grows into 27½ miles per gallon by 1985.

Senator BENTSEN. Mr. Fraser, Congress gets blamed for a lot of things, but once in a while it does something right. It seems to me that in requiring greater fuel efficiency, it did a service to the country. If they hadn't done it, we might have had all Chryslers in this situation.

Mr. FRASER. I am satisfied if Congress had not enacted the fuel-efficient law, you certainly wouldn't have had an Omni and Horizon today which are the only Chrysler cars one might say that are selling at the moment. It was in an attempt to meet the fuel-efficient requirements, that they had to get those cars on line. As you say, if it were not for those cars, the industry would be devastated at this moment. It is bad enough as it is.

The UAW doesn't sit here with just the benefits of hindsight. Over 30 years ago, Walter Reuther, then president of our union, issued a publication which urged the auto industry to get into the small-car market and provide competition for the Volkswagen. In those days there wasn't even a Japanese auto industry to speak of.

But where we are now is we need time to convert, and I am going to later advocate the Japanese industry enter into voluntary restraint and hold their exports to the 1977 levels. And I think this shouldn't be an indefinite restraint. It should be for 3 or 4 years to give the American automobile industry the time to convert and to compete.

It is hard for me to think that we have only gotten into this difficulty within the past year. In February 1979 we were selling all the large cars, the intermediate-sized cars, and the young people were buying the vans in massive numbers—we couldn't build them fast enough. That was the condition of the American market.

And in March 1979, after the gas lines formed, the whole American market shifted toward small cars, and the imports from the Japanese principally moved in and filled that void.

Last year, if I recall the figure, in 1979 the American public purchased 2,035,000 Japanese cars and trucks. In January and February of this year, imports from Japan were 22 percent of the total market. When you look at that chart—it is a 1979 chart—it shows the Japanese having 17 percent of the market. In January and February of this year they had 22 percent of the market.

Our market is the most open market in the world. There is no other market that lets automobiles come into their shores in an unrestrained and unrestricted and uninhibited manner as we do. We have a 3-percent tariff.

The European Economic Community has an 11-percent tariff. But in addition to that, you know of the gentleman's agreement that exists between different countries and the Japanese. I told the president of Toyota, Mr. Toyoda, when I met with him in Japan, that I knew he met with the British industry in Acapulco, Mexico, in January and entered into a gentleman's agreement to restrict imports into England to 10.8 percent. They have absolute quotas other places around the world. France was 3.9 percent in 1976 for imports, and they have cut it back now to 3 percent in 1979. And Great Britain was 11.3 percent and is now back to 10.8.

You have all these marketing agreements throughout the world except here in the United States. In Western Europe the Japanese cars represented 7 percent of the market in 1977 and it was still the same in 1979. In the United States they represented 12 percent of the market in 1977, and now 22 percent.

There was a study made by the General Accounting Office in 1979. They traced the history of the development of the Japanese auto industry. And there is no question the Government cultivated that industry in Japan, and they now have a powerful auto industry. There was a considerable amount of industrial planning that went into the development of the Japanese auto industry. There were tax laws that provided for tax breaks for the auto industry. They put up barriers against imports. They put barriers up against our auto industry, the American auto industry, from developing in Japan. They frustrated every effort for foreign investment until the Japanese auto industry got in place.

And there were outright subsidies of that industry by the Government. They assisted the Japanese industry in consolidating and locating part supplier plants near the assembly plants.

And with this hothouse treatment, the Japanese industry developed dramatically.

If you look back just to 1960, they produced 715,000 vehicles. In 1970 it was up to 5,300,000 vehicles, 10 million in 1979, and it will be 11 million in 1980.

They export 50 percent of all of the cars they manufacture, and they import 2 percent of all of the cars that are sold in Japan. And 45 percent of all of their exports come to our shores.

And George Ball, in a speech that he delivered in 1979, said the following:

> This is what is meant by a structural difference between our two systems. MIT—

That is the Ministry of International Industry and Trade—

> decides to make a great effort with computers, so it reorganizes the Japanese computer industry in order to export. Some other industry may be targeted tomorrow. This is what gives apprehension to American industry: maybe they will be singled out next—not merely by the efforts of one Japanese company, but by a combined, national, centrally orchestrated and directed effort, with assistance from the state in the form of reorganization of the industry, assistance with research, and public financial help.

Unfortunately for us, they targeted the auto industry, and that is basically how the Japanese auto industry developed.

Now, let me touch upon a matter that has great sensitivity with the American consumer, and that is the argument that goes to the theory, really, that the quality of the Japanese cars is superior to that of the American car.

First, let me say unequivocally the American consumer is entitled—has a right—to demand a quality automobile. God knows at the prices you pay, that certainly is an entitlement. They are also entitled to first-class service from the dealers, which they oftentimes do not get. In my view, nothing else will do.

So how do you get quality? I think there are some essential elements that go into it. First of all, you have to have a car of the correct design, correct engineering. And then you have to have a management that says, "Our quality standards are up here [indicating] and we will accept nothing less, and we will put in a quality control system to see that nothing slips through the system." And then it is the responsibility and obligation of the workers to meet those quality requirements.

And if you do all of those things you are going to get a quality product.

I see Volkswagen will be testifying later today, and I have had conversations with Jim McLernon, who is president of Volkswagen U.S.A. and he tells me that the Volkswagen that we produced in the area you mentioned, Senator, in Westmoreland, Pa., is equal or superior to the Volkswagen that is produced in Germany.

Another interesting sidelight: When I visited with the president of Honda—I read about everything I think that he has ever said relative to automobiles, and I said, "I see this little squib in the magazine that says that the motorcycle that is produced at Marysville, Ohio, is equal in quality to the one built in Japan."

He said:

> I'll go further than that. Now, the way we measure quality is how many motorcycles come off the end of the line that don't have to be sent back for repair or

touch-up. Ninety-five percent of the motorcycles that come off the line in Marysville go right to the dealers, and it is 90 percent in Japan and 85 percent in Belgium.

Senator BENTSEN. And the same quality standards are applied?

Mr. FRASER. Yes.

We are asking for two actions.

One is short term, the voluntary restraints in asking the Japanese industry to go back to the production levels and the export levels of 1977.

I might say in this connection, Senator, that one of the things that concerns me is that without that restraint, and if the imports keep increasing during the span of time when the American automobile industry is getting their house in order—and I'm not making excuses as to why it got out of order, but unless we do that and the imports creep up to 30 and 35 percent, there's likely to be a longer term problem due to a thing in the auto industry known as consumer loyalty. It is a very, very logical process. If you buy a product and you are satisfied with that product, why risk the chance of changing? And you are apt to go back.

And I think if we just stand idly by and let this matter develop naturally and normally, I don't know how we can ever turn it back. And that's a deep concern of mine. And those that testified yesterday evidently overlooked that point.

Now, the other part is the longer term and a much more important part. Because I don't think we should have restraint forever, and I don't think we should have quotas or tariffs although I can see us advocating that if the Japanese are not more responsive than they were before. But for the long range we need legislation to provide for content requirement.

Before the Japanese throw up their hands in despair, I'd like to bring to your attention how they treat us when they buy an instrument that was produced and really invented and developed in our country.

The Japanese entered into an agreement with Boeing where they are going to produce 767 airplanes, successor airplanes to the 747's and 757's. Part of that is going to be a content requirement that a portion of that contract will be made in Japan, providing Japanese jobs and Japanese wages and stimulating the economic community and life of Japan.

Japan has entered into a contract for 100 F–15's—that's the sophisticated fighter plane built by McDonnell Douglas. Part of that agreement is that 40 percent of the cost of that airplane must be made in Japan.

They also ordered—there are a couple of orders from Lockheed, but they ordered 210 Starfighter planes from Lockheed, and there they are demanding and we have agreed to a 44-percent content requirement.

Now, in my recent trip to Japan and meeting with all the four auto companies—and I think we had a good meeting with Mitsubishi and with Honda. You know the Honda situation. They have already made a commitment to come to the United States. Just intuitively as a negotiator, as I sat with Toyota and Nissan, I felt that no one was really putting the pressure on them and making them realize and sensitizing them to the problem we have in this country and the difficulties that they are causing not only the autoworkers but the economy.

And I think really the Congress should send them an unambiguous message, and that Congress should consider in the interim period a concurrent resolution asking the Japanese to restrain their exports to the 1977 levels. And if they don't listen to our rationale and our logic, then I think we are going down the road to severe protectionism, and I think that is an economic mistake for not only our country but for the world.

Now, turning to the content legislation—and I might say that this request of the Japanese industry to locate in the United States is not a new one with us in our meeting with the Japanese industry. It is dramatized by the fact that we have high unemployment.

I met with the Nissan people in 1978 in Detroit. Then they went to Kansas City, then they went to St. Louis. And the whole thread of that conversation was that they were in America to look for a site on which to build a plant.

The fact of the matter is the then Special Trade Representative Bob Strauss told me that we could expect an announcement momentarily, the way he put it, from Nissan, as to where they were going to locate the plant, but nothing developed.

So I think, we have no alternative, then, but to develop something more specific in a legislative process. And I just want to throw out a couple of notions without being too precise.

If, for example, we would say to all the exporters of automobiles to our country, if you reach a level of 30,000 cars, for example, you have to have 5 percent of content. Then you graduate upwards, and when you reach a quarter of a million cars, perhaps you should have 75 percent of content.

I think economically in our industry if you have an assembly plant that runs one shift, you can produce about 125,000 cars a year; two shifts, 250,000 cars. And there you get the economics of scale. So when we reach that level, I think we should think about the high content requirement.

Our concept of content, Mr. Chairman, is not just the auto parts that go into an automobile. Our definition of content to go into an automobile is any content that provides jobs for American workers. For example, the content would include steel and aluminum and glass and rubber. It wouldn't be just the auto parts that go into that car.

And then what we could do—if the Japanese would open up their market and remove the restrictions they have upon the automobile industry, not only of the United States but of the world—and some of those are very, very subtle and hard to identify—is offset the number of American automobiles sold in Japan against the content requirement.

And we realize there is a leadtime that is necessary to reach the content requirement, to get your orders in place in the parts supplier industry and tooling up, and certainly we would be sensitive to that time frame.

And then we would suggest, for any company that falls short of the content requirement that is eventually in place, a penalty be placed upon them in the form, for example, of restricting them to a quota of one-half of their exports in the previous year.

Now, when we talk about restraints back to the 1977 levels, we realize that this is short term—and again I want to repeat over again that we don't view this as a long-term solution. It is just sufficient time to let the automobile industry get some breathing space and convert to the small-car market toward which I think we are on an irreversible course in the United States—we are never, never going back to the big cars and we need this turn around time.

You might be interested, Mr. Chairman, that the president of the Japanese Auto Workers shares our point of view and has said in Japan, to the companies, to the Japanese press, that he thinks it is in the best long-term interest of that industry to locate plants in the United States.

Now, a statement was made yesterday that if we place restraints on the Japanese imports it will cost us, I think, a million barrels of fuel a year. I question that figure. But even if that was the case, we are talking about fuel that the American people consume in 1½ hours in terms of last year.

Let me say that in the meetings that I had with the Japanese auto companies, Honda, I thought, was very, very responsive. They said that they were going to build automobiles on the sites where they now build the motorcycles in Marysville, Ohio. It would not only be assembly of cars but they would be making stampings there.

And the argument you may hear here today is that Toyota and Nissan are worried about taking an enormous economic risk because in order to come into this market they will probably have to make an investment of $1 billion or thereabouts, and therefore it might put them at a competitive disadvantage with the American auto industry. That is simply not true. The American automobile industry must get to where the Japanese and the Germans are in downsizing the cars, and that takes reengineering, retooling, redesigning. They are going to spend between now and 1985 in the neighborhood, depending on which company you listen to, of $25, $30, $40 billion. And that is the burden the American industry has now in terms of capital investment, to get these small cars—which admittedly we should have gone into years ago.

The other reasons that they give for not coming here—they say, "Well, suppose we locate here and GM keeps developing small cars, it is a giant of a corporation, and may just capture the whole market."

Well, I think there are two answers to that. If GM captures the whole market, that means not only is Toyota and Nissan gone, that means that Ford and Chrysler are also gone, and I can't see the Congress standing for that. Second, that is an excuse and not a reason. The Japanese build well-designed, well-engineered, quality cars, and they can compete in this market. And this market needs the competition and the discipline that would be provided by the Japanese manufacturers if they locate here.

We don't have to theorize or hypothesize any longer, because we have a model to show how to go ahead. And that is the model that you mentioned, Mr. Chairman, Volkswagen. Volkswagen in Westmoreland, Pa., employs 4,400 hourly rated employees and probably about 700 salaried employees. In addition to that, they have a stamping plant in Charleston, W. Va. In addition to that, they have a parts plant in Texas, which they are now expanding. And, as you know, they have announced the planned opening of a new assembly plant in either Michigan or Ohio as soon as they can convert an existing plant.

In 1979, 60 percent of all of the parts that went into the Volkswagen cars were produced by American workers. They sold in the United States 166,000 Volkswagen Rabbits which were produced in Westmoreland, Pa. And 78 percent of all of the Rabbits sold in the United States were produced in the United States last year.

So all the Japanese industry has to do is look at that example—extremely successful, as you pointed out. They are expanding and they are competitive. And if they give you the reason, "There's a different relationship between the Deutsche mark and the dollar and the yen and the dollar," as you know that is subject to rapid and dramatic change.

Finally, let me say this, Mr. Chairman. I don't believe it is my task or my role or the union's role in society to be negotiating trade agreements with the Japanese industry. That is a task that belongs in the hands of the executive branch of our Government and the Congress of the United States. But I really believe that the Japanese auto industry—not all of them but particularly Toyota and Nissan—have to be sensitized to the tremendous problems they are causing our country.

We say that Volkswagen acted in a responsible manner in terms of international trade, and we say to Nissan and Toyota, "You behave the same way and we can put our problems behind us and get on with the continuing good relationship between our countries."

Thank you very much.

[The prepared statement of Mr. Fraser follows:]

Prepared Statement of Douglas A. Fraser

World Auto Trade: Current Trends and Structural Problems

I am Douglas A. Fraser, President of the International Union, UAW. It is a privilege to speak before this Committee on behalf of the 1.5 million members of the UAW.

As of this week, 207,800 workers are on layoff—162,800, of them indefinitely—from GM, Ford, Chrysler and AMC. Tens of thousands more are now out of work at parts supplier companies. Auto workers are paying a heavy price for the U.S. industry's past neglect of fuel-efficient autos and the greed of foreign motor vehicle manufacturers which have rushed in with imports in record numbers to fill the breach. While our domestic manufacturing capability is moving toward a mix of cars that is more in tune with the current needs of consumers, that will take several more years to achieve. Meanwhile, the North American industry is tooled up for production of too many large, inefficient vehicles and too few of the small, fuel-efficient vehicles that consumers are demanding.

The UAW has been campaigning for more than 30 years for production here of economical cars such as the ones which the Big Three build in other countries. Pressed by rising import penetration the industry did begin to build compact cars in the late 1950s but these soon grew larger and fuel-inefficient, and by 1975 imports had risen to an 18 percent market share. The UAW strongly supported the legislation that is finally requiring the industry to improve fuel efficiency. Nonetheless, the legally mandated transition has not kept up with the massive, abrupt shift in consumer demand, and imports, largely from Japan, took a record 22 percent share of the U.S. car market last year. While sales of U.S. makes were slumping, combined sales of the Japanese firms of Toyota, Nissan and Honda increased by 26 percent from 1,055,000 cars in 1978 to 1,333,000 in 1979.

In the first two months of 1980 the Japanese makers accounted for 22 percent of all cars sold in the U.S. In fact, during some recent periods, Japanese sales in our market exceeded the numbers of cars sold in their own, and were nearly equal to the combined 23 percent U.S. market share of Ford and Chrysler.

CURRENT TRADE POLICIES

The American auto market is not only the biggest but also far and away the most open market in the world. We place a 3 percent tariff on cars—much lower than for most other products—and no other significant import restrictions. The second largest market, the European Economic Community, has an 11 percent tariff on cars, and other restrictions which will be described later. The tariff and non-tariff barriers on auto imports of other auto-producing countries dwarf our minimal tariff.

Practically every country exercises import restraint on autos in one form or another—through high tariffs, outright quotas, orderly marketing arrangements, "gentlemen's agreements," and various other forms of non-tariff barriers. Thirty-one countries impose some form of content requirement.

Both Canada and Mexico, our neighbors to the north and south of us, have taken significant new steps to raise the local content of foreign companies. The Canadian government recently negotiated arrangements with overseas producers to grant them rebates from Canada's 15 percent tariff in exchange for purchases of Canadian-made parts. Mexico's sales quotas and export requirements are causing a massive move of production facilities to that country. Senator Metzenbaum recently released documents which illustrate how greedily Ford Motor Company reacted to the Mexican requirements without regard to the impact on the workers at its Cleveland engine plant.

COMPETITION WITH THE JAPANESE AUTO INDUSTRY

As documented by a General Accounting Office study [1] last year, the Japanese government set out in the 1950s to cultivate a powerful auto industry. As it carried out effective industrial planning, the government carefully nurtured the auto industry. Its program included effective barriers against imports, favorable tax laws and outright subsidies, consolidation of the industry into a few assemblers cooperating with affiliated parts companies, and assistance in obtaining foreign technology without direct investment control by foreigners. With such hothouse treatment, the Japanese industry mushroomed from production of 715,400 vehicles in 1960 to 5.3 million vehicles in 1970, 10.0 million in 1979 and 11.0 million vehicles predicted for 1980.

By 1970 the Japanese industry had achieved the scale, technological expertise and marketing capacity to compete effectively on the world market. Since then, with sales leveling off in the domestic market, exports have accounted for most of the continued rapid growth in Japan's auto production. Exports rose from 1.1 million units in 1970 to 5.0 million in 1979. Increased exports over the last nine years account for 81.7 percent of the increase in Japanese auto production in this period. By contrast, imports into Japan amount to only 2 percent of their market.

The differences in tariff and non-tariff barriers to trade have sharply tilted the Japanese auto export thrust toward the U.S. and away from Europe. The EEC auto tariffs are well above the average tariffs imposed by the EEC on imported goods, thus discouraging auto imports as a proportion of total imports. On the other hand, the U.S. auto tariff is well below the average on U.S. imports, thus encouraging auto imports as a proportion of total imports.

As the biggest, most open and inviting market in the world, it was inevitable that the U.S. market would be targeted by Japan for the lion's share of its auto exports. Last year, 45 percent of Japan's exports came to the U.S. Sales of Japanese cars soared from 2 percent of the U.S. market in 1969 to 17 percent in 1979.

In contrast to U.S. policy, when Japanese autos have threatened to overcome their stiff tariff barrier and take a significant segment of the market in various European countries, they have been frozen at fixed levels by "gentlemen's agreements." Italy, with annual auto sales above 900,000 permits no more than 2,000 Japanese autos to be imported a year. In France, Japanese imports rose to 3.9 percent in 1976 but French government pressure has kept their share below 3 percent since. In Britain, Japanese autos rose to an 11.3 percent share by 1977 but in response to foreign government pressure have remained below that level since. Japanese autos have not been singled out by Spain, but just as effective has been the quota of 10 percent of the market allowed all imports there. Because of these government reactions to the Japanese export push, the Japanese took only 7 percent of total sales in Western Europe in 1979, only marginally above 1977. In

[1] GAO, "United States-Japan Trade: Issues and Problems," Ch. 3, Sept. 21, 1979.

the same two-year span the Japanese share of our market soared from 12 percent to 17 percent. We have been informed that the West German government has become increasingly concerned about the level of Japanese imports and is also contemplating appropriate remedial action.

NECESSITY FOR INDUSTRIAL PLANNING

As a long time advocate of national planning the UAW admires the Japanese success at building a modern industrial structure and maintaining unemployment at a low level, about 2.2 percent as of mid-1979 compared to a U.S. rate of 5.8 percent. However, we cannot stand idly by while the successful industrial planning and the highly coordinated export strategy of another country—combined with the lack of planning in the U.S.—has the effect of unfairly disrupting our industries and workers and their communities. The impact of Japanese trade strategy on other U.S. industries has been overwhelming. Mr. George Ball pointed this out in a discussion last year:[2]

"* * * the fact remains that we do have a serious problem with Japan and we don't have it with other countries. Why is that? * * *

"One of the problems of Japanese trade expansion is that it's been incisively targeted. You (Japan) practically destroy certain industries in the United States—transistor radios, then television, and the like. There is a feeling in the United States that the way your trade is targeted corresponds to a whole different set of values. It responds to governmental decisions in Japan, not simply decisions of industry.

"This is what is meant by a structural difference between our two systems. MITI decides to make a great effort with computers, so it reorganizes the Japanese computer industry in order to export. Some other industry may be targeted tomorrow. This is what gives apprehension to American industry: maybe they will be singled out next—not merely by the efforts of one Japanese company, but by a combined, national, centrally orchestrated and directed effort, with assistance from the state in the form of reorganization of the industry, assistance with research, and public financial help."

Unfortunately, the U.S. auto industry must now be included in the list of industries "incisively targeted" by Japan.

Our failure to deal effectively with the disruptive impact of the export policies of other countries grows out of our hostile attitude toward planning. By refusing to devise and implement planning for ourselves we are subjected to the influences of other countries' plans. The auto industry provides an excellent illustration. Partly due to market economics but very importantly in response to government requirements for local production, the U.S.-based auto industry has established plants in numerous countries around the world. For the most part it serves foreign markets from foreign plants and even imports some "captive" models into the U.S. For the same reasons foreign-based auto manufacturers have also built plants around the world; there is no other way they are permitted access to markets in some countries. Thus, its openness in the face of restrictions around the world has denied the U.S. its share of the worldwide expansion of the industry and has made it vulnerable to the expansion plans of foreign industrial planners.

The refusal to take a firmer hold of our economic destiny is becoming tragically anachronistic. By simple default we import what others plan to export. When other countries were recovering from the shambles left by World War II (or even as very poor countries today begin industrialization) it was reasonable for the U.S. to accept whatever industrial products they chose to sell us. However, most of our manufactured imports now come from countries virtually as industrialized as we. The notion that the U.S. should continue to passively take up the slack in the rest of the world's economies is a major hindrance to finding solutions to our present economic turmoil.

PRODUCT QUALITY

The American consumer pays a great deal for a new car and has every right to expect the highest quality product and first rate service from the dealer. Lapses in the quality and service of American cars have properly been the subject of great public attention in recent years.

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[2] "Japan, The United States and The World," a conversation with George Ball, et al., Japan Information Center, New York 1979.

The quality of American cars can be improved and auto workers are willing to join in that effort. We are convinced that—with adequate engineering standards and proper working conditions—cars built by American workers can match the quality of cars built anywhere in the world. The notion that cars made by workers in foreign lands are inevitably better than those made by American workers is a part of the our culture which fosters the belief that imported products—whether they be wines, clothes, or cars—are superior to those we produce. In the case of autos, this is reinforced, because any problem with American-made cars has more noticeable impact than a similar problem with imports, simply because so many more domestic cars are in daily use. A GM, Ford or Chrysler recall usually involves large numbers of cars and frequently is front page news. By contrast, even a total recall of an imported model affects fewer people, and gets buried among the lesser noted news releases.

American auto workers are concerned about the quality of their products. They understand it can vitally affect their livelihood. The UAW has demonstrated its willingness to deal with areas where workers can affect quality. For example, we are cooperating in the effort to deal with absenteeism. During negotiations in 1979, General Motors Corporation—and other companies—claimed that unwarranted absenteeism contributed to poor quality, along with other difficulties. In a lengthy letter to all local unions at GM facilities, UAW Vice President Irving Bluestone urged that local union officials "work out with management locally cooperative programs in a reasonable effort to deal with this problem of unwarranted absences in an effective manner." A copy of that letter was sent to the General Motors Corporation. Similar letters were sent to local unions and managements at the other auto companies.

However, the engineering and production control aspects of manufacturing have even greater impact on quality. To compete successfully in product excellence, U.S. companies must devote as much attention to quality control as do foreign manufacturers. U.S. companies could learn from the Japanese auto companies, which have very successfully encouraged and used far greater input from workers on quality improvement procedures than have U.S. companies.

Widespread auto recalls are the consequence of poor engineering and quality control management, rather than the actions of individual workers. Fortunately, the domestic small cars introduced in recent years have excellent engineering; much better than that of the first generation of subcompacts. Products like the new GM "X" car and Chrysler's Omnis and Horizons make me confident that we are well along the road to producing the kind of well-designed, well-engineered and well-built small cars that the American consumer has the right to insist on.

Perhaps the most convincing evidence of the results that can be produced by American workers is that both VW and Honda have attested to better quality at their U.S. operations than for identical products built in Europe or Japan. The head of Volkswagen of America has told me that cars built in Pennsylvania are superior to the ones built in Germany. Honda officials also personally told me that 90 percent of their Japanese output could go to the dealer directly from the production line; the corresponding portion of their Belgian output was 85 percent and for the U.S. output it was 95 percent.

The simple fact is that American workers can—and often do—build cars that are equal, or even superior, to any import.

ACTIONS NEEDED

I hope that this Committee will endorse the type of actions I proposed at the March 7 hearing of the Trade Subcommittee of the House Ways and Means Committee. At that time I asked that the government take action immediately along two lines: (a) obtain commitments by Japanese auto companies to curb their exports while the North American auto companies make the transition to production of more fuel-efficient cars over the next three or four years; and (b) pass legislation requiring local content for all foreign companies with a substantial volume of auto sales in North America.

During my recent trip to Japan, I asked each of the major manufacturers to limit their exports to the United States to the 1977 levels. They should do this voluntarily in the spirit of fair trade and as a responsible member of the world trade community. They must recognize that continued unfair exploitation of their current, temporary advantage could well result in an overreaction of protectionism. Several concerned congressmen have already introduced bills which would impose limits on Japanese imports. While it may be premature to act in such a definitive manner, there should be an unambiguous message from the U.S. government to the Japanese. For example, the Congress could make its views known by passing a concurrent resolution telling the Japanese companies that export restraint is imperative. In addition, the Administration should use all the authority which it has in order to negotiate an understanding with the Japanese.

To deal with the longer term problem, legislation requiring North American content by every auto company with a substantial volume of sales in the North American market should be put in place now, so that facilities to build fuel-efficient, foreign-engineered cars and trucks will come on stream by the mid-80s.

Specific details of content legislation must be worked out during the course of the legislative process. However, I do have some general views that I would like to share.

The U.S. and Canada should be viewed as one market as they have been for the past 15 years. The percentage of North American content should be graduated according to North American sales level up to a top bracket which should reach 75 percent. The specific content requirements should reflect the scale of output required for efficiency in the auto industry. For example, annual sales of 200,000 are adequate for an assembly plant.

The measurement of North American content could include, in addition to motor vehicles and parts produced here, all auto parts and materials purchased from supplier companies here. The basic intent would be to qualify as content every contribution a company makes toward employment in the motor vehicle industry and its supplier industries, including steel, aluminum, rubber, plastics, electronics, glass and other industries that supply the auto industry. With this broad definition of local content each of these industries would benefit from less volatile demand and from increased sales to the foreign auto companies producing here. Whether the auto industry here expands or contracts will have an important impact on whether those industries make the new investments necessary to create jobs and improve their productivity and competitiveness.

Automotive exports from North America to the manufacturers' home country could be counted toward the content requirement. Thus, to the extent that other countries, for example Japan, open their markets to our products, there would be a corresponding impact on their ability to export to us.

The legislation I have in mind would permit the minimum lead time needed for the content requirement to begin to be applied. Then there would be a phase-in period during which the content percentages are raised for each sales level bracket until several years later the final percentages are reached.

Any company that should fall short of the legislated content requirement should be penalized. The penalty could be an import quota set well below—for example at a half—the company's recent import levels, until content is raised up to compliance.

To provide further reason for foreign producers to exercise restraint in exporting to the U.S. market during the transition period, provision could be made in the content law to reward those companies which exercise restraint, with more lenient or flexible provisions.

WHY JAPANESE EXPORT RESTRAINT?

The current surge of imports not only aggravates the current levels of unemployment in auto, but it will have a more lasting detrimental effect as well. In the auto industry, a company's market share tends to be somewhat self-perpetuating. As a company boosts its current sales, its network of dealerships expands and future car buyers become more familiar with its products. These lay the basis for higher sales later. We have heard reports that indicate the Japanese auto companies are aggressively pursuing a much higher market share permanently. They are said to be persuading dealerships to drop North American makes and rely solely on theirs, pricing some models exceptionally low, making unusual fleet sales arrangements and raising advertising expenditures sharply.

We believe that the proposed export restraint should not increase the Japanese unemployment rate, which was an enviable 2.2 percent in the third quarter of 1979; at that time the U.S. rate was 5.8 percent. In fact, we have seen reasonable estimates that at least 1.5 million Japanese vehicles were produced using overtime work during 1979. Our proposals, had they been in effect last year, would have cut their exports to the U.S. by roughly one-half million vehicles.

Concern has also been expressed about the possible impact on U.S. gasoline consumption if fewer Japanese vehicles were available here. We estimate that even if the result were continued use of the less efficient cars now on the road, a reduction of import sales from the 1979 level to the 1977 level would increase U.S. oil use less than one-tenth of a percent. The imported cars alone would have a cost of at least $1.7 billion—10 times the cost of the additional 5.4 million barrels of oil at $30 a barrel.

Much of the public has the unfortunate misconception that all small car imports get better gas mileage than virtually all cars built here. In fact, last year Toyota sold hundreds of thousands of small cars in the U.S. that had no better mileage than our compacts. Meanwhile, substantial layoffs and scheduled down time have taken place in North American plants assembling cars competitive with imports in fuel-efficiency. For example, the Ford Fairmont and Mercury Zephyr have 1980 EPA ratings of 23 mpg in city driving and 38 in highway driving. Toyota's Corona, Celica, Supra and Cressida models were rated at 20 city and 28 highway. These models had 1979 sales of 221,295. Toyota's Corolla model exceeded the Fairmont and Zephyr by 1 mpg in city driving but fell 4 mpg below them in highway driving. Corolla sales last year amounted to 257,096. The most distressing aspect of this situation is that early 1980 production of the Fairmont and Zephyr has been running at about half of capacity.

WHY LOCAL CONTENT LEGISLATION?

The world automobile industry has become dominated by a handful of giant corporations. The decisions of each of these companies dictate the jobs and income of hundreds of thousands of people. The UAW believes that each company has an obligation to generate employment in those countries in which it has a substantial volume of sales.

I am happy to say that the President of the Japanese auto worker union, Ichiroe Shioji, has fully and courageously supported the concept that Japenese auto manufacturers should produce here in North America. He participated in many of the discussions I had in Japan, and made his position quite clear. Furthermore the Japanese government also is telling the companies that they should invest here.

Local content requirements on aerospace purchases are in use in Japan. The Japanese government made local production a condition of their purchase of 210 F–104 Starfighters and 45 PC3 anti-submarine patrol planes from Lockheed Corporation and 100 F–15's from McDonnell Douglas Corporation. The value of Japanese production was reported to comprise 44 percent of the sale price of the PC3's and 40 percent of the F–15's. The Boeing Company has also reported that foreign production has become required to make sales abroad. As it landed major sales to Japanese airlines, Boeing made guarantees to place in Japan 15 percent of the multi-billion dollar production value of their new 767 series sold worldwide. The Japanese government, according to its official sources, negotiated arrangements for three Japanese companies to participate with Boeing and provided a subsidy of almost $100 million.

Sales in the North American market by VW, Toyota, Nissan and Honda have long since reached the level at which full-scale assembly can efficiently be accomplished here.[3] Of these, only VW has significant local content today. The value of parts and materials purchased here by Toyota, Nissan and Honda has been miniscule to date. Honda, to its credit, has announced that it intends to assemble cars and make some parts in Ohio by 1982. Neither Nissan nor Toyota has made a commitment to produce any autos here despite the fact that in Japan they, are respectively 2½ and 3 times the size of Honda, the fifth largest auto producer there.

[3] U.S. sales of the four companies in recent years have been the following:

	1977		1978		1979	
	Cars	Trucks	Cars	Trucks	Cars	Trucks
VW:						
Imports	262,932	0	216,283	0	126,998	0
Domestic	0	0	22,651	0	165,514	0
Toyota	493,048	83,680	441,800	94,882	507,816	130,075
Nissan	388,378	99,834	338,096	93,336	472,252	101,914
Honda	223,633	0	274,876	0	353,291	0

Based on North American sales in 1979, Toyota and Nissan could each operate at least two full-scale assembly plants here. For example:

Toyota's Corolla model (or its likely successor, the front-drive Tercel) sold 287,000 units in North America in 1979. The plant-mixible Celica-Corona duo sold 219,000 units. And either Corolla/Tercel or Celica/Corona can be supplemented by small trucks, of which Toyota sold 140,000 in North America in 1979.

Nissan could easily combine its Datsun 210/200SX and 310 or 510 lines, combinations that registered 1979 North American sales of 343,000 and 320,000 units, respectively. In addition, Nissan could mix in some or all of its 106,000 trucks. Both VW and Honda made commitments to North American production at production-compatible sales volumes substantially below the Toyota and Nissan figures just cited.

Toyota and Nissan have argued that they cannot compete with U.S. companies in making the large investments required to start up substantial manufacturing here. However, Japanese companies investing in new capacity in North America will face fixed costs per car little different from the U.S. companies. U.S. companies are now having to design new cars and overhaul their plants here to accomodate the new product and production technology. To accomplish this restructuring, U.S. companies must spend sums reported to exceed $50 billion between now and 1985. In fact, the Japanese companies may very well have an edge in fixed costs due to their greater ability to tap the low-interest, low-dividend Japanese financial markets.

To meet the expanding demand for their cars around the world, and here in particular, Japanese companies will continue to expand their capacity somewhere. Their cost of expanding that capacity here would differ little from the cost of placing the same capacity in Japan. The issue for these highly profitable companies as they compete in auto markets around the world is not whether they can finance new capacity competitively, but where they will place it.

In contrast to their stalling tactics here, Toyota and Nissan have worked diligently in the last year to set up production in Europe. Nissan has already made agreements for substantial production of trucks in Spain and cars in Italy. Toyota's truck affiliate, Hino Motors, has announced it will soon produce in Belgium, and Toyota itself has been attempting to produce cars in Spain. Most significant in Toyota's case was its announcement late last fall of a major new expansion of its capacity in Japan.

While substantial local content cannot be implemented overnight, the timetable carried out by Volkswagen over the last four years can serve as an example for others. VW began production here in 1978, less than two years after their initial commitment to do so. In addition to its own plants for auto assembly in Pennsylvania, stampings in West Virginia, and air conditioners in Texas, VW has been buying more and more parts produced in North America. As a result, North American content now represents more than half the value of Rabbits assembled here. In addition, VW will open a second assembly plant soon.

Local content restrictions have already been imposed by two U.S. laws that affect domestic auto companies. The corporate average fuel efficiency (CAFE) requirements of the 1975 Energy Policy and Conservation Act include such a provision. For CAFE standards, models sold in the U.S. with less than 75 percent North American content must be averaged separately from those with more than 75 percent content. This has reduced the incentive for the U.S. auto companies to ship more small cars and parts here from their overseas operations. It brought faster domestic conversion to production of more fuel-efficient vehicles, as intended.

The Automotive Products Trade Act of 1965 provides zero tariffs on vehicles, parts and materials imported from Canada when 50 percent of their value is derived from North American production. As a result of this provision, products merely assembled in Canada from parts imported from abroad are charged a tariff when they enter the U.S. Similarly, a company can qualify for an exemption from tariffs on imports into Canada only if it generates substantial local content in Canada.

Apart from its obvious creation of North American investment and jobs, a local content law is clearly superior to long-term measures which only limit imports. The competition between the world's auto companies to provide the North American consumer with a wide variety of innovative products built by the most efficient technologies available would be retained. Our market needs the discipline produced by the design and engineering innovations of foreign based manufacturers. Locating plants here will not reduce those companies' ability to make those decisions and continue to provide that discipline.

CONCLUSION

In the past, we hoped that goodwill would be sufficient to prevent the exploitation of our auto market by imports. It is clear that stronger action than that will be required.

We must require that, when large quantities of production compatible cars are sold here, they contain a substantial percentage of American content. Companies which expect to benefit from sales here must be prepared to provide employment here.

Since it takes fairly long lead times to implement changes in the auto industry, such content requirements cannot be fully implemented very quickly. In the meantime, it is incumbent upon the Japanese manufacturers—who have taken the most aggressive advantage of our domestic manufacturers' current difficulties—to exercise restraint; they should voluntary limit their sales here while the industry is in transition.

U.S. public policy should support these goals. We must not have the kind of approach that has prevailed—for example—in the case of small truck imports. For years, the Customs Service has misclassified them, as qualifying for a 4 percent tariff rate, rather than the 25 percent specified by law. Now that the Customs Service appears ready to correct that error, there are reports that the Special Trade Representative is considering a reduction in the 25 percent rate.

That is the wrong kind of signal to send. International trade relationships involve bargaining between trading partners, and we in the UAW have some experience in bargaining. We especially know that there must be unified purpose and consistent action by our government, in order to achieve the needed results. Therefore we call upon the Congress to endorse our proposals, and upon the Administration to take all actions necessary to implement those proposals.

Thank you very much for the opportunity to present our views.

Senator BENTSEN. Thank you for an excellent presentation. It was very helpful.

Mr. Fraser, I have long been an admirer of the Japanese. They are intelligent and they are hard working. They are tough negotiators. And I have traditionally opposed restraints on trade such as import quotas. But it can't be just a one-way street. When they put restraints on our products and require a certain percentage of the content of product to be made in Japan, we can't stand idly by without reciprocating. I think that is important.

They are quite willing to take in raw products from this country, but they want all the high-paying jobs for processing and manufacturing to stay in their country. If we are not careful we will find that we are being treated like a colony.

I have read about the substantial expansion of manufacturing facilities for automobiles in Japan. Now, you tell me about the imposition of quotas in other countries. It is obvious the market for those additional automobiles is going to be the United States. That means the percentage of the marketplace held by the Japanese in this country is going to continue to increase. As you pointed out, once brand loyalty develops, it will be very difficult to try to turn the situation around.

When we get into tough bargaining with the Japanese, I get deeply concerned when I see us give away so much. I cannot agree with the administration testifying, as I understand they did yesterday, in total opposition to any kind of quota legislation, and even voluntary export restraint. If the administration takes that position, then where is the pressure? Where is the incentive to get the Japanese to give some consideration to the economic problems of this country? I think a substantial percentage of the content of cars sold in America ought to be manufactured in America.

Would you care to comment on that?

Mr. FRASER. Yes. I was rather astounded by the position taken by the administration. The Japanese are hard bargainors. I think I know something about bargaining, and all I can tell you about the people that testified yesterday on behalf of the people of the United States—I don't want them bargaining for the autoworkers. Because they gave away the store. They gave away all the chits they should be cashing in their negotiations with the Japanese. And their testimony from that point of view, it seems to me, was not constructive, and it will not lead to getting Nissan and Toyota to act more responsibly.

Senator BENTSEN. Could we reduce the volume of imported automobiles under current legislation?

Mr. FRASER. Not that I know of. You have to show that there is harm to the industry. But certainly voluntary restraint could be called for.

Senator BENTSEN. I'd like the staff to put a time restraint on me and all the rest of the members here. Let's observe a 5-minute rule, if you will. Tell me when my time has expired.

You put a lot of stress in your prepared statement on planning. What kind of planning are you talking about for the United States and for the automobile industry?

Mr. FRASER. Well, in terms of the planning in the auto industry, I wish they'd done a little more planning themselves for the 1980's. Let me try to give you their view.

I suppose they looked at the market, Mr. Chairman, last February—and they were operating practically at capacity. And here they were producing and selling large cars that yielded a profit of $1,500 or $2,000 a car, and the other cars—their answer to the small cars was the Vega and the Pinto, which are hardly answers at all—gave $200 profit on each car. And I suppose they made the simple economic decision, "We are going to stay with the large ones and most profitable ones as long as we can."

And then comes the Iranian crisis and the revolution in Iran, and the gaslines formed and we found ourselves in this mess. So you can't plan retroactively.

And one of the ways we are getting, I think, outcompeted is that in other countries of the world, government is giving more assistance to industry than we are. Perhaps we can do more than we have in research and development. The UAW advocated—and I guess the industry thought it was too dangerous in terms of Sherman antitrust—way back in the Lyndon Johnson administration when he established the Highway Safety Commission—we asked Congress to set aside the Sherman antitrust so we could do research jointly in the industry, in emissions and fuel efficiency.

These are some of the things we can do and we should be as helpful as we can now for making this tremendous transition that we must make from large cars to small cars in any way that I think would be to the advantage of expediting that process

Senator BENTSEN. Mr. Fraser, I see my time has expired. But the studies we have made in the Joint Economic Committee show that the Japanese have in effect torn down their factories and their equipment on the average of once every 10 years and replaced them with new ones, whereas we are doing it on the basis of once every 30 years.

I think our American workers are just as productive as those anywhere in the world, but if you put more modern tools and equipment in the hands of our competitors you don't have to be a genius to understand it's going to be more difficult to compete.

Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman.

Mr. Fraser, first I want to thank you for a very thoughtful opening statement and for me, a very comprehensive prepared statement which you submitted.

Let me start by going to the latter part of that statement.

I understand that Toyota and Nissan are setting up production in Europe; is that correct?

Mr. FRASER. Nissan—and I'm not sure of Toyota. And that is another aggravating thing. All over the world they are making investments—in Spain they have made an investment along with British-Leyland. And in France. It is only in America they are not.

Senator SARBANES. That was my next question. Why is that?

Mr. FRASER. Well, because I think maybe the people who bargain for those governments are a little bit better than those who bargain for us who appeared here yesterday. I think that is the simple answer.

Senator SARBANES. They didn't appear here. They appeared on the House side. If they had appeared here——

Mr. FRASER. That's right; I'm sorry.

Senator SARBANES. What did Toyota and Nissan say to you when you talked to them about engaging in production in the United States?

Mr. FRASER. We had two meetings with Nissan. At the first one, I told them it was very unsatisfactory from our point of view and we were very dissatisfied with their answers. We had a second meeting where they said they were seriously considering building a truck plant in the United States and when they built that truck plant they would buy sufficient property to locate an assembly plant there, if everything developed along the lines they thought it should develop in terms of a truck plant.

We got little or no satisfaction from Toyota. MITI has offered Nissan and Toyota, "If you locate in the United States we will subsidize you in terms of the original cost, and if you lose money we'll subsidize you." That's the Government agency.

There were a whole range of excuses. No. 1 was the investment, which they said would put them at a competitive disadvantage with the American industry. And as I pointed out, this is nonsense because the American industry has this tremendous capital burden on their back, the amount of money they have to spend between now and 1985.

Then they gave the General Motors argument, Senator Sarbanes, if they locate here and GM keeps developing small cars that become better than Toyotas, they'll just run Toyota out of the market. That is an unrealistic assessment of the American market, and by the time they locate here they will be so firmly planted in this market nothing will be able to move them out of it.

But those are the essential excuses they gave.

Senator SARBANES. I understand Toyota has announced they are undertaking substantial new expansion in their auto capacity in Japan.

Mr. FRASER. Yes. And that expansion in capacity is not directed at the Japanese market, the home market, or the European market. It is directed at the U.S. market.

Senator SARBANES. Why, then, would they be at a disadvantage with the American companies if they were to make that investment in the United States instead of Japan?

Mr. FRASER. They are not, absoutely not. As I said, that is not a reason, in my view; that is an excuse.

Senator SARBANES. I was interested in your figures on the gasoline efficiency of the various cars. I take it that you have asserted that many of the American cars are actually as fuel-efficient as some of the foreign ones.

Mr. FRASER. Yes. It is a little known fact, Senator, but it's true. We are using the EPA figures here. In fact, we have two Ford lines right now, the Fairmont and the Zephyr, who are only working at half capacity, and they have a better EPA rating than four Toyota models where they sold 236,000 in the United States that get less fuel efficiency.

Senator SARBANES. Why do you use 1977 as the base year for purposes of comparison?

Mr. FRASER. I think if you look at 1977–78, it was sort of a watershed. It was about 17 percent of the market, between 17 and 18 percent. And they had an agreement that was sort of a gentleman's agreement with Bob Strauss, where the Japanese industry agreed to hold their exports to that level, Senator.

Senator SARBANES. To 1977?

Mr. FRASER. To 1977 levels. That's why this year was picked out. That was the arrangement that Bob Strauss had with them.

Senator SARBANES. I see my time is up. Thank you, Mr. Chairman.

Senator BENTSEN. Congressman Wylie.

Representative WYLIE. Thank you very much, Mr. Chairman.

Mr. Fraser, I'm glad you're here I think we have a very serious problem with reference to the American automobile industry. I was one of those who helped on the Chrysler loan guarantee, as you know. But with high interest rates and foreign competition, it doesn't look too good for Chrysler, does it?

Mr FRASER. It is much more difficult than it was at the point that Congress enacted the legislation.

Representative WYLIE. During the last year, three automobile dealers in my area went out of business—and I come from a very vibrant economic area. And I might say that I met with some businessmen on Friday and discussed this. One of them, Mr. Bob Clime, who runs the Ford agency in Columbus, said, What is Congress going to do to help the American automotive industry?"

You made a couple of suggestions, but I learned during the testimony on the Chrysler bill that our American automobile industry is not operating on a level plane vis-a-vis competition from foreign manufacturers. For instance, when Volkswagen lost $400,000, the West German Government gave them money to make it up, and Japan makes up losses.

What do you think about a tax on foreign subsidies with respect to foreign imports? You have made some suggestions. You came up with some suggestions, and I have come up with one now.

Mr. FRASER. It is a very interesting concept. My response, Congressman, is that I'd like to try to get the Japanese to make the voluntary decision first.

Representative WYLIE. How much chance do you think there is of them making that voluntary decision?

Mr. FRASER. Well, less than it was before yesterday, before the administration testified. But I don't think the executive branch of government is going to have the exclusive voice in this matter. I think a lot depends on the work of this committee and the voice of this committee.

Representative WYLIE. We have been outfoxed vis-a-vis the automobile industry, haven't we? They have developed the Japanese auto industry and the West German automobile industry, and now they are putting the American automobile industry out of business. Is that a fair statement?

Mr. FRASER. Certainly we assisted Japan and Germany in many, many ways, too obvious to repeat here. But I would also repeat my observation, Congressman, that if the Japanese industry—and again I have to separate them, Toyota and Nissan—acted in the same responsible manner Volkswagen did, we wouldn't have this problem. There'd still be tough competition for the American industry and we'd have this catching up to do, but in terms of the economy of the American Nation we'd be a lot better off.

That's all we're saying to the Japanese industry, "You behave in the same responsible manner that the German industry did."

Representative WYLIE. You are asking for voluntary restraints in that regard. How long should we wait? Shouldn't we just pass a law comparable to the Japanese law?

Mr. FRASER. You know, I am running out of patience also, and it seems to me that we are entitled to a response from the industry.

If I could take 1 second, Congressman, I met with the Prime Minister and the Minister of Foreign Affairs and the counterpart to Reuben Askew, MITA, the Ministry of International Trade Industry, and all of them were sympathetic to our point of view. All of them were outspoken in their support of the proposition that they should locate here. But I think that there should be some frank talks with the industry and we should try to get some commitments out of them, not only in terms of voluntary restraints, but when.

I don't want any promises any more. I am tired of promises. I heard a lot of promises in 1978. But I want firm commitments as to when they are going to put some capital and some jobs where their market is.

Representative WYLIE. If you would put your mind to the subject of proposing a tax equivalent to the subsidies and put that into the record, I'd appreciate that.

Mr. FRASER. Yes.

Representative WYLIE. If you'd put that into the record I'd be pleased.

Senator BENTSEN. Congressman Brown.

Representative BROWN. Thank you, Mr. Chairman.

Mr. Fraser, 15 percent of my constituents are also constituents of yours because I have considerable International Harvester in my area. But the Honda plant to which you made reference is in my area.

I want to congratulate you on what I think is a very restrained statement and a very responsible one. I am not in support of sanctions that I think we—both the United States and Japanese—might live to regret, but I think the message is coming through loud and clear. There will have to be some political decisions and some strong economic decisions taken and a very strong cooperative effort on both sides of the Pacific or we may be in trouble in our relationship.

Now, the Japanese and the United States have been cordial friends since the end of World War II, and the Japanese benefited directly from the effort of the United States as gracious victors to rebuild their economy—and not only their economy but their political circumstance in the nation of Japan.

And yet, Honda has come into the United States as a Japanese auto company most independent of the Japanese Government and its subsidy programs which are focused on trying to take over and develop certain Japanese industries, particularly in the trade area.

So I am confident that Japan and the United States can demonstrate the good will to each other to solve their problems without our having to resort to restrictive legislation.

And I want to congratulate Honda American on the good judgments its management has shown in its decision to locate a manufacturing facility in my district, Marysville, Ohio. It has been eminently successful. The quality of these U.S.-produced cycles is just as high as it was in Japan. I have no doubt that the Honda automobile manufacturing plant will have the same high-quality success, again based on U.S. labor and parts, rather than Japanese.

So I am happy to welcome you here today.

Now, I am going to ask a general question first and then a specific one.

Have the autoworkers' layoffs in this country stabilized in your opinion, or do you see a worsening situation over the next few months and years?

Mr. FRASER. The industry won't agree with what I am about to say, Congressman, but I think they are going to worsen. I really can't see the American consumer going back to the large and intermediate-sized cars any longer. I think there is something happening among the American consumers, and I think they are all gravitating toward small cars, and with the price of gas and the proposed import tax I think it's going to accentuate that trend.

If I might, Congressman, show you a difference in behavior, at the end of the World War II the European market opened up to American industry. And what happened? General Motors built plants in the United Kingdom. They built plants in France, built plants in Germany, built plants in Belgium. Ford Motor Co. did the same thing. They went where the market was and made huge investments there and provided jobs for workers in Belgium, the United Kingdom, West Germany, and so forth. Now they are investing in Spain. They didn't have an opportunity before, which is the only reason they didn't.

So here we have the American capital going to Europe and none of the Japanese capital coming to the United States—a lopsided arrangement.

Representative BROWN. Let me just say to you that I agree with you, I think the situation is going to get a good deal worse because I feel that administration policies of restraint rather than tax cuts have caused the bank financing of automobile purchases to be withdrawn by many major U.S. banks. In my own area, it is now very difficult to get bank financing for the purchase of automobiles because of some policies that the Government has followed that have made bank financing for such consumer purchases very difficult.

In your opinion, why has there been such a strong switch to foreign-built cars? The reason I ask the question is that a March 7, 1980, Library of Congress report refutes the idea that foreign-built cars are more fuel efficient—and you have addressed this to some extent. This study concluded that pound for pound, U.S. cars are more fuel efficient; for six of the seven weight classes, U.S. cars average higher fuel economy. In the one class they led by 23.3 to 28.1 miles per gallon. Two-thirds of the sales were in the three lightest classes.

Maybe therein lies the answer to my question. Do we not actually have a marketing problem for those U.S. cars in the competitive categories and in their sales impact on the market in this country?

Mr. FRASER. I think that is partially the case, Congressman. You notice the change in advertising on the part of GM where they make this point both in terms of EPA and price. It is against German cars and it is against Japanese cars.

Our biggest problem, however, is that we are not producing enough small cars, the American domestic industry, to meet the demands of the American consumer. And it is because of the reasons I said in my earlier statement, that we were negligent is not going to that segment of the market earlier, and we now need this time to convert.

If you go and try to place an order for a GM-X car——

Representative BROWN. It has taken me 3 months to get my Citation.

Mr. FRASER. You did well. I think maybe you got a little special privilege there, Congressman. [Laughter.]

But the Chrysler Omni and Horizon—it can take you all the way up to 6 months. And as I said earlier—I don't know if you were here—it just takes time to convert the plants to meet the demand.

Later on this year you are going to see two new Ford cars, the Lynx and the Escort. Also in the fall of this year two new Chrysler cars. These are fuel-efficient, front-wheel drives, transverse engines, much like the GM-X cars. They just have code names now.

And then in the spring, March or April of next year, there will be a new GM car, code named the J car, which is in size between the X car and the Chevette.

But this takes time. It will take to 1983 or 1984 to get sufficient cars onstream to satisfy the American consumer.

I might also say that the high interest rates, Congressman, put tremendous pressure on the dealers. As Congressman Wylie said, a lot of dealers are going out of business and we are losing our merchandising and sales structure. We have all these problems that are not going to go away quickly.

Representative WYLIE. Thank you.

Senator BENTSEN. Senator Javits.

Senator JAVITS. Welcome, Mr. President. You and your union have a big problem, and I am very sympathetic with it and will do my utmost to help you resolve it. How we resolve it must be consistent with the policy of our country and our relations with Japan for "economics is closely linked to politics, and both are closely linked to credit."

So I think we ought to understand our situation better. Is it a fact—and I know you won't be invidious any more than I will, but is it a fact that this situation has been brought on by a great management failure on the part of the American automobile industry? The American automobile industry has failed to anticipate the market, and consequently, this industry has been surpassed by the competition.

Mr. FRASER. That is true.

Senator JAVITS. And I realize the reluctance of American labor to get into management decisions, but I think that is something that we ought to begin to think about in this country. You take the rough, and you are getting it now, and yet you had nothing to do, really, with the decision, and no ability to influence it in any way. I think that's a real failure in the American industrial system. And I hope very much that labor will take this as an object lesson.

Now, we have to balance this out with Japan. We cannot afford the deficit we're taking, nor can we afford to allow the 15-percent unemployment which is hitting you so hard. The only question is: How do we do it? Are you particularly devoted to this method, or are you ready to accept any method which will give a fair break, both to the competition and to your employment?

What I'm talking about is this: If there is a limitation on the import of Japanese automobiles, wouldn't that be as effective for you? Or would it?

Mr. FRASER. I think that may be a short-term answer, absent their entering into a voluntary agreement, but I really believe, Senator, the long-term answer is the Japanese putting some capital where their market is. It is a $10 billion market in automobiles, trucks, and parts. And it seems to me it is only fair and reasonable and equitable that they put some capital here as we have all over the world and they provide some jobs for American workers.

Senator JAVITS. But the whole concept of a private enterprise system is that a fellow is entitled to decide where and when he is going to invest his capital. The Japanese auto makers have to consider that within 4 or 5 years the competition they face here may drive them out and jeopardize their large investment. So they prefer simply to limit the amount of cars they send into the United States.

The question is: Would that be as satisfactory in dealing with your problem?

Mr. FRASER. I am not suggesting they build in the United States all the cars that are sold in this market, Senator. It seems to me it's just a question of fairness, how many. You're talking about a market for 1979 of 2,035,000 cars and trucks in the United States. I am not suggesting they should all be built in the United States but a goodly portion should.

Senator JAVITS. What I'm trying to get at is whether you and your union believe in this particular solution for reasons of your own, or whether you want a solution, and this is your recommendation as to what it ought to be. There is a big difference.

Mr. FRASER. Yes. We believe this is the solution. It is not for the sake of our union, Senator. You know our union and we know that way down the road we may be a union of a much smaller membership than we now have. But I think if we make a contribution to the social good and the economic health and welfare of this country, we would make that sacrifice. But I believe this is the best economic solution. If there are other alternatives, I'd like to hear them.

Senator JAVITS. Very good. Well, I have given you one which is a phase-in—a material reduction in imports by agreement or by law, if necessary. We are entitled to protect ourselves against this industry being inundated, even though it's the fault of the industry. And that's what I am driving toward, whether or not in your testimony we are confined to the one solution or whether what you are seeking is a solution to the problem.

Mr. FRASER. The alternative solution of restrictions—or quotas is really what you're talking about—would have the undesirable effect of reducing the competition and the discipline that the Japanese industry and the German industry, for that matter, can impose upon the American industry. And I think this competition is good for American industry, Senator.

If I can make one other point, I think the labor unions are way behind the times in their concept of what their role is in society and representing working. As sure as I sit here, sooner or later the labor movement is going to realize it is not enough for them to engage in the traditional collective bargaining where they are talking to companies about decisions that affect the destiny of workers after those decisions are made and after they are irreversible. The role of the labor movement is going to have to be having an opportunity to have some input on the decisions that affect the workers that they represent.

Senator JAVITS. You and I are entirely upon the same track, and as you know we have agreed before on the issue of some form of labor-management form in which this influence may be brought to bear.

I assure you that I will cooperate effectively in finding the necessary solution. But I just thought it was important to raise with you some of the problems which face us.

And the last question, if I have another minute, concerns the capital requirement necessary for the American industry to convert in order to effectively compete. I understand the capital requirement runs into the multibillions, and I question whether the American industry can raise it. How does that enter into your calculation?

Mr. FRASER. Well, it answers the argument of Toyota and Nissan that they are at a competitive disadvantage because really, they have a competitive advantage. I don't know where Ford is going to get the money. Fortunately, they have an economically healthy company, but I think they will have to get outside capital to build smaller cars between now and 1985. Don't be shocked if General Motors has to scurry around to meet their capital requirements between now and 1985. It's a massive amount and it's a troublesome problem. That's why, if the Japanese come here, they suffer no competitive disadvantage.

When Toyota and Nissan give you all these excuses why they haven't come here, ask them why Honda has, the smallest one of the three.

Senator JAVITS. We have not talked about the fact that the Europeans have shut the Japanese out of their market just as the Japanese have shut us out of their market and then driven the competition here. Remember, we do a lot of business with the Europeans and we'd better put a little heat on that as well.

Thank you.

Senator BENTSEN. Thank you very much.

Senator Roth.

Senator ROTH. Mr. Fraser, I was in Tokyo recently when you first began making your statements about investment in America and I met with both Toyota and Nissan people and carried the same message. I agree with you that not only the automobile but other Japanese industries as well should begin to invest in this country.

I'd like to address that one quote you have in your statement where you quote Mr. George Ball. You point out that the U.S. auto industry must now be included in the list of industries incisively targeted by Japan.

I agree with what you said in your testimony. I think it is very important for the Japanese to recognize that we are not going to let that happen to our automobile industry.

As I pointed out to the various people who have been calling on me, the automobile industry is absolutely essential as part of our security. I don't think we can permit Chrysler, or Ford, or General Motors to go down the drain. So I think we are all working on the same basis.

I would like to address a few questions as to how we can correct this situation.

It seems to me that we really have three problems with respect to the automobile industry. One is this transition period, the next 2 or 3 years where we begin to produce the small cars. Second, we enter a period where hopefully the American industry will begin to recapture a larger share.

But a third question I am concerned about is: How do we do what the Japanese have done? I don't want the United States to be selling only in the American market. This is a world market we have today in automobiles. How do American-produced cars begin to become competitive in these world markets? And, frankly, I think management has been very remiss in this area. I have talked to some of the executives in the past and they say, "Well, it's not worthwhile trying to reach the Japanese or other markets."

I disagree.

But what I'd like to ask you sir, is whether your organization has studied this problem in regard to antitrust law. I think we are all strong supporters of antitrust laws, but it seems to me there are areas where it should be reexamined.

One area is, is it all right or should it be all right to have these voluntary agreements? Do you recall back in steel last year at the very time our administration was trying to negotiate the triggering mechanism, the assistant attorney general was saying that that violated our antitrust laws.

So I wonder if you and your people are studying this. As I say, there are a number of problems in this area that we should review in order to try to promote the sale of American cars.

Mr. FRASER. I suppose, Senator, it's because of our concern about that problem that we call upon the Japanese industry to make voluntarily the gentleman's agreements they have all over the world—like the one Toyota made with the United Kingdom in Acapulco, Mexico, in January.

When I talked to Mr. Toyota about that, he said, "We didn't make any agreement," but I understand they made minutes of the meeting and both sides agreed to abide by those minutes. So it's really a gentleman's agreement.

I suppose that's why we went to the question of voluntary agreements so we wouldn't run counter to the law.

Senator ROTH. I am not an expert in the law but it is my understanding there are those who believe that this kind of voluntary agreement could violate it. So all I suggest and urge is that you have your people review this problem, because I think it's a very serious one.

If I could take another minute or two, Mr. Chairman, part of the problem that has been pointed out is that our plants are in many ways obsolete, we might as well face it, compared with the modern, computerized, automated plants of our competition. And that goes into a question of capital formation, which in turn again means problems of savings in this country.

Is this a problem that your union would be willing to look into? In other words, if my Chrysler plant in Delaware is going to compete with that Toyota plant I saw in Nagoya, it's going to take billions of dollars in new investment.

Has the union given any consideration to capital formation? One of the things that impressed me about Japan and impressed me about your statement is that over there, as you pointed out, there is pretty good cooperation between the union, business, and the government, where traditionally we have had more confrontation. Do you see changes having to come about in this area? I know you are serving on the board which seems to me a step in that direction.

Mr. FRASER. Not until June.

Senator ROTH. Not until June.

Mr. FRASER. Let me respond, Senator. They are going to build, as you mentioned, the new Chrysler car. One of the plants will be in Newark, Del. I think when we go in there about September or October we'll find as many robots there as they have in the Japanese plants. Unlike the steel industry, there is nothing that they can do that we can't do in terms of technology and automation.

Now, they use more, and I'll tell you why. The president of Nissan told me when I met with him—well, he was in our Oklahoma City plant, a new GM plant, the newest assembly plant in the United States, and they build the X cars there. And he said he was surprised about the lack of technology.

That is not because we don't know how to do it. It's because the American industry at the point that GM built that plant, and when they looked at the American market, the good, old American consumers were buying big cars and big vans. So when they built the plant for the X cars, they thought to themselves, "Look, we might be converting this plant from small cars to big cars," and you are not going to invest in fixtures and jigs and technology that you can't easily convert when you go from a small car to a large car and from a large car to a small car.

In the German and Japanese industry you are essentially building one body shell. You can do a lot with technology. It is not that they know how to do it better than we do. I suggest we will go into that Newark, Del., plant and you will see as many robots there as in Japan.

They have an advantage of new facilities. One of the advantages of having them locate here in the United States, the attitude of the auto industry and our union is we never stand in the way of new technology and automation. It's a high-productivity industry, and we need more of such industries in the United States. If we can get more industries here like the auto industry, it will increase productivity. I haven't seen BLS figures for 1979, but in 1975, 1976, 1977, and 1978 the productivity in the auto industry increased an average 5 percent a year or more.

Now, when you compare that with the national increase in productivity, it's a remarkable improvement.

Now, in capital formation, Senator—and I think we are undergoing a change in our view on that. I suppose we took our lessons from the statement of Gerstenberg when he was chairman of the board of GM and other people in the industry, when they said they don't have to have an incentive to expand and have new plant and equipment, that the market dictated that. And if the market was out there, the industry would automatically invest.

Well, all industry doesn't have the wherewithal to invest.

So our union is reviewing our attitude toward research and development and incentives in that area. I think we want to put a couple of qualifications on it but we are reviewing that whole matter.

If I could respond to one other part of your question about recapturing the market, Senator——

Senator BENTSEN. Senator, I may have to call time on you. You are substantially beyond your time limitation. We have some other witnesses to testify yet this morning. Mr. Fraser has another place to testify.

Let me say, Mr. Fraser, that when I think of the responsibilities of Japan as an ancient power in this world, I am surprised to see them spending only 1 percent of GNP on defense, while the United States is spending over 5 percent. No nation is more vulnerable to the problems of extended sealanes than is Japan.

The United States had better be looking at the whole economic picture and not just the question of automobile imports. We are going to have to change the traditional adversary relationship between business and labor and government and work together toward common objectives.

Your statement this morning has been most impressive and well-reasoned. I think it has made a substantial contribution, and we are very pleased.

Mr. FRASER. Thank you very much, sir.

Senator BENTSEN. Senator Bayh. We will be pleased to hear Senator Bayh's testimony at this time.

Senator Bayh, we are very pleased to have you here. We are running very late, as you know, and I will ask members not to question at this time.

STATEMENT OF HON. BIRCH BAYH, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator BAYH. Mr. Chairman, I appreciate the courtesy of having the opportunity to testify. I know your busy schedule. We all have more to do than we get done. But I think the matter that your committee is addressing itself to today is one of the critical problems confronting our country today.

If you have no objection, I'd like to ask Mr. Christopher, who is on my staff, to be with me here.

Let me just summarize and ask, if I might, that the prepared statement that I have be placed in the record.

Senator BENTSEN. We will do that, without objection.

Senator BAYH. I listened to Mr. Fraser's evidence, it seems to me, of what unfair trade is doing to our automobile industry. I think it is important, Mr. Chairman, to understand that when the automobile industry is seriously affected by this kind of outside pressure, there are large segments of our economy that are not traditionally categorized as auto that are also affected.

For example, the Steel Caucus, of which Senator Randolph is chairman, has studied this, and it is obvious 25 percent of the steel production of the United States goes into autos alone. We have had problems there. We have had problems in other segments of our economy. The ripple effect has been significant, it seems to me, in aluminum, glass, rubber, plastics, electronics.

I'd just like to touch on a few specifics as far as what I have observed and what the facts really are in Indiana and then sort of summarize it, if I might, as far as where autos fit into the overall picture, because your leadership on this committee and the committee itself is concerned about the total economic picture.

In Indiana, for example, we have 13,000 autoworkers recorded as unemployed as of last week. We have 2,700 autorelated workers who were laid off, and an additional 10,000 workers unemployed in a category called other industry, technically speaking, but it relates directly to the economic conditions that result in the economic downturn in the auto industry. So when we are addressing ourselves and you are addressing yourself to this problem, we are not talking just about autos but about the economic facts of life in our country.

The statistics have already been given to the committee about what is going to happen as far as Japanese automobile production and what they intend to do with this dramatic increase in production. They intend to sell them in the United States, and I think it is important us to be forewarned, as you are warning us, and thus to be forearmed.

I'd like to point out that it doesn't do a whole lot of good to say what we should have done. We can look at the bright lining around this dark cloud of Japanese automobiles coming into the country. I think they have taught us a lesson. American manufacturers finally got the message. It doesn't do much good to say as some of us did back in the early 1970's when we were trying to establish targets and efficiency that the automobile companies said couldn't be met then. I think we have finally gotten the message across.

But I think it is important to make certain that we don't destroy the industry before the message has a chance to be implemented.

I know you are concerned about not only automobiles but also about what the Japanese are now doing, whether they are going to buy communications and electronic equipment from the United States through Nippon Telegraph & Telephone. So it seems to me we have to address ourselves to a broader problem. And having put my statement in the record and from the standpoint of time, let me just emphasize here how I feel we can use the laws which now exist—section 301, I think it is, which provides ample evidence, it seems to me, when we look at the Japanese relationship with the French, where it is limited to 3 percent there in the marketplace. Italy permits no more than 2,000 autos. You can go right down the line, and I think there is some strong evidence that the Common Market has said, "We are only going to permit 7 percent into our marketplace."

We don't have those kinds of restrictions, and what I am suggesting is we should look at the whole trade policy of this country and see what's fair. I don't want to see us get involved in another Smoot-Hawley trade war. I think we would suffer and the entire free world would as well.

But the President has a policy to fight inflation. One of the basic problems we have contributing to inflation is the tremendous defficit we have had more often than not in our balance of payments. And the only way or one of the ways we have to deal with that is to address the trading policies which are not equal in each country.

There is no magic to this, but I think we have every right to demand fair treatment.

We are talking about automobiles here, and it is rather obvious that our automobile producers are denied access to the Japanese market on the same basis that Japanese firms and automobile workers are permitted access to our market. As a member of the Steel Caucus, let me tell you we have had a running war.

Finally the President of the United States came up with a proposal to stop Japanese dumping and other dumping—steel being imported into this country below the cost of production here.

I talked to industries in my State that make television—as well as the whole electronics field. First it started with radios and then black-and-white television, and now color television, and when you see a Sony that can be bought in Cincinnati for $395 selling for $800 in Japan, knowing that we can't penetrate the marketplace in Japan there, that is not a "fair trade" situation.

The Senator from Texas is one of the leaders in transportation. And I work with him. When I look at the money we are spending in mass transit and see the way our transportation network producers—producers of buses and mass transit vehicles—are denied access to foreign marketplaces, such practices, I have to conclude, have about destroyed our mass transportation industry.

So when we have had bidding in the Nation's Capital of ours for Metro, the last low bid was an Italian company. At the same time, I see our producers can't compete in Italy unless we are part of a consortium, the majority of which is Italian. So again, I think we need to address ourselves to this overall question of how American workers and American firms can be treated fairly by our trading partners.

I don't want to ask more than we are entitled to. The bottom line, it seems to me, is that our firms and our workers ought to have the same access to foreign marketplaces that foreign firms and foreign workers now have to our marketplace. That is the rule I think we ought to insist upon. If we can't reach this goal with the present legislation, then, by golly, I think we ought to change the laws. I find it very difficult to understand why we continue to tolerate this situation.

And I did not come here to be critical or this administration, because we have had a series of Presidents who have not paid sufficient attention to this problem. It doesn't make much difference whether they are Republicans or Democrats. We say we are not going to enforce

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the laws we have now to prohibit dumping and other unfair trade practices because we don't want to offend our friends. If these people are our friends, and I don't want to resort to the old cliche that, "With friends like that, who needs enemies," but I do want them to act like friends.

As Senator Javits said a few minutes ago, the strength of the entire free world depends on the strength of the United States of America, and when we permit some of our friends to follow a trade policy that is eroding the very base the free world depends on to defend itself against communism, it seems to me it's very self-defeating not only to us but to those other folks we consider friends, and we have to convey to them the real damage they are doing not only to us but to themselves.

Forgive me for getting a little excited about this but, Mr. Chairman, it's hard to contain, especially when I see the kind of thing happening and I go to the plant gates and talk to the workers and managers, including people who just came back from Japan a while ago and related the Sony situation. This unfair pricing situation where prices are twice as high in Japan as in the United States if American industry could compete. But the United States isn't permitted to compete. And when Japanese manufacturers have a blank check they take from the exorbitant profits they get from their own citizens, they come here and invade our marketplace.

Forgive me. I just had to get it out.

Senator BENTSEN. Senator, I'm sure you'd find a lot of support on this committee for that viewpoint. I appreciate your statement very much. I only wish we had time to really dig into this one with you, but we have several witnesses still waiting to testify. Thank you.

[The prepared statement of Senator Bayh follows:]

PREPARED STATEMENT OF HON. BIRCH BAYH

Mr. Chairman, I want to thank you and the committee for allowing me this opportunity to express my very strong concern about yet another damaging issue in U.S.-Japanese economic relations. I hope that our efforts here today will send a strong and unmistakable message to our largest overseas trading partner—that message is that Congress will not permit the steady erosion of the economic viability of this country's largest single manufacturing sector—the automobile industry.

President Fraser has, I believe, presented to the committee a number of details concerning trends in world automotive trade. It seems to me very important to emphasize once again that the health of the car and truck industry in this country touches workers in other sectors as well. We in the Senate Steel Caucus, of which the Chairman is a very important and concerned member, are acutely aware that as much as 25 percent of steel production in the United States went to the automotive sector last year. Therefore, when there is a downturn in domestic car sales in this country, other basic industrial sectors feel the pinch quite strongly. This linkage, or ripple effect, applies as well to the workers engaged in the production of aluminum, glass, rubber, plastics, electronics, fasteners, and other industries. In Indiana, for example, 13,000 auto workers were recorded as unemployed as of last week. 2,766 "auto-related" workers were also on lay-off. In addition to this figure, over 10,000 more workers were unemployed in a category called "other industry."

Certainly, it would be irresponsible and simply wrong to suggest that this nation's present economic problems can be blamed entirely on unfair foreign competition. However, this Senator is alarmed when I see how many unemployed Hoosier workers have been certified as eligible for import related adjustment assistance since the Trade Adjustment Assistance (TAA) program began. That figure is almost 20,000 for all industries and it is climbing, although a portion of these workers in certain sectors have been called back to the job.

So, for the record, Mr. Chairman, I just wanted to be sure that Indiana's story is told even though we both recognize that the ramifications of the issues considered here today extend beyond a single State and truly affect our nation's future economic strength and security.

AMERICA BECOMING NUMBER TWO

One of the most striking developments of the present surge of automobile and truck exports from Japan to the United States is the fact that 1980 will see total Japanese automobile output outstrip American performance for the first time ever. According to the Japanese Automobile Manufacturers Association, total car and truck production for 1980 will be about 11 million vehicles. Despite the reasonably good demand for cars and trucks in the United States last year, it is doubtful, given the downturn of economic activity, that the U.S. can make as strong a showing this year. And it would appear that one of the determining factors in this equation is that 1980 planned export sales worldwide by the Japanese will be about 5.8 million vehicles, up 800,000 from 1979. Of this total, it is likely that more than the 42 percent of Japanese production exported last year will be marketed in the United States.

On this point, I think we ought to also note that to a large measure the Japanese automakers have performed a service to the American consumer by being first to provide the kind of car that Detroit should have been planning the day Middle East oil was cut-off to the United States in 1973. As Congressman Charles Vanik, Chairman of the Ways & Means Trade Subcommittee indicated on March 7, the Big Three should have "seen the handwriting on the wall." Unfortunately, we can't start now where we should have been. We have to begin where we are. At the same time, it is important to underscore that Japan's auto industry—like so many other sectors of the Japanese economy—has been nurtured and grown behind some of the most protectionist barriers which the world has ever seen.

BARRIERS TO U.S. EXPORTS MUST ALSO BE REMOVED

To digress for just a moment, I know that Senator Bentsen is angered, as I am, over the seemingly impenetrable Japanese marketplace to American manufacturers and the foot-dragging of Japanese officials in deciding whether Nippon Telephone and Telegraph will be procuring communications equipment made In the U.S.A. The time has long since passed when our trading partners should open their markets to our businessmen as the American market is open to them. But if they insist on non-tariff trade barriers, foreclosing U.S. export opportunities more than formal tariffs even could, then we should make very sure that our improved fair trade statutes are aggressively enforced above and beyond what is required to deter unfairly priced imports. Hopefully, this will demonstrate that the U.S. government will finally stand behind U.S. workers and U.S. firms through the self-initiation of anti-dumping and countervailing duty investigations as well as other remedies already available under the law. Having stated my general concern about U.S. trade policy in this area, let me return to the specific topic of how we convince the Japanese that it is in everybody's interest to avoid a major confrontation which is looming because of Toyota and Nissan's reluctance to date to promptly and favorably consider setting up auto plants in the United States.

REMEDIES PRESENTLY AVAILABLE

As the Committee knows, the United States is not defenseless against the injury caused to a domestic imdustry due to increasing imports. Section 201, or the "escape clause", of the Trade Act of 1974 specifically provides for situations where an injury determination resulting from increased imports is sufficient to justify remedy. There also exists Section 301 of the same Act which provides a basis for recommendation to the President of higher tariffs, quotas, or other measures through our Special Trade Representative.

Section 301 applies to "restraint of trade" agreements where it is determined that a surge or diversion of imports to a third country's market is a result of "gentlemen's agreements" between two others. In the case of Japanese automobile imports to France, the share of that market is less than 3 percent. Italy permits no more than 2,000 Japanese autos to be imported a year. When such statistics are made known, the increase of the Japanese share of the U.S. market between 1969 and 1979 from 2 percent to 17 percent becomes suspect indeed.

According to some further figures which Doug Fraser has offered, the Japanese share of the European market has been held to about 7 percent in the past two years while Japanese automobile exports to this country surged. So, there is little doubt that the American market has become a targeted market. And while there is little basis for complaint about an aggressive and effective business strategy which Toyota, Nissan and other Japanese firms have refined into an art form, the plain fact is that this type of saturation will actually impair the ability of our own automakers to get where they should be. If the examples of the radio and television industry are any future indicator, we might find ourselves faced with the prospect of not 27 percent of the auto sales market being of foreign manufacture, but 30 percent or 40 percent or over half? Such a result will not make America simply number two in this economic activity—we might well become number three or four depending on how other foreign suppliers react to this development in the market place and whether or not we see a long-term improvement in overall U.S. economic conditions.

It has also been proposed that a voluntary restraint agreement be concluded between the United States and Japan or other forms of import restraints be undertaken to preempt the erosion of the domestic share of the market as indicated above. Legislation has also been proposed requiring certain content requirements to be maintained after calendar year 1983 as well as establishing quotas on automobile imports.

These are all steps which deserve consideration in view of the present trends which are adversely affecting employment, the value of the U.S. dollar, our balance of payments ($9 billion adverse auto trade balance with Japan in 1979) and our ability to demonstrate in a convincing manner that external economic forces will not be allowed to destroy the American automobile industry.

I would also think it reasonable to support the position that job-creating foreign investment in this country is one part of the solution to this problem which concerns us. A decision by Toyota and Nissan to locate plant and equipment in this country would also be a healthy step in terms of confidence in our nation's economic future. It is my hope that our action today will result in truly coming to grips with this issue.

On the Senate's part, I believe that our initial response must be to impress upon the government of Japan the seriousness with which we in the United States Senate view the current situation and our intention to do what is necessary to address this issue. Therefore, I have proposed a letter to Prime Minister Ohira which would encourage his government to impress upon Toyota and Nissan the importance of favorable consideration of requests from those representing American auto workers to make productive investments in this country.

In keeping with what I know is the commitment of the Chairman of the Committee to understake a serious, comprehensive and sustained approach to solving this problem, the wording of this message should be as constructive as possible, but also clear as to what the alternatives to cooperation could be.

I would also hope that our efforts would attract the support of Senators from many of the States directly impacted by the present crisis in the U.S. auto industry.

IMPORTANCE OF AGREEMENT IN THIS AREA

For some time, we have heard, and quite correctly, that the security and strength of the United States depends in large measure on the security and strength of her allies. This is true. Clearly, if the economies of NATO or Japan are threatened, then the prospects for improved and mutually beneficial economic relations with those countries are likewise diminished. But it is equally true, if not more so, that the strength of the American economy is the enduring source of the security and prosperity of our alliances with Asia and European nations. Because of this fact of life in the dangerous world in which we live, it is all the more in the interest of our trading partners that their trading practices do not help to erode U.S. economic well-being. With turbulence in the Persian Gulf and the intentions of the Soviet Union ominous, it is up to our traditional allies to understand, now more than ever before, that short-sightedness in pursuit of "prosperity at any price" will only serve to imperil their future as well as ours. Thank you very much, Mr. Chairman.

Senator BENTSEN. A question on the fair trade situation, Senator.

Senator BAYH. Mr. Chairman, you have experts who already know the answers to these fair trade questions.

Senator BENTSEN. I thought I was listening to the people when I listened to you.

Senator BAYH. Well, I think that is what the people feel, Mr. Chairman.

Senator BENTSEN. Congresswoman Heckler has a question she'd like to ask. She arrived a bit late and didn't get to participate in the other questioning.

Representative HECKLER. Thank you, Mr. Chairman. I did arrive late. My car broke down on the George Washington Parkway and had to be towed by the AAA. I'm sorry I didn't get here.

Representative BROWN. Is it an American car?

Representative HECKLER. It's an American-made car. We can't blame the Japanese for everything.

I'd like to ask the Senator a question. I do agree with you that fair trade should be the rule of all countries, and we should have as much access to the Japanese market as they do to ours. And I think that is only fair trade. And I agree with you in terms of the Sony. But, as valuable as it is for you and all of our witnesses to testify today about the automobile crisis, I really think that some of the questions have to be addressed to Detroit and what is Detroit doing for the automobile? What has it done to the automobile? And what will it continue to do?

And I think it is very important for Senator Bayh and Mr. Fraser and all the other witnesses to have their voices heard with all the automobile manufacturers. Right now the automobile manufacturers are still producing big cars. The purchasers are not buying large cars. The Japanese are producing compact models and they are very much in demand.

But my dealers in Massachusetts tell me every small car on the lot is sold within days, but that the manufacturers continue to produce the large vehicles that will ultimately cause a bankruptcy for at least 10 percent of the 700 dealers in Massachusetts. That is 70 dealers that will go out of business.

And I wonder, Senator, what response you could make to this and what interaction you might have to tell our own auto manufacturers that the continuation of the production of vehicles that don't fit the mileage standards and the other requirements of the American consumer today, with gasoline prices increasing and with the President's new added tax on gasoline, we are traveling down a road—it's one thing to object to foreign competition, and I think it's a valid point, but it's another not to respond to the demand of the American consumer. And unless these automobile manufacturers in Detroit start to change their production policies immediately, we are going to see even more severe consequences and we are not going to be able to blame the Japanese.

I don't know what you feel about this, Senator, or what you think should be done, but it seems to me the Steel Caucus should interact with the manufacturers in Detroit who are partially responsible, not only in the past but in the present, for what is happening today. They should interact as well in a public forum such as this.

Senator BAYH. Congressman Heckler, I think you made a very good point. Back in the 1970's I introduced legislation that said you can't make gas-guzzlers. I don't care how big they are—they can be as big as a Greyhound bus if they don't use much gas. I don't like to see Federal control, but it seems to me when the industrial sector refuses to act in the public interest and take responsibility, the Congress has to do just that.

We could see this coming. You don't have to be a genius, because I certainly am not—and some of my other colleagues in the Congress saw that, too. But instead of the industry saying, "We are willing to work it out; maybe this isn't the right efficiency standards," they didn't. But after some prodding, they have already reached these standards. I have tremendous confidence in the ingenuity of American engineers and industrialists that we can do even better.

Representative HECKLER. Do you have tremendous confidence in the judgment of the leadership of the auto manufacturing industry?

Senator BAYH. I think they've gotten the message now.

Representative HECKLER. Do you?

Senator BAYH. It is woefully late in coming. And I think we are in a position here where we could extract a little quid pro quo, where we could say, "We can stop this thing which threatens to destroy you, but we are going to demand of you certain results in exchange." And the primary thing would be, "No more gas guzzlers"—exclamation mark, end of quote.

At the same time, I don't think we can continue to permit the invasion of our marketplace in the manner in which it has been invaded. Neither do I believe we can continue the kind of practice which led to the successful invasion, and that was the fact the Japanese made very good automobiles that had a lot of mileage. There is no reason we can't make them here. We are not making enough of them. And it is disappointing that it is so slow in coming.

And I am willing to extract a quid pro quo in which we say we are willing to help but not continue the policy that destroys the country's energy independence.

Representative HECKLER. I think it's appropriate to question the imports and trade policies. They are out of line in my judgment. I feel for the workers in the automobile industry, but I frankly think if we continue on this court we can only blame ourselves for the situation that we have allowed to exist and that still exists today when the large gas-guzzler is still in the production line and is a white elephant for the dealer back in every State in the country. And I hope the people find a means of dealing with this situation before all is lost.

Representative BROWN. The fact is, however, that such conversion takes time. We have required it by law in the fuel-efficient legislation passed back in 1975, authored by one of your Indiana colleagues,Mr. Sharp, over on our side of the aisle, and it's going to take or has taken some time and is now mandated, is it not?

Senator BAYH. Yes.

Representative BROWN. Could I also have the record show that that car that caused Mrs. Heckler's problem this morning was assembled in Indiana and not in Ohio. [Laughter.]

Representative HECKLER. It's a Ford Granada, and where it was assembled I cannot tell you. [Laughter.]

Senator BENTSEN. I really don't want to get that one started.

Representative BROWN. Thank you.

Senator BENTSEN. Thank you very much. We appreciate your testimony.

Let me say that because of the intense interest in this subject by the members of this committee, we have gone long beyond our time, and we have a number of witnesses who have plane schedules to make, so I am going to ask that they hold their presentations to 5 minutes, and that the members of this committee limit themselves to two questions. We will try to get these folks on their planes and still hear what they have to say, while putting their prepared statements in the record.

Our next witness will be Mr. Philip A. Hutchinson, Jr., who is the director of government and industry relations for Volkswagen of America, Inc.

STATEMENT OF PHILIP A. HUTCHINSON, JR., DIRECTOR, GOVERNMENT AND INDUSTRY RELATIONS, VOLKSWAGEN OF AMERICA, INC., WARREN, MICH.

Mr. HUTCHINSON. Thank you, Mr. Chairman. We will abide by your time limitation, and I will abbreviate my statement even further.

Mr. Chairman, my name is Philip A. Hutchinson, Jr. I am the director of government and industry relations for Volkswagen of America. My purpose in appearing before you is to respond to your request for information concerning VW's experience as a U.S. automobile manufacturer.

Volkswagen of America is a U.S. corporation, chartered in New Jersey, with corporate headquarters in Warren, Mich. Volkswagen of America is a wholly-owned subsidiary of Volkswagenwerk AG of Wolfsburg, West Germany, one of the world's largest auto manufacturers.

Formation of Volkswagen of America, in October 1955, came only 6 years after the first two VW Beetles were sold in the United States From total sales to two cars in 1949, VW sales increased to 35,851 during 1955, totaled 162,037 in 1960, and rose to 357,144 in 1965. By 1970 the U.S. VW organization was selling well over half a million cars a year.

With the declining value of the dollar versus the German D-mark, VW's competitive position deteriorated sharply on the American market as the dollar's devaluation which had begun in 1969 forced U.S. VW prices sharply upward.

The dollar lost 50 percent of its value when compared to the German mark during the period 1970 to 1980, in the United States.

This had a dramatic effect on the price of German imports. For example, a VW Beetle which cost $1,999 in 1972 rose to $3,499 in 1975; and the VW Bus which sold for $2,850 in 1970 costs $9,500 today. While not all of these price increases can be attributed to dollar devaluation, this accounts for most of the added cost.

These price increases had a direct impact on sales. From a record of 583,000 cars sold in 1970, our sales dropped to 203,000 cars in 1976. Thus, from 1970–76, VW's share of the U.S. market fell from 5 percent to 2 percent, with a corresponding decline in profitability for the manufacturer and over 1,000 VW dealers.

To remain competitive from a product standpoint, several new fuel-efficient models were introduced by VW in the mid-1970's, led by the front-wheel-drive Rabbit. While the technological superiority of VW cars was preserved, the price advantage of earlier years had disappeared.

Other manufacturers began to emulate the Rabbit design. For example, in 1977 Ford introduced the Fiesta and in 1978 Chrysler offered the Omni/Horizon which is produced in the United States, although it contains a VW engine, and enjoys a $400 price advantage over the Rabbit. Other domestic models had an even greater price advantage over the Rabbit. For example, in January 1978 the Ford Pinto's sticker price was $1,500 less than the Rabbit. And I have figures in my prepared statement which show price comparisons for other models.

In the early 1970's, it became clear to corporate management that VW must either give up the U.S. market or produce cars here in order to remain price competitive. Among the factors that influenced our decision were favorable U.S. labor costs compared to those in Germany and high productivity of American autoworkers.

In 1976 VW purchased a partially completed Chrysler facility located in Westmoreland, Pa. An American management team was hired to bring the plant online.

The plant was completed in 1978 and now employs over 5,000 American workers. We are pleased with the caliber of our employees, especially so since they produce cars here of comparable quality to those built in Germany.

Volkswagen of America's Westmoreland plant will produce approximately 200,000 Rabbits and 24,000 light pickup trucks in 1980. Incidentally, we are the only manufacturer of light pickup trucks in the United States. These vehicles may be purchased with either gas or diesel engines. The diesel Rabbit and diesel pickup trucks are the most fuel-efficient vehicles produced and sold in the United States, with EPA highway ratings of 56 and 53 miles per gallon, respectively.

VW's other facilities in the United States include a stamping plant located in Charleston, W. Va., which supplies sheet metal parts and body stampings for U.S.-built Rabbits and pickups. This plant employs about 600 people, an increase of some 225 employees since VW took over operation of the plant in 1978.

This month we opened a new plant in Fort Worth, Tex., which manufactures automobile air-conditioners, heaters, and other parts. Our Texas plant employs about 750 persons and is among the top 20 manufacturing firms in the county in which it is located.

Today our direct U.S. employment totals over 10,000 persons in the manufacturing of automobiles, and we have another 50,000 employees in VW sales and service.

Earlier this month we signed a preliminary agreement with the State of Michigan to acquire Government-owned property for a second assembly plant. This Sterling Heights, Mich., facility will nearly double our production capacity to approximately 375,000 units per year. We expect to employ an additional 4,000 autoworkers at this plant. For every direct manufacturing job in the industry, four to five jobs are created in supplier industries.

Supplier purchases which today total over $400 million will double when the Michigan plant becomes operational in 1982. This will benefit many other States, such as Ohio and other States located nearby where our suppliers are concentrated.

Legislation is pending before the Congress to transfer the Sterling Heights, Mich., property to the State in exchange for two new office buildings. We are optimistic that Congress will act on this legislation promptly, hopefully by May 1, so that we can convert the facility to an auto plant producing cars and light trucks for the 1983 model year. Timing is critical if we are to sustain our percentage of the domestic industry.

In addition to our domestically produced vehicles, we import a total of about 100,000 VW, Porsche, and Audi vehicles. These imports are vital to VW since our dealers need a full model line to be competitive and the volume of these imports is not sufficiently high to justify U.S. production.

For the most part, we have found the United States to be a very favorable environment to build cars. As I have mentioned, we are pleased with our labor force and the ability of U.S. suppliers to meet our exacting specifications. We would like to buy more in the United States but existing law penalizes VW, insofar as calculating fuel economy is concerned, if our U.S.-built cars contain more than 75-percent domestic content.

I am pleased to say, Mr. Chairman, that legislation has been introduced to correct this deficiency and we are hopeful again that Congress will act on it soon.

As the newest member of America's domestic auto industry, we are optimistic about our future here. We think our fuel-efficient vehicles can compete for a modest share of the market, even though competition from the Big Three in the compact-car sector will be fierce in the 1980's.

I hope this brief explanation gives you a better understanding of our company, and I am most appreciative to be here today. Thank you.

Senator Bentsen. Thank you, Mr. Hutchinson.

[The prepared statement of Mr. Hutchinson follows:]

Prepared Statement of Philip A. Hutchinson, Jr.

Mr. Chairman, my name is Philip A. Hutchinson, Jr. I am the director of Government and Industry Relations for Volkswagen of America. My purpose in appearing before you is to respond to your request for information concerning VW's experiences as a U.S. automobile manufacturer.

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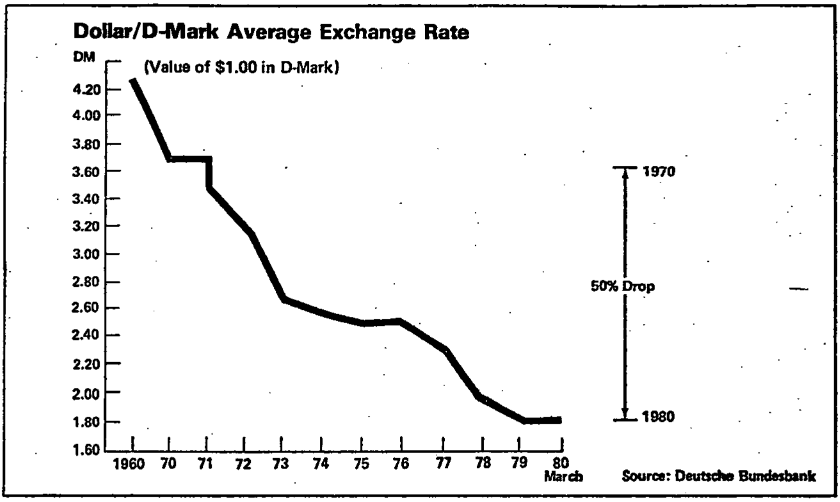
As you can see from the following chart, the dollar lost 50 percent of its value when compared to the German Mark during the period 1970 to 1980.



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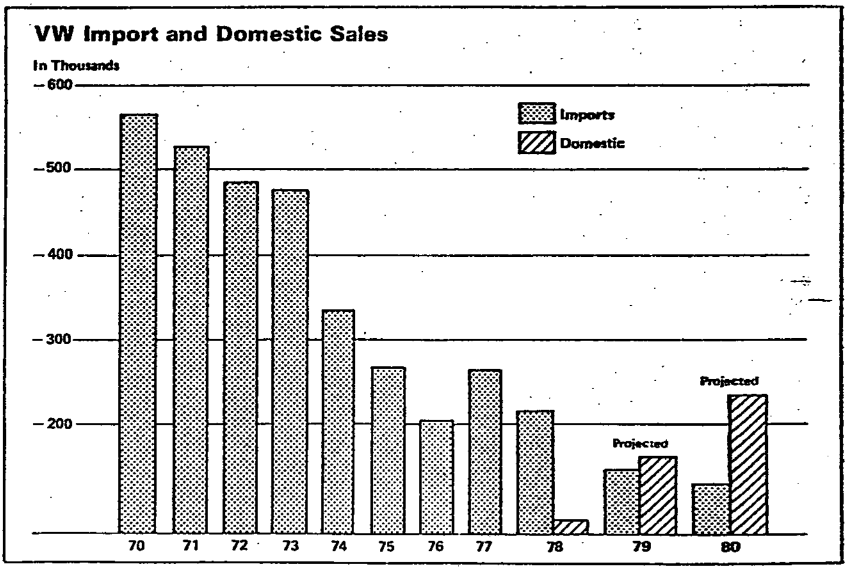

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January 1978 prices

VW Custom Rabbit	$4, 500
Chevrolet Nova	4, 035
AMC Pacer	3, 998
AMC Gremlin	3, 299
Chevrolet Chevette	2, 999
Ford Pinto	2, 995

Source: VWoA Marketing.

The price advantage of our competition continues today.

February 1980 prices

VW Custom Rabbit	$5, 475
Plymouth Horizon	5, 130
Corolla Liftback	5, 048
Ford Pinto Runabout	4, 483
Chevette 2-Door	4, 438
Mazda GLC Custom	4, 095
Honda Civic	4, 049

Source: VWoA Marketing.

In the early 1970's, it became clear to corporate management that VW must either give up the U.S. market or produce cars here in order to remain price competitive. Among the factors that influenced our decision were favorable U.S. labor costs compared to those in Germany and high productivity of American auto workers.

By 1977, labor costs in Germany were higher than in the U.S.

1977 average hourly earnings

Federal Germany	$9. 15
United States	8. 90

Source: German Statistical Service.

According to the U.S. Department of Labor, the German auto worker earns more than his American colleague.

1979 auto industry hourly earnings

Federal Germany	$14. 05
United States	13. 72

Source: Bureau of Labor Statistics.

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The plant was completed in 1978 and now employs over 5,000 American workers. We are pleased with the caliber of our employees, especially so since they produce cars of comparable quality to those built in Germany.

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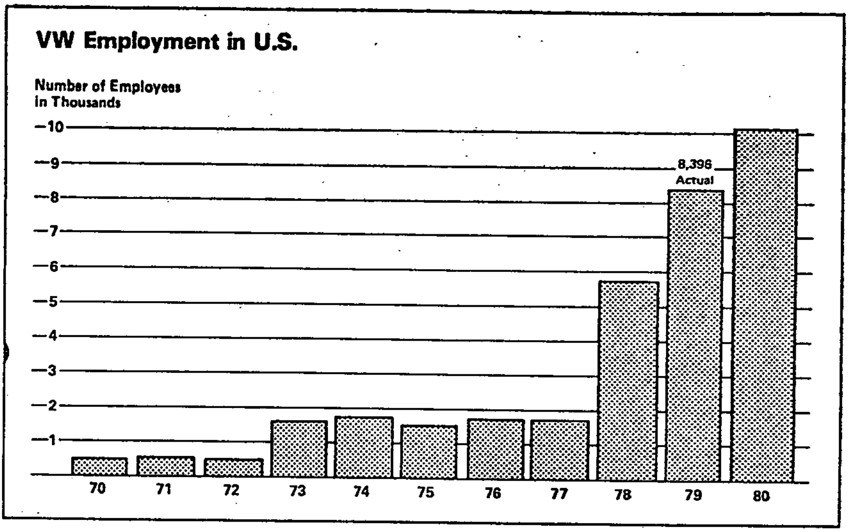
This month we opened a new plant in Forth Worth, Texas which manufactures automobile air conditioners, heaters and other parts. Our Texas plant employs about 750 persons and is among the top 20 manufacturing firms in the country in which it is located.

Today, our direct U.S. employment totals over 10,000 persons.



An additional 50,000 employees work in VW sales and service.

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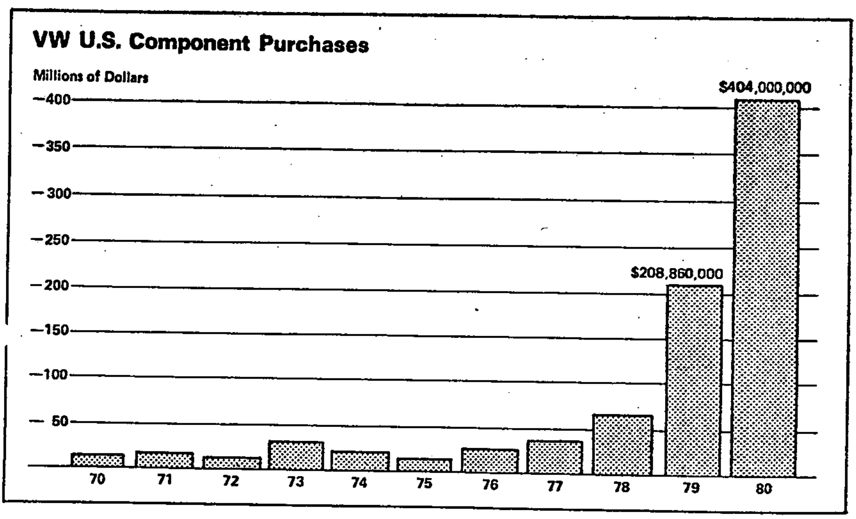
Supplier purchases which today total over $400 million will double when the Michigan plant becomes operational in 1982. This will benefit many other states where our suppliers are located.



Legislation (H.R. 6464, S. 2235) is pending before the Congress to transfer the Sterling Heights, Michigan property to the State in exchange for two new office buildings. We are optimistic that Congress will act on this legislation promptly, hopefully by May 1, so that we can convert the facility to an auto plant producing cars and light trucks for the 1983 model years. Timing is critical if we are to sustain our percentage of the domestic industry.

In addition to our domestically produced vehicles, we import a total of about 100,000 VW, Porsche and Audi vehicles. These imports are vital to VW since our dealers need a full model line to be competitive and the volume of these imports are not sufficiently high to justify U.S. production.

For 1979, total sales for the VWoA group in the U.S. were 348,546 vehicles. This represents about 3.2 percent of the U.S. market. Just by way of comparison, GM captured 59.07 percent, Ford 25.64 percent and Chrysler 11.33 percent. So while we believe we are an able competitor in this market, clearly we are small by comparison to the Big Three.

For the most part, we have found the U.S. to be a very favorable environment to build cars. As I have mentioned, we are pleased with our labor force and the ability of U.S. suppliers to meet our exacting specifications. We would like to buy more in the U.S. but existing law (15 U.S.C. 2003) penalizes VW, insofar as calculating fuel economy is concerned, if our U.S.-built cars contain more than 75 percent domestic content. Presently, we are about 60 percent domestic content.

The Department of Transportation in its 1979 Annual Report to the Congress summarized our dilemma:

"Congressional intent of this provision was to discourage domestic manufacturers from importing large numbers of fuel efficient vehicles to the detriment of employment in the U.S. automobile manufacturing industry. However, the provision has unexpectedly created a situation which discriminates against foreign manufacturers who are establishing, or who want to establish, automobile production facilities in the U.S. (thus creating domestic employment opportunities). Thus, while the provision originally was aimed at preventing job exportation, it may reduce the potential for employment growth in the U.S. automobile manufacturing industry by acting as a disincentive for foreign corporations to produce automobiles in this country."

Legislation (S. 2010) to encourage auto manufacturers, which establish operations in the U.S., to buy as much here as possible was favorably reported by the Senate Commerce Committee earlier this month. We are hopeful that this bill will be enacted so that we can exceed the 75 percent content level. Enactment of this bill would encourage companies, like VW, who decide to build cars in the U.S., to make maximum use of American labor and suppliers.

As the newest member of America's domestic auto industry, we are optimistic about our future here. We think our fuel efficient vehicles can compete for a modest share of the market, even though competition from the Big Three in the compact car sector will be fierce in the 1980s.

I hope this brief explanation gives you a better understanding of Volkswagen of America. Thank you for the opportunity to appear before you. If there are any questions, I shall do my best to answer them.

Senator BENTSEN. You are a worldwide company?

Mr. HUTCHINSON. Yes, sir.

Senator BENTSEN. With worldwide exports?

Mr. HUTCHINSON. Yes.

Senator BENTSEN. How successful have you been in penetrating other markets as compared to the U.S. market?

Mr. HUTCHINSON. It's a kind of curious success. We are the largest importer in Japan. We sell approximately 17,000 cars in Japan, and I think that comes down to something on the order of six-tenths of 1 percent of the market. And yet, we are the largest importers. So "success" has a kind of curious connotation.

Senator BENTSEN. I understand that.

Now, second, I hear so many things said about the Japanese worker—with the white gloves, putting together the Toyota—how about the quality of the American worker as compared with the German worker?

Mr. HUTCHINSON. We have the same quality control system at our Westmoreland plant as we have at our plants all over the world. And we are very pleased with the American worker.

As Mr. Fraser pointed out, you have to have a good product; you have to have good workers; and you have to check them very carefully. But we are finding that our cars are of comparable quality to those that are built in Germany.

Senator BENTSEN. Thank you.

Congressman Brown.

Representative BROWN. Thank you, Mr. Chairman.

I always hesitate in this atmosphere to ask a parochial question, but I am obliged to do that. First, is the Michigan location for your second plant settled, or is it not?

Mr. HUTCHINSON. It is settled, sir. The property in Michigan is presently owned by the Federal Government and legislation has been introduced in both the House and Senate to buy that property. Assuming that legislation is enacted, we intend to go to Michigan.

Anticipating your next question, if the legislation is not enacted, the corporate management has decided to look elsewhere, and the elsewhere would be in the Western United States, in Canada, or in Mexico. We would not go to the Brook Park facility for a various number of reasons.

Representative BROWN. That is two answers to one question, and I appreciate it, even though I didn't like the answer. [Laughter.]

What inhibitions has Volkswagen experienced in its effort to sell in Japan that are greater—or are they greater?—than they are in your efforts to sell VWs in other countries of the world?

Mr. HUTCHINSON. Well, I think that our cars in Japan—first of all, they are more in keeping with the Japanese type of car. They are small and very fuel efficient and good quality. Our main problem is price. The price of a Rabbit in Japan, fully equipped, would be approaching $9,000. The same car here would sell for something on the order of $6,000.

Senator BENTSEN. Why is that?

Mr. HUTCHINSON. Part of the reason is transportation. Part of the reason is the strong currency Germany has in comparison to the yen.

Senator BENTSEN. Congresswoman Heckler.

Representative HECKLER. I should like to ask: You mentioned that Volkswagen of America produces over $400 million of supply components. I would like to know what percent of the total supply components in a U.S.-produced VW that represents?

Mr. HUTCHISON. At the present time we are over 60 percent and rising rapidly. In my prepared statement I have a chart that shows how our purchases have gone over a period of years. We purchased in the United States, even before we built here, glass and steering wheels and tires and all sorts of things.

As I mentioned, we have this 75 percent inhibition. If we go over 75 percent domestic content, we are penalized from a fuel economy standpoint.

So the law has this curious effect that was intended to prevent the domestic manufacturers from bringing in imports so the jobs wouldn't go overseas, and in our situation it inhibits us from buying more in the United States. We have explained our situation to the United States, to the Congress, and UAW and others, and we are optimistic that this law will be changed to enable companies like Volkswagen to buy as much here as possible.

Representative HECKLER. You have discussed in very gracious and laudatory terms the American worker's productivity, which I am very happy to hear and also support, but I wondered: What is the quality of the parts, for example.

Mr. HUTCHINSON. Well, we have had some problems with suppliers. Parts of this is due to the difference in measurement, you know, going from the metric system to the U.S. system. The American suppliers—we rejected lots of their earlier shipments and it caused us problems and it caused them problems. But we had to do this to get the quality up to a level that was acceptable for our vehicle, and we have found that the suppliers are coming around.

Representative HECKLER. Are the parts not equal to the quality of the workmanship? Is that it?

Mr. HUTCHINSON. I would say initially we had some problems with supplier parts, but after rejecting shipments the suppliers got the message and improved quality control in their own operations, so we find today the quality of the parts is getting better and better.

Senator BENTSEN. Thank you very much. We appreciate your testimony.

Mr. HUTCHINSON. Thank you, Mr. Chairman.

Senator BENTSEN. Our next witness will be Mr. William Triplett, representing American Honda Motor Co., Inc.

Mr. Triplett, please proceed.

STATEMENT OF WILLIAM C. TRIPLETT II, WASHINGTON REPRESENTATIVE, AMERICAN HONDA MOTOR CO., INC., WASHINGTON, D.C.

Mr. TRIPLETT. Thank you. I am William Triplett, Washington representative of the American Honda Motor Co.

Senator BENTSEN. Mr. Triplett, we have an interested and large audience behind you. If you will speak into that mike and raise your voice a bit, they will be able to hear better.

Mr. TRIPLETT. All right.

I am William C. Triplett, Washington representative of American Honda Motor Co., Inc.

Mr. Chairman, American Honda is pleased to have the opportunity to discuss our new U.S. investment.

On January 11, 1980, the president of Honda Motor Co., Ltd., Mr. K. Kawashima, informed the press that Honda plans to manufacture automobiles in Marysville, Ohio, in a new facility adjacent to the existing motorcycle plant. It is expected that this facility will require approximately 200 million U.S. dollars in new investment. The production rate would be 10,000 automobiles per month—120,000 per year—and it would employ about 2,000 American workers.

Groundbreaking is expected before the end of this year. We plan to start production 2 years later with 1983 models. The model or models to be produced in Marysville has not yet been decided.

To put this in some prespective, I would like to note that Honda, Ltd.'s investment outside of Japan is about U.S. $180 million so that the Marysville plant will be more than all of its other investments outside of Japan combined. The impact of Honda's U.S. $200 million investment is better understood when Honda's size is compared to the rest of the world's automobile companies outside the United States. Honda ranks 16th among foreign automobile companies and 77th among all industrial corporations outside the United States according to Fortune Magazine.

Honda is very excited about the Marysville automobile facility. There are project groups established throughout Honda making the usual preparations for a project such as this. Since the Marysville plant will not be a knockdown operation but an integrated manufacturing unit, including a stamping facility, welding operation, and a paint shop there is a substantial need for planning. Some groups are working on procurement of machine tools and other capital equipment for the facility, while others are exploring future relationships with U.S. parts suppliers. The Washington office of American Honda is beginning to assist the project groups in the areas of stationary source pollution control, energy sources, and the like. In short, there is a tremendous amount activity going on directly related to the Marysville project and it can be assumed such activity will continue to grow.

These questions have come up in the press recently: Why Honda and why now? It really should not be much of a surprise. As early as October 11, 1977, or 2½ years ago, a Honda executive announced:

> If the motorcycle assembly operation meets our expectation with respect to such factors as the product quality and costs, as well as our relations with labor, local community, and governments, and demand and other economic conditions so warrant, it is our present intention to start manufacturing automobiles by expanding the plant site. For that purpose, I reached understanding with Ohio officials this morning, under which we plan to acquire an option to purchase up to 260 acres of land from the Transportation Research Center adjoining the motorcycle plant site.

The first motorcycle began to come off the assembly line in September 1979. Feasibility studies for the auto plant were already under way. By late December the decision to go ahead was made.

We have been asked why Marysville, Ohio, was chosen for the automobile plant. Honda was interested in a midwestern location near to U.S. parts suppliers, with an efficient transportation network and a good labor pool. The motorcycle facility was our first experience in U.S. production and it has been very successful. Product quality is at least as high as in Japan. Reception to the plant by the local communities has been very favorable.

Mr. Chairman, American Honda is very pleased that Honda, Ltd., has decided to make this commitment to the United States. If the car plant is successful, Honda hopes to be able to make additional investment and expand its production capacity here. We feel that there is a place for Honda in the United States to produce highly economical transportation for the 1980's with the cooperation of American workers and suppliers. We are all looking forward to this with great enthusiasm.

Thank you.

Senator BENTSEN. Thank you, Mr. Triplett.

[The prepared statement of Mr. Triplett, together with an attachment, follows:]

PREPARED STATEMENT OF WILLIAM C. TRIPLETT II

I am William C. Triplett, II, Washington representative of American Honda Motor Co., Inc.[1] Mr. Chairman, American Honda is pleased to have the opportunity to discuss our new U.S. investment.

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[1] American Honda Motor Co., Inc. (American Honda) is a wholly-owned subsidiary of Honda Motor Co., Ltd., Tokyo, Japan (Honda, Ltd.). An outline of Honda is attached.

On January 11, 1980, the President of Honda Motor Co., Ltd. Mr. K. Kawashima informed the press that Honda plans to manufacture automobiles in Marysville, Ohio, in a new facility advacent to the existing motorcycle plant. It is expected that this facility will require approximately U.S. $200 million in new investment. The production rate would be 10,000 automobiles per month (120,000 per year) and it would employ about 2,000 American workers.

Groundbreaking is expected before the end of this year. We plan to start production two years later with 1983 models. The model or models to be produced in Marysville has not yet been decided.

To put this in some perspective, I would like to note that Honda, Ltd.'s investment outside of Japan is about U.S. $180 million so that the Marysville plant will be more than all of its other investments outside of Japan combined. The impact of Honda's U.S. $200 million investment is better understood when Honda's size is compared to the rest of the world's automobile companies outside the United States. Honda ranks 16th among foreign automobile companies and 77th among all industrial corporations outside the United States according to Fortune Magazine.[2]

Honda is very excited about the Marysville automobile facility. There are project groups established throughout Honda making the usual preparations for a project such as this. Since the Marysville plant will not be a knock-down operation but an integrated manufacturing unit including a stamping facility, welding operation and a paint shop, there is a substantial need for planning. Some groups are working on procurement of machine tools and other capital equipment for the facility, while others are exploring future relationships with U.S. parts suppliers. The Washington Office of American Honda is beginning to assist the project groups in the areas of stationary source pollution control, energy sources, and the like. In short, there is a tremendous amount of activity going on directly related to the Marysville project and it can be assumed such activity will continue to grow.

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"If the motorcycle assembly operation meets our expectation with respect to such factors as the product quality and costs, as well as our relations with labor, local community and governments, and demand and other economic conditions so warrant, it is our present intention to start manufacturing automobiles by expanding the plant site. For that purpose, I reached understanding with Ohio officials this morning, under which we plan to acquire an option to purchase up to 260 acres of land from the Transportation Research Center adjoining the motorcycle plant site".

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We have been asked why Marysville, Ohio was chosen for the automobile plant. Honda was interested in a Midwestern location near to U.S. parts suppliers, with an efficient transportation network and a good labor pool. The motorcycle facility was our first experience in U.S. production and it has been very successful. Product quality is at least as high as in Japan. Reception to the plant by the local communities has been very favorable.

Mr. Chairman, American Honda is very pleased that Honda Ltd. has decided to make this commitment to the United States. If the car plant is successful, Honda hopes to be able to make additional investment and expand its production capacity here. We feel that there is a place for Honda in the United States to produce highly economical transportation for the 1980's with the cooperation of American workers and suppliers. We are all looking forward to this with great enthusiasm.

Attachment.

Honda Outline

Honda Motor Co., Ltd. of Tokyo, Japan (Honda, Ltd.) is an independent motor vehicle company founded in 1948 by Mr. S. Honda. The current President is Mr. Kawashima.

Honda, Ltd. is the world's largest motorcycle producer. Consolidated sales volume of all Honda products worldwide was about U.S. $5.2 billion in the fiscal year ending February 28, 1979.[3] Honda ranks fifth in car and truck production in Japan. About two thirds of its total product line (automobiles, motorcycles and

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[2] Fortune Magazine, Aug. 13, 1979, p. 194 et seq.

[3] Based upon exchange rate of ¥200=U.S. $1.

power products) is exported worldwide. This is the highest ratio among the Japanese motor vehicle manufacturers.

Honda, Ltd. stock is listed on the New York Stock Exchange. Consolidated net income for the nine months ending November 30, 1979 was about U.S. $74.6 million.[4]

Four auto lines, the Civic series, the Accord series, the Quint and the Prelude are produced in two factories in Japan. The Civic comes in 2-door hatchback and 4-door hatchback (not available in the U.S.) models and a station wagon. A new version of this car was introduced in the United States in October, 1979, as a 1980 model. The Accord, first produced in 1976, comes in 2-door hatchback and 4-door sedan versions. Introduced in the United States in March, 1979, the Prelude is a sporty car. The Quint is a 4-door hatchback model which was just introduced in Japan. No immediate U.S. introduction is planned. All Honda automobiles feature 4-cylinder, transverse engines and front-wheel drive. A small truck is also produced but is not exported to the United States.

Honda, Ltd. is well known in Japan and abroad for having invented the CVCC advanced stratified charge engine.

American Honda Motor Co., Inc. (American Honda) with headquarters in Gardena, California, is a wholly-owned subsidiary of Honda, Ltd. President and General Manager of American Honda is Mr. K. Yoshizawa who is also a Senior Managing Director of Honda, Ltd.

American Honda is the sole distributor of Honda products in the United States. In calendar year 1979, Honda dealers sold 353,291 automobiles at retail compared with 274,876 the previous year. Of the 353,291 cars, 155,541 were Civics, 157,919 were Accords and 39,831 were Preludes. Consumer acceptance has been excellent and many dealers have waiting lists especially for the new Civic and the 4-door Accord. In February 1980 Honda held 3.8 percent of the American new car market.

According to the most recent Department of Transportation figures, the Corporate Average Fuel Economy (CAFE) of all 1978 Honda models was 33.7 MPG. We anticipate high levels of fuel economy will be maintained in later years as technological advancements are made on all our vehicles. It can be expected that any Honda automobile produced in the United States would have a relatively high fuel economy compared to the current U.S. fuel economy standard (20 MPG).

In addition to importing and distributing Honda products, American Honda has a subsidiary, Honda International Trading, which exports American products (OEM parts, grain, livestock, machine tools, aluminum, etc.) to Japan. Sales in 1979 were approximately U.S. $150 million.

Honda of America Manufacturing, Inc. is a joint venture between Honda, Ltd. and American Honda. Its headquarters, near Marysville, Ohio, is about 35 miles northwest of Columbus, Ohio. The Company broke ground for a U.S. $30 million motorcycle factory in April, 1978 and initial production began in September, 1979. Production employees number around 120 as the plant is not yet in full production. It is anticipated that full production would call for perhaps 300 additional employees. Two models are being produced and 25 percent of production will be exported from the United States.

Senator BENTSEN. Mr. Triplett, in the prepared statements of some of the other companies, they raise the problem of raising many millions of dollars to establish a plant here. You have told us the respective size of Honda which is not one of the giants of the industry. How does Honda raise the capital?

Mr. TRIPLETT. Honda will probably look into a broad range of investment opportunities to raise money in the world market situation. Honda is registered on the U.S. Stock Exchange, and there may be activity there. It has not yet been determined.

Senator BENTSEN. Do you think Honda, with production of 120,000 units a year, will achieve the economies of scale you need?

Mr. TRIPLETT. I think there is a kind of myth that 200,000 units a year can be the only economical way to build a plant in the United States. I think we want to point out the Honda-British/Leyland

[4] Based upon exchange rate of ¥249=U.S. $1.

agreement calls for the same amount of vehicles to be produced there as in Ohio. So Honda has great confidence in the 120,000 figure.

But as I mention in the final point, there is interest in additional investment in the United States and expansion of production capacity.

Now, I would say that based on the way normally corporate planning goes, no one is going to be serious about expansion for a couple of years anyway. It is a kind of indefinite thing. But we have a lot of confidence in 120,000.

Senator BENTSEN. Thank you very much.

Congressman Brown.

Representative BROWN. Mr. Triplett, your competitors have stated they'd like to invest in the United States—or at least that's the assumption on which some of the testimony has been predicated today—because in the mid-1980's U.S. manufacturers will have converted their plants to fuel-efficient models, and they feel they will be unable to compete with Detroit.

Why is Honda so confident it can compete, particularly in view of the fact they are the third largest of the Japanese auto manufacturers?

Mr. TRIPLETT. Fifth in Japan.

Representative BROWN. Fifth?

Mr. TRIPLETT. Fifth in Japan. Honda as a company has a great deal of competency—they can produce a machine which can be competitive. Also, it should be pointed out that Honda has been making your state of the art, front-wheel drive, transverse engine car for almost 10 years. So they have a lot of confidence.

Representative BROWN. Am I right in my assumption that Honda is not in quite the same relationship to the Japanese Government, Japanese financial institutions, and others as some of the larger manufacturers are in Japan, that it qualifies perhaps as a more independent company in the Japanese situation, independent of what has been referred to from time to time as corporate Japan.

Mr. TRIPLETT. Yes, sir.

Representative BROWN. Do you want to explain the relationship?

Mr. TRIPLETT. Honda is a postwar company. It was founded by Mr. Honda. It has no real roots prior to World War II. It does not have the kind of relationships with other economic organizations that are common to our competitors.

For example, Toyokoyo is now talking about having relationships with Ford and it has had a relationship with Simitoyo Bank. We simply don't have that kind of relationship. We have good relations with our banks, but we don't have the interconnection that some of our competitors do have.

Representative BROWN. Mr. Chairman, for the good of the record, I'm sure Mr. Triplett will want to modify his testimony to make reference to the congressional area where his plant is located. [Laughter.]

Mr. TRIPLETT. I am pleased to do so.

Senator BENTSEN. Congresswoman Heckler.

Representative HECKLER. What percentage of the auto parts will be produced in the United States?

Mr. TRIPLETT. Right now we are working on a target. We are not producing automobiles yet. There is some thought that the value added is going to be in the 30- to 40-percent range at some fairly early point.

I would say that clearly the Honda people throughout the United States are turning over rocks, literally, trying to find suppliers who'd be interested.

At the same time we are buying carpets, and I think air-conditioners and lights and gaskets and some other parts. But I have pink slips on my desk for people who are interested in parts, and I am trying to call them back as far as I can, although my role in that is about that much [indicating] and other people are doing it.

Representative HECKLER. What exactly did you say was the target percentage?

Mr. TRIPLETT. In the thirties and forties at some fairly prompt point in the future.

Representative HECKLER. And over what range of years, do you know?

Mr. TRIPLETT. I would not like to be kind of pinned down, but I would say probably in the first couple of years, I would guess. We hope it will go that way. But, of course, it all depends on individual contractors and contracts with individual suppliers and so on. But we are aggressive, and I would like to repeat this—aggressively looking for machine tools and parts. There's an enormous amount of enthusiasm for the Marysville project within our company. Everybody talks about it and everybody likes it and everybody wants to be part of the team.

Senator BENTSEN. Thank you very much.

Thank you for your testimony.

Our next witness is Mr. Norman D. Lean, representing Toyota Motor Sales, U.S.A.

Mr. Lean, there have been a number of references to your company. We'd be pleased to hear from you.

STATEMENT OF NORMAN D. LEAN, SENIOR VICE PRESIDENT AND GENERAL OPERATIONS MANAGER, TOYOTA MOTOR SALES, U.S.A., INC., TORRANCE, CALIF., ACCOMPANIED BY BRUCE W. OWENS, CORPORATE COUNSEL, AND E. B. BROGAN, DIRECTOR OF PUBLIC AFFAIRS

Mr. LEAN. Thank you, Mr. Chairman.

Members of the committee, my name is Norman D. Lean. I am senior vice president and general operations manager of Toyota Motor Sales, U.S.A., Inc. With me today are our corporate counsel, Bruce W. Owens, and our director of public affairs, E. B. Brogan.

I very much appreciate this opportunity to comment to the committee and to present some of the information which I believe to be important to a full understanding of recent developments in the automotive marketplace.

In the process I hope to make clear the following five points:

First: The heavy layoffs in the U.S. auto industry are the result of the energy crisis which has led to a substantial reduction in the demand for large cars, trucks, and vans.

The second point: The solution to the layoffs lies in a rapid increase in the production of U.S. small economical cars and trucks, and that changeover is well underway.

The restriction of imports is not a solution to the fundamental problem.

The third point: Any restrictions of imports would violate the principles of free trade, reduce the benefits of competition, and would be damaging to the interests of American consumers, and contribute to further inflation.

The fourth point: The establishment of a Toyota assembly plant in the United States would have no effect on the present layoffs. The pending decision as to whether to build a production facility in the United States is a very serious and complex problem, which Toyota is considering.

I will try to shed some light on this in my later comments from my perspective as a marketing man in the United States.

The fifth and last point that I will make is that imported cars have been and continue to be beneficial to the U.S. consumer and to the U.S. economy in total.

Back to my first point.

The proposals for import restrictions from the UAW and some domestic manufacturers and Congressmen result from the fact that there are a large number of workers in the domestic industry who are laid off. No reasonable person could be unsympathetic with the plight of these workers. We all hope for early recalls which will put these men and women back to work. Nonetheless, it is necessary to find the true reason for these unfortunate layoffs.

As I indicated, the true cause of this is the slow sales of large cars and vans.

Consumer demand for good, small, fuel-efficient cars is very strong. Such cars manufactured by the domestic industry are selling extremely well. To illustrate the strength of their sales, in February the No. 1 selling nameplate in the United States was Chevette, with sales 35.9 percent above the same month last year. GM's X-body cars are also selling very well. In February, the X-bodies alone outsold Toyota's whole lineup of Corollas, Corolla Tercels, Coronas, Cressidas, Celicas, and Supras. Chrysler's Omni and Horizon also sell very well and could, we believe, be sold in still larger numbers if their imported engines and transaxles could be secured in greater quantity.

The United Automobile Workers and others have urged the U.S. Government to obtain commitments from Japanese auto companies to restrain their exports. As I told you, I am very opposed to any restriction, including the so-called voluntary restraints. This country needs more fuel-efficient cars, not fewer of them. Restricting imports will mean fewer such cars. It will mean higher prices. It will mean a loss of jobs for American businessmen and their employees in the import automotive industry. And there will be no significant benefits to anyone, with the possible exception of overseas oil producers.

Those who support restrictions indicate that their proposals would help the laid-off autoworkers. With the American small cars already in short supply, we cannot see how this could be so unless it is assumed incorrectly that American consumers would be forced to buy large cars.

With regard to the proposed content laws, their purpose is to force Japanese auto companies to set up plants in the United States under the assumption this would solve the layoff problems.

Considering the minimum of 2- to 3-year planning cycle to bring onstream a car or truck plant, it seems obvious the present laid-off workers would get very little relief from those kinds of plants.

Furthermore, to absorb the number of unemployed workers would take three dozen plants, not one or two.

The only solution to the employment problem lies in the production of fuel-efficient small cars and trucks by the domestic industry. We believe the industry's changeover is well underway and as a matter of fact we feel that the worst of the layoffs are behind us.

At this point I will try to explain for a moment I am an officer of Toyota Motor Sales in the United States and we are basically a marketing company. When Senator Bentsen sent his invitation to us, we indicated we probably couldn't bring a lot of light to plans for assembly in the United States because those plans are fundamentally made by Toyoto Motor Co., Ltd. in Japan, the manufacturing company from which we purchased our automobiles. I can tell you, however, that Toyota in Japan has the U.S. plant situation under a very serious and concentrated study by a knowledgeable and well-equipped project team.

This project team and this study of the U.S. plant question was announced for the first time by Toyota in the fall of 1979.

Toyota in the United States already has some manufacturing experience, however. Our Toyota Motor Manufacturing, U.S.A. truck bed plant in Long Beach, Calif., produces cargo bodies for our pickup trucks. We are the only seller of small imported pickup trucks, including Detroit's Big Three, that manufactures virtually all of its carbo beds in the United States.

This plant is now being expanded and when the expansion is complete our company will have invested another $20 million in the facility. That will be completed this fall.

We have many more investments in the United States that contribute to this economy. Our investment experience so far in the United States is in excess of $1 billion which includes our investments and those of our dealers. The dealer investments alone are approximately $800 million of this $1 billion figure. And our annual expenditures in marketing automobiles in the United States between our dealers and ousrelves is at the approximate $1 billion level annually. So it is an economic factor in the U.S. marketplace.

As I mentioned in my opening points, I'd like to call your attention to some important benefits which imported vehicles bring to this country.

Fundamentally the availability of imported vehicles is an important tool in combating inflation, especially in times of demand for good small cars. The availability of moderate-priced import cars to the American consumer prevents larger price increases which would occur if an inadequate supply of imported cars were in this marketplace.

Senator BENTSEN. Thank you, Mr. Lean, your time has expired. We will include your prepared statement in the hearing record.

[The prepared statement of Mr. Lean, together with an appendix, follows:]

PREPARED STATEMENT OF NORMAN D. LEAN

Mr. Chairman, members of the Committee, my name is Norman D. Lean, and I am Senior Vice President and General Operations Manager of Toyota Motor Sales, U.S.A., Inc. With me today are our Corporate Counsel, Bruce W. Owens, and our Director of Public Affairs, E. B. Brogan. I very much appreciate this opportunity to comment to the Committee and to present some of the information which I believe to be important to a full understanding of recent developments in the automotive marketplace.

In that process, I hope to make clear the following four points:

First, the regrettable heavy layoffs in the U.S. auto industry are not a result of the recent surge in the sales of small cars including imports. Both the layoffs and that sales surge are temporary, and one is not the cause of the other. Both are effects, not causes. Both are results of the fuel crisis and the dramatic increase in the price of gasoline.

Second, the restriction of imports will not provide a solution to the layoffs. The solution lies in a rapid increase in the U.S. production of small, fuel-efficient cars, and that changeover is under way.

Third, we are opposed to restrictions on imports, regardless of what specific form they might take, because we believe they would be against free trade and the principles of competition and further be damaging to the interests of American consumers, American businessmen and their employees, and would contribute to further inflation.

Fourth, establishment of a Toyota plant in the U.S. would have little effect on the present problems of layoffs. Toyota's pending decision as to whether to build production facilities in North America is a serious one, much more complex than it might seem at first glance. I will try to shed what light I can on that issue, from my perspective as a marketing man in the U.S.

THE CAUSE OF THE CURRENT UNEMPLOYMENT PROBLEM IS NOT IMPORTS

The proposals for import restrictions from the UAW and some domestic manufacturers and Congressmen result from the fact that there are a large number of workers in the domestic industry who are laid off. No reasonable person could be unsympathetic with the plight of these workers. We all hope for early recalls which will put these men and women back to work. Nonetheless, it is necessary to find the true reason for these unfortunate layoffs.

You have heard it said that imports caused those layoffs. The true cause, we strongly suggest to you, is the slow sales of large, fuel-inefficient cars, trucks and vans.

SALES OF U.S. BUILT SMALL CARS ARE VERY STRONG

Consumer demand for good, small, fuel-efficient cars is very strong. Such cars manufactured by the domestic industry are selling extremely well. To illustrate the strength of their sales, in February the number-one selling nameplate in the U.S. was Chevette, with sales 35.9 percent above the same month last year. GM's X-body cars are also selling very well. In February, the X-bodies alone outsold Toyota's whole line-up of Corollas, Corolla Tercels, Coronas, Cressidas, Celicas and Supras. Chrysler's Omni and Horizon also sell very well and could, we believe, be sold in still larger numbers if their imported engines and transaxles could be secured in greater quantity.

IMPORTS SHARE OF SMALL CAR MARKET IS DOWN FROM 1977

Import cars increased their share of the total U.S. market in 1979 by 4.1 percentage points over 1978. Domestic small cars, however, increased their share by 5.2 percentage points, growing from 28.5 percent to 33.7 percent of the U.S. market. Also, contrary to some popular impressions, the imports' share of the U.S. small car market in 1979 was actually down very slightly from 1977 (39.3 percent in 1977 vs. 38.6 percent in 1979).

RESTRICTIONS ON IMPORTS WOULD MEAN FEWER FUEL-EFFICIENT CARS, HIGHER PRICES

The United Automobile Workers and others have urged the U.S. government to obtain commitments from Japanese auto companies to restrain their exports while American auto companies make the transition to production of more fuel-efficient cars over the next few years.

In brief, we are opposed to any restrictions on the importation of our cars and trucks, including so-called "voluntary" restraints. This country needs more fuel-efficient cars, not fewer of them. Restricting imports will mean fewer such cars, higher prices, loss of jobs for American businessmen and their employees, and no significant benefits to anyone other than overseas oil producers.

Furthermore, we believe there would be serious legal dangers if the Japanese producers were to voluntarily make any agreement restricting exports to the U.S. Our understanding is that such a course would be in violation of the laws both of the United States and of Japan. Further, to illustrate the reality of such dangers, it was reported last week that American Honda Motor Co. is facing legal action from some of their U.S. dealers alleging that too few cars were imported to fulfill contractual agreements.

THERE ARE LIMITS TO TOYOTA'S SUPPLY CAPACITY

With regard to the volume of our vehicles imported into this country, however, I need to point out that there are genuine limits to Toyota's production and shipping capacity. Right at present, there is the unusual short-term situation of exceptionally strong demand for Toyota products. We need to apologize to the American consumers and our dealer organization for not having enough cars and trucks to meet market needs. Our inventory of vehicles in the U.S. has fallen to about 20 days' supply—less than one-third of normal. We are receiving many complaints from consumers who have placed orders and must wait because their dealer is unable to make delivery within a normal time. When, as at present, market cycles in Japan and abroad move in a favorable way at the same time, Toyota in Japan cannot fulfill the worldwide demand entirely.

RESTRICTIONS ON IMPORTS WOULD NOT INCREASE THE SALE OF BIG CARS

Those who support restrictions indicate that their proposals would help the laid-off auto workers. We cannot see how this could be so when U.S. small cars are already in such short supply, unless it is assumed that American consumer will thereby be forced to purchase cars that they clearly don't want to buy. Our judgment is that the number of buyers who would respond to a restriction on imports by buying a big car, pickup or van is not large enough to provide any substantial reemployment of the laid-off workers. According to a consumer survey by J. D. Power & Associates, an independent auto market research firm, "* * * for the first time in history a broad cross-section of American car owners are determined to purchase a car that is smaller than the one they are now driving." (Automotive News, January 21, 1980).

The UAW and others have proposed legislation requiring local content for all foreign companies with a "substantial" volume of auto sales in the United States.

RESTRICTIONS ARE CONTRARY TO SPIRIT OF MTN AND A VIOLATION OF GATT

Restrictions on the importation of cars and trucks would be a clear violation of the spirit of free and fair trade which motivated the Multilateral Trade Negotiations (MTN). For years the representatives of many nations, including the U.S. and Japan, have worked very hard to agree upon a mutually acceptable basis of trade, hopefully for the balance of this century. For the United States to impose quotas on imported cars would be a violation of the General Agreement on Tariffs and Trade (GATT). If Congress were to authorize such quotas, other nations could be freed from their obligations under GATT and the end result might very well be some form of retaliation and a dangerous disruption of international trade.

IT WOULD TAKE THREE DOZEN PLANTS LIKE VW'S TO ABSORB CURRENT LAYOFFS

The principal aim of the proposed local content laws, as I understand it, is to force Japanese auto companies to set up manufacturing plants in the United States. Supporters of import restrictions contend that major investments in the U.S. by Japanese auto companies are necessary to help solve the current layoff problem. We have tried to comprehend the logic behind such a position and, frankly, we are unable to do so. Considering the three to four years required to bring on stream a new car or truck plant, it seems obvious to us that those workers presently laid off cannot take much hope from so distant a prospect.

Furthermore, the scale of employment at Volkswagen's U.S. plant, for example is totally dwarfed by the present level of layoffs. In round terms, about three dozen plants like VW's in Pennsylvania would be required to employ those auto workers now on indefinite layoff. It is easy to understand, therefore, why Toyota in Japan must question the sincerity with which such plant investments are urged so strongly.

It should also be clear, we think, that if Toyota were to invest in a production facility in this country, that would not contribute in any significant way to solving the unemployment problems now or those that may arise in the future.

PRESENT UNEMPLOYMENT IS TEMPORARY

The only solution to those problems lies in the speediest possible increase in the production of good, fuel-efficient small cars by the U.S. manufacturers. While the production of cars like the Chevette, the X-bodies, and the Omni/Horizon cannot be stepped up instantaneously, the domestic industry has committed vast resources to do so quickly and to bring out a range of totally new small cars. Production of some of these state-of-the-art new models will begin this summer, we understand from the trade sources.

We believe that the domestic industry's changeover is well started and will accelerate now month by month. Recalls of the workers now on layoff will result As a matter of fact, the worst of the auto company lay-offs may well be behind them now. The last two weekly Ward's Reports have shown a decline in the number of workers on indefinite layoff.

PROPOSED RESTRICTIONS ARE DISCRIMINATORY

Local content requirements clearly violate Paragraph 5 of Article III of the GATT Agreement. In addition, we cannot help being struck by discriminatory aspects of some of the proposals that have been made to apply restrictive provisions only to imports with an annual volume of 200,000 or more. Examination of the 1979 U.S. sales volumes of all imported vehicles reveals that such a limit would very conveniently have no impact on the captive imports. "Captive imports" are those vehicles imported into the U.S. by the domestic manufacturers. (Example: The Ford Courier pickup truck is built in Japan by Toyo Kogyo (Mazda), imported by Ford and sold here through Ford dealerships as a Ford.) Consider the following interesting facts:

Fact 1: The highest percent of increase in 1979 over 1978 for Japan's five largest producers was by Mitsubishi whose cars and trucks are sold by Chrysler Corporation. It is also worth noting, we think, that importation of these Mitsubishi products increased 126.8 percent this January compared to the same month a year ago. This increase was almost simultaneous with Chrysler's chairman calling for restrictions on imports.

Fact 2: Ford increased its shipments of German-made Fiestas by 60 percent in January.

Fact 3: Of the volume sellers of import trucks from Japan, the one with the highest percent of increase in 1979 over 1978 was GM. The LUV pickup truck, sold by Chevrolet but manufactured in Japan by Isuzu, had a sales increase of 49.5 percent and very nearly surpassed Datsun in sales volume.

If in the final analysis the government of the United States decides that the domestic auto industry must be protected to a greater degree than at present and that the American consumers are going to be required, at least temporarily, to forego the purchase of as many fuel-efficient small cars as they would like, then it would seem to us that some equitable approach should be found. The 200,000 unit limit seems to be a very conspicuous discrimination against one nation and essentially against just two product brands including Toyota.

INVESTMENT IN A U.S. PLANT IS UNDER SERIOUS EXAMINATION

At this point, let me explain that I am an officer of Toyota Motor Sales, U.S.A. Inc., which is basically a marketing company. When the Chairman's invitation was received, we immediately advised the Committee that I could not provide substantial testimony on at least one of the subjects of major interest to this hearing, namely, Toyota's views on investment in a manufacturing plant in the United States. Production decisions are made by Toyota Motor Company, Ltd., the manufacturing company in Japan from which we obtain our vehicles. I can tell you, however, that the manufacturing company and its companion marketing Corporation, Toyota Motor Sales Company, Ltd., have the question of a U.S. plant under very serious and concentrated investigation by a knowledgeable and well-equipped project team. A final decision will involve wide-ranging considerations, such as future market estimates, probable developments in automotive technology and trends in production and supply systems. Building an overseas plant requires a huge investment and it is an extremely important decision in the company's overall financial management.

TOYOTA HAS MANUFACTURING PLANT IN LONG BEACH, CALIF.

Toyota is not without some manufacturing experience in the United States. Our Toyota Motor Manufacturing, U.S.A., truck bed plant in Long Beach, California, produces cargo bodies for our pickup trucks. We are the only seller of small imported trucks—including Detroit's Big Three—that manufactures virtually all of its cargo beds in the United States. TMM is a wholly owned subsidiary of Toyota Motor Sales, U.S.A. The plant is now being expanded and when the expansion is complete, our company will have invested another 20 million dollars in the facility. We have operated the plant since 1974. It has 450 employees, including about 400 unionized production workers, and it produces more than 100,000 truck beds annually.

JAPAN HAS ZERO TARIFF ON IMPORTED CARS

It is often stated in public and quoted in the news media that Japan's manufacturers are permitted to export without hindrance to the U.S. whereas, it is said, their laws effectively restrict import of American autos to Japan to about two percent of their market.

First of all, it should be pointed out that Japan, next to Canada, is our country's largest trading partner. Next we would like to register the following information:

There is zero tariff on U.S. cars entering Japan. That country is the only one in the world with no tariff on cars. The tariff on cars imported into the U.S. is 2.9 percent.

When in 1978 emission standards in Japan became more stringent than the U.S. standards, Japan granted to importers a three-year exemption from the higher standards.

There is a commodity tax on automobiles in Japan. The tax varies with engine and vehicle size, but it is non-discriminatory. It is applied to all cars—domestic and imported.

It is probably no more burdensome to obtain approvals for a car imported into Japan than it is for cars shipped into the U.S. or Europe.

The Japanese government has made a considerable effort to eliminate impediments to automotive trade and now, we believe, no more barriers exist in Japan than in the U.S. and other industrialized nations.

TREND TOWARD BUYING FUEL-EFFICIENT CARS IS PERMANENT

Regardless of what action the Congress or the Administration may take regarding the proposed restrictions on imported cars, the increase in demand for smaller, more fuel-efficient cars will not reverse itself. We interpret our recent consumer research as telling us that American car buyers have finally and, we think, permanently turned the corner in their taste in cars. They have turned away from formerly desirable types of cars which they increasingly perceive as gross in size and fuel consumption. It has, at long last, become the fashion to choose a small car. That is a fashion, incidentally, which some members of Congress and many others in government have urged the American public to adopt.

Affecting the consumer most urgently of all, though, has been the steadily rising price of gasoline. Second only to this have been the almost-daily forecasts of very large increases still to come. When a consumer hears from the news media that there is a debate as to whether the price at year's end will be $1.79 per gallon or $2, the effect on the market demand for fuel-efficient cars is quite predictable. Add to these inputs the recent discussions about imposing a tax of up to 50 cents per gallon and you have the circumstances for a renunciation of the big car habit and an overwhelming demand for good small cars. The market got far ahead of all of us. The domestic auto companies obviously did not foresee the tremendous burst in demand for fuel-efficient cars, nor did Toyota and the other imports.

Now, we believe, the domestics are right on stream. As mentioned, each of the Big Three has new, smaller models ready for introduction in the 1981 model year. We fully expect that, as new domestic small cars come into the marketplace in greater volume, the high rate of import-car sales will decline rather substantially.

IMPORT CARS BRING MODERATION OF INFLATION RATE

Especially during this period of strong demand for good small cars, one of the benefits brought by import cars is some moderation in the rate of inflation which is now receiving the highest priority consideration in government circles. When demand is high, the availability of moderate-priced import cars to the American consumer has prevented the larger price increases that would otherwise have occurred on an inadequate supply of American-built cars of the same type. The speed with which prices of domestic small cars have almost always been raised after price increases on imports is, we think, the most important demonstration that imports do temper the pricing of domestic small cars. You can well imagine the price effects if import cars were not available in the United States.

The conservation of fuel is a second important way in which import cars reduce inflationary pressure. According to a recent study of vehicles in the U.S., it was determined that the average import model got estimated EPA mileage of 31 mpg. The corresponding figure for the entire fleet of domestic cars in service in the U.S. was 14 mpg. Without question, the availability of import cars and trucks has lessened this country's requirements for imported oil. In testimony on Mar. 7 before the Trade Subcommittee of the House Ways and Means Committee, the president of the American imported automobile dealers association reported that if all the cars in the U.S. got as good gas mileage as imports, we would not have to import any oil.

Another major benefit brought to the American market by imports is a high level of product quality. At Toyota, for example, we have the lowest customer complaint rate in the entire industry. Another example is our reliability record. As published by Consumer Reports, the five-year "frequency-of-repair" ratings of our volume-selling Toyota Corolla and Corona models are second only to the Mercedes-Benz diesels.

TOYOTA'S EFFORTS IN THE U.S. MARKET SPAN 22 YEARS

We have invested more than 22 years of effort in the design and production of quality vehicles that would appeal to the American consumer and in the development of a dealership network—now composed of 1,066 American businessmen and women that can sell and service cars and trucks according to our high standards.

Toyota, our distributors and dealers employ more than 31,000 Americans and the total figure for all importers and their dealers is 140,000.

It was a long and difficult uphill climb to secure customer acceptance in this market. We had to overcome the big lead that other imports had established in this country. We and our dealers have made an enormous investment to provide American buyers with a wide selection of vehicles and a generous amount of automotive innovation. We have built a parts supply operation that is comparable to the best in the industry. We have developed quality standards that provide a benchmark for domestic manufactures to reach for. We now have an American owner body of more than 3.6 million men and women. We and our distributors and dealers have invested almost one billion dollars in land and facilities. Most of that investment—about 800 million dollars—has been made by our dealers—and these small businessmen have the largest amount at stake if imported cars are restricted. Last year we and our distributors and dealers paid nearly 200 million dollars in taxes and duties.

As practical marketing people, we have found a place in the American market by offering cars and trucks that fulfill the needs and desires of a substantial segment of the U.S. motoring public. But we have never taken unfair advantage of conditions in this country. We have helped provide what has been called "the discipline of foreign competition" that the U.S. market needs. That has been—and still is—healthy competition.

We hope the American government will never impose international trade restrictions which would deprive American consumers of the benefits of that competition: motor vehicles that set standards of quality—provide innovation—moderate inflation—and help this country save energy.

Thank you, Mr. Chairman, for giving me the opportunity to appear before this committee.

Appendix

The attached editorials, newspaper articles, and other material reflect what Toyota believes to be widely held views concerning the present situation in the auto industry.

[From the "Times Board of Economists" column of Los Angeles Times, Tuesday, Mar. 8, 1980]

Protectionism Is Bad for Everybody

(By Arthur B. Laffer [1])

Amid the crash and clatter of the presidential primaries, a quiet assault on America is proceeding unnoticed. The combatants are Americans and Japanese. Ironically, the assault on the American standard of living is being mounted by the Americans, while the Japanese defend us against our own worst inclinations.

President Carter's personally commissioned field commander is none other than Douglas Frazier of the United Auto Workers. His job? To restrict imports from Japan. The new twist? To convince the Japanese to voluntarily withhold their products from American consumers. If successful, Frazier will be able to return triumphantly from the Far East to throngs of resultantly poorer Americans.

"Protectionism," the use of government barriers to shield domestic workers and business from the competition of imported products, has long been a disease to which Americans are readily susceptible. One major bout lost to protectionist sentiments was perhaps the single most important cause of the Great Depression. In 1929, legislation referred to as the Smoot-Hawley Tariff, was proposed with the intent to raise taxes by enormous amounts on imported products. It was passed by both Houses of Congress and was signed into law by President Herbert Hoover. The effects on the stock market as this legislation wound its way through Congress and ultimately was signed by Hoover are documented in detail by Jude Wanniski in his book "The Way The World Works." The impoverishment of America ensued.

Later bouts with the protectionists also had significant, although less dramatic, consequences on the American economy. In the mid 1960's when the disease again became infectious, the initial manifestations were relatively harmless. Following on the heels of the enlightened Kennedy Round tariff reductions, mild attempts to restrict capital outflows were being proferred. These attempts soon spread into specific commodity import restrictions, "buy-American" programs and the like. This stage of protectionism culminated in the 1971 dollar devaluation, gold-export prohibitions and a temporary across-the-board tariff surcharge on imports. Investments in foreign-made machinery were also excluded from the highly advantageous investment tax credit, and anti-dumping and countervailing duty programs, each of which furthers protectionism, were enforced with renewed vigor.

While not exactly dormant, protectionist anti-foreign sentiments seemed to be arrested as the economy's attention focused on other issues. It is now surfacing again, however.

In fact, many of the problems encountered by the U.S. auto industry may well be attributable to U.S. restrictions on steel imports. The denial of access to low-cost and high-quality foreign steel has placed artificial impediments in the path of an already ailing domestic industry.

The so-called gains from trade are legendary in scholarly writings on the subject of international trade. Economists and historians for generations have pointed to the substantial losses incurred by countries when they attempt trade restrictions. The average American consumer, for example, spends a sizable portion of his income on foreign-made products. Even when products are manufactured in the United States, many of the ingredients going into them come from abroad. As a result, restrictions on the importation of foreign-made products raise the costs and lower the quality of the products available to the consuming public. This has one immediate effect. It makes Americans poorer.

Other less direct but equally powerful forces are also at work. As anomalous as it appears at first blush, import restrictions reduce exports as well as imports. Exports represent the means by which one country acquires the wherewithal to purchase goods from other countries. Thus, if other countries are restricted in their efforts to sell to us, they are less likely to buy from us, as well. Import restrictions therefore cost jobs in our nation's exporting industries. That is one reason why a majority of America's export industries oppose import restrictions.

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[1] Arthur B. Laffer is Charles B. Thornton professor of business economics at the University of Southern California.

Perhaps the strongest argument against the protectionism is that foreigners are much better at producing some products than we are. We in turn are much better at producing other goods. If restricted from trading, we then have to squander our resources producing items we produce less well, instead of buying them from abroad. We all become poorer and productivity declines.

Trade restrictions also grant immense market power to industries within the United States. Without the threat of external competition, protected industries soon find that they don't have to be on their toes to sell their products. Consumers have no choice. They must buy from the protected domestic industry or not buy at all. Monopoly power follows and ultimately results in wasteful production—and in firms that are insensitive to the needs of their customers. It is precisely these deleterious results of excessive market power to which our antitrust legislation is directed. Trade restrictions further enhance the concentration of power in industry—a result which we all abhor.

Studies show that those countries which have permitted the most rapid growth in imports are on average those countries which have enjoyed the most rapid growth in output. More rapid output growth is a prerequisite for more rapid growth in employment and a country's standard of living. The benefits from freer trade are more than just an academic issue. They really work.

One would hope that in this year of heightened political activity, the issue of trade restrictions versus freer trade would take center stage. The quality of life in America is at stake, as it is with so many other issues. In the meantime let's hope that the Japanese maintain their resolve in protecting us from ourselves.

[From the New York Times, Sunday, Feb. 17, 1980]

AMERICA CAN'T AFFORD FORD'S SOLUTION

Times are tough in the American auto industry—so tough that one manufacturer, Ford, has broken its longstanding commitment to open world trade and is calling for restrictions on imports. Consumers can expect a campaign, aggressively supported by the powerful United Auto Workers, to curb the booming sales of foreign automobiles in this country. We hope Congress and the White House have the political will to resist. We can sympathize with the plight of the industry and its workers. But the cost of import relief is unacceptably high.

Detroit's problems stem, of course, from the steep price and uncertain availability of gasoline. Buyers are snapping up smaller, fuel-efficient cars as fast as they can be produced. The domestic manufacturers have been caught with too many big cars. Imports captured 22 percent of the American market in 1979—up from 18 percent in 1978—and further inroads are expected this year. As a result, only General Motors among the Big Three is making money on domestic operations. And some 175,000 auto workers have been laid off.

Ford's proposed remedy is to cut 1980 imports to 1.5 million cars annually, about a million fewer than foreign companies would otherwise sell here. Import quotas would no doubt accelerate the plans Japanese manufacturers have made to build plants in the United States. But under the best of circumstances they would need years to gear up for American production. Meanwhile Chrysler, Ford and G.M. would be assured bigger slices of the sales pie.

The consequences of such formal quotas—or of informal agreements to limit imports, like those already won by the textile and shoe industries—would be unfortunate. Consumers aren't shopping for imports because they dislike buying American. Detroit can't make small cars fast enough, so imported cars are the only ones available to meet demand. If a million foreign autos were turned away at the dock this year, a million would-be buyers would be left unsatisfied—and probably burning more gas.

Another strike against Ford's import quota idea is that it would be inflationary. Buyers are already paying premium prices for fuel-efficient Rabbit diesels and Hondas. If there were many fewer small cars coming in from Japan and Europe, the bidding could well go higher. And the rebates now offered on larger American models would likely disappear, as consumers were forced to settle for what was available.

The American auto industry might have taken the oil crisis seriously enough in 1974 to gear up for small car production in 1980; it didn't. The American auto industry might have supported stiff gasoline taxes in 1976 or 1977 to ease the transition to fuel-efficient cars; it didn't. Now the auto workers and Ford want consumers to bear the burden for these errors of judgment; they shouldn't.

[From the Los Angeles Times, Feb. 14, 1980]

THE GREAT AUTO WAR

Japan sold a record 1.7 million cars in the United States in 1979, even as unemployment among American auto workers was accelerating, and the indications are that both trends are continuing this year. In January, Japanese-built autos took about 22 percent of the U.S. market, while layoffs in the auto industry reached 220,000. Douglas A. Fraser, the head of the United Auto Workers, is one of those who sees a direct link between the import and unemployment figures, an he is in Japan now asking for help in both areas.

Fraser wants the big Japanese auto makers to respond in the short term by limiting their exports to this country, and he is suggesting that in the absence of voluntary curbs the UAW might lead a drive for mandatory quotas on imports. For the longer term, he is urging the companies that make Toyotas and Datsuns, which last month alone had combined U.S. sales of more than 100,000, to build American production factories that would provide jobs for American workers.

Volkswagen, the big German car company, already has an assembly plant in the United States and Honda, the third largest of the Japanese auto makers, is planning to build one; the Toyota and Datsun people do say that they are considering doing the same, but that's as far as they go. It seems to us that it would be in their interest, as well as in the interest of U.S. workers and the U.S. economy, for them to go further. A firm market for their products exists, just as it does in the case of Japanese television sets assembled in the United States by American workers. Bringing the product closer to the market makes sense.

It would not make sense to try to slap limits on imported cars, for such protectionism would only invite retaliation against U.S. products, and in the end both countries and their workers would be the losers. So would American consumers lose by being restricted in their buying choices. Japanese cars sell well here not because they are cheaper than comparable American models—they aren't—but because they have a reputation for good fuel economy and sound quality. People buy them in large numbers because they are the kinds of cars that people want to have. It's that simple.

U.S. car sales are down and auto industry unenployment is up largely because American auto makers have been shockingly slow in adapting their products to changing public tastes and needs, including an insistence on better quality control. Blame greedy management decisions for that, and leave some blame for the casual sloppiness with which too many auto workers go about their jobs. But don't blame the Japanese or try to punish them with quotas just because they build cars that Americans like, and because they had the foresight to see what the market would be.

[From the San Francisco Chronicle, Feb. 2, 1980]

HE CAN'T HAVE IT BOTH WAYS

(By Milt Moskowitz)

In the last month of 1979, one out of every four new cars sold in the United States was foreign-made and, of the foreign makes sold here, more than 75 percent came from Japan. That's a painful development for Douglas A. Fraser, president of the United Auto Workers, who sees the jobs of his members being wiped out by the market successes of the foreign invaders.

So irritated is Fraser that he has joined forces with industrialists who would like to keep foreign products out of the U.S. He will find a sympathetic ear when he takes his seat on the board of directors of Chrysler.

Fraser should be angry with the American car buyers. After all, foreign cars are selling here because Americans obviously want them. And it's not because the foreign makes are cheaper than American-made automobiles. They no longer have that edge. They're in demand because a significant number of American motorists prefer them.

But Fraser, instead of blasting Americans for not buying, is training his fire on the Japanese. They're at fault, he says, for sending too many cars over here. Fraser said his union has warned the Japanese in the past to limit their exports to the U.S.

"We got promises, promises, promises, but no action," he added. "Our efforts at diplomacy are over."

So Fraser is now prepared to go to Congress to demand that a law be passed to require that a substantial percentage of the content of cars sold here be made here. Companies that don't comply would be slapped with fines and import quotas.

Japan's Honda Motor has already won Fraser's blessing by announcing that it will build an assembly plant in Ohio that will employ 2000 workers. Volkswagen is building cars in Pennsylvania and may soon open a second assembly plant. Fraser's main targets then are the two big Japanese automakers—Toyota and Nissan (Datsun). They are No. 1 and No. 2, respectively, in the import car market And Fraser wants them to build their cars here.

Fraser said the United Auto Workers expects foreign companies that benefit from U.S. markets to "contribute to them by building products here." Thousands of auto workers have been laid off because Ford and Chrysler could not meet the foreign competition.

Is this the answer, though? Do we force foreign companies that are successful in selling their products here to manufacture them here? I wonder what kind of reception Fraser would get for his ideas among UAW members who are working for Caterpillar Tractor at Peoria, Ill., and 14 other U.S. plants. Caterpillar does nearly half of its $8 billion of business outside this country. They make and ship bulldozers and other equipment to countries all over the world. Twenty-five thousand UAW jobs—40 percent of Caterpillar's total employment depend on those export sales.

If we can demand that Toyota and Nissan manufacturer here, what's to stop other countries from demanding that Caterpillar manufacture abroad too?

The same is true for other big agricultural and construction equipment firms, John Deere and International Harvester, whose employees are also represented by the United Auto Workers.

General Electric is another company that has an enormous export business out of this country. And what about the 80,000 people who work for Boeing? Those Boeing jetliners being bought by foreign airlines are built here. They provide jobs for American workers.

Douglas Fraser can't have it both ways. If he gains jobs for his members in Toyota and Datsun plants established here, he can't complain about his members losing jobs at Caterpillar because their production has to be shifted overseas

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[From the The Register, Santa Ana, Calif., Tues., Mar. 11, 1980]

Teaming Up Against Car Buyers

There's more news on the wire about curtailing the sale of foreign cars in this country than there are American automobiles sitting on showroom lots.

Actually, it's wrong to call it news, because there's nothing new about what's going on. People who sell the domestic models, and others who collect dues from the workers that help make them, are conspiring against the American consumer, trying to force him to buy their product. What's unusual is the blatancy of their appeal, which is so crass that it ought to alert even the most thickheaded of observers to the anticompetitive tendencies of unions and corporations when they can acquire a legislative foothold.

Readers may recall the Clearinghous letter yesterday from an executive of the Ford Motor Co., complaining that free trade with the Japanese is not fair because the Japanese insist on everything their way. The man from Ford may indeed have a complaint about fairness, but he ought to direct it at consumers—the ones in America, who insist in large numbers on buying foreign parts and workmanship, and the ones in Japan, who he thinks are being depiived by their government of their wish to buy American cars, but who haven't rallied in mass to break down their country's import barriers and let the Chryslers in.

The second part of this corporate-labor routine was being played out in Washington last Friday. Douglas Fraser, the United Auto Workers unionist who a few weeks back was touring Japan trying to order industries there around the way he's used to doing in Detroit, was on friendlier territory, telling the Congress much the same thing the Ford executive told us.

The tack that Fraser is taking is somewhat shrewd. He's downplaying the demand that foreign imports be restricted, as that is likely to be odious to millions of Americans who do or would like to own one. Instead, Fraser's proposing a trade-off whereby the imports would still be allowed to the degree they include "local content." That means the "foreign" cars either would be manufactured in this country, as Volkswagen and Honda are doing, or would use parts and supplies made in America. This last request is an obvious plum for the U.S. steel industry, which is faring about as well against the Japanese as the auto manufacturers.

Fraser insists that "the idea that cars made by workers in foreign lands must be inevitably better than those made by American workers is a myth." He goes on to cite statements by Volkswagen and Honda officials that their U.S. plant outperform the ones back home. And he tries to debunk the notion that Japanese cars get better mileage than American models (while also saying that the U.S. industry needs a competitive break only until it can tool up to produce more fuel-efficient cars).

The unionist is wise to make this plea to Congress, many members of which are politically indebted to the UAW treasury and corporate donations as well. The legislators may be swayed. American auto buyers, having heard this sales promotion from Detroit for years, increasingly refuse to buy it. Unlike the congressman, they owe Mr. Fraser and Henry Ford nothing. They only want cars that suit their pleasure, and the Japanese have been providing millions of them.

If Fraser and Ford and all the other Americans who can't produce saleable products succeed just so far as to force the inclusion of a domestic bolt in a car whose purchaser would not have preferred such a part, the buyers will be victimized. It's a cause for arousal. A lot of people are making nice livings these days railing against consumer ripoffs. Perhaps they'll have something to say about this.

[From the Atlanta Journal, Jan. 20, 1980]

Avoiding Competition

A demand by United Auto Workers President Douglas A. Fraser that two of Japan's top automobile makers establish plants in this country to build cars has the definite ring of protectionism.

While we would welcome a decision by executives of Toyota Motor Co. and Nissan Motor Co. to establish plants in America, whether they do or don't is entirely their business. We certainly don't support Fraser's idea that legislation is necessary to force the Japanese to assemble "a substantial percentage" of their cars in this country.

Fraser, we fear, has lost his economic perspective. First of all, the main concern of Congress or the U.S. government is whether Japanese car imports are competing unfairly—that is, is the Japanese government subsidizing steel that goes into cars or are cars being sold here for less than it costs to build them in Japan? Those are the kinds of concerns that involve Congress and require government action.

If the cars are simply better or more desirable than cars made by American manufacturers, then the problem is to be resolved by Fraser's union and his union's employers and not government action. Build cars that are in demand and build them at a price that is competetive and the problem of Japanese car imports will take care of itself.

Likewise, if Fraser's union and his union's employers continue to offer what the market won't accept, and if in general America's industry and its unions fail to become competitive internationally, the problem of where Japanese plants are located will take care of itself.

If that continues and the dollar continues to slip abroad, Japanese and others will build plants here because it will be cheaper to do that than to make goods in their home country and export them here.

By all means, no such legislation as Fraser proposes is needed. It's an effort to avoid competition and that's not the answer to the industry's problem.

[From the Editorials column of the Oklahoma City Times, Monday, Jan. 21, 1980]

Beating Us at Our Game

Japanese automakers have politely rejected the bombast of United Auto Workers president Douglas Fraser, who accused them of failure to "exercise restraint" in exporting their cars to the United States.

Fraser's comments came in the context of the recent massive taxpayer bailout of nearly bankrupt Chrysler Corp., sharp sales declines for most domestic cars, and spreading layoffs on the assembly lines.

But when Fraser teed off on Toyota and Nissan Motors (Datsun), numbers one and two respectively in U.S. foreign car sales, he was on perilously weak ground. And the Japanese didn't miss the opportunity to stick it to him.

"We understand the difficult position in which the UAW finds itself today," said a Toyota spokesman. "However, it is regrettable that the UAW is trying to shift blame to imported cars."

What the Japanese—and for that matter, Volkswagen too—could have said, but perhaps were too polite, is simply that they've been beating Detroit at its own game.

The foreign competition was savvy enough to anticipate the coming crunch on gasoline supply and turn out highly fuel-efficient smaller cars that impressed buyers with their engineering and performance. The result has been a sharply rising sales curve for Toyota, Datsun and VW, while dealers were having trouble moving most U.S. models.

The result is that imports have captured about one-fourth of the U.S. market, and they've done it at a time when their major appeal is fuel economy and quality, not lower price. With the dollar having declined in world esteem, the imports generally cost more, model for model, than their U.S. competition.

Another point the Japanese might have made is that Fraser's own UAW must bear some of the blame for the increasing woes of U.S. automakers. The foreign competition is not burdened with excessive wage and fringe benefit demands unrelated to increased productivity.

U.S. auto builders are now scrambling to play catch-up, and as the switch to smaller-car production continues, competition will become more heated. And this, acknowledged the Datsun spokesman, will bring a leveling off of demand for the imports.

Instead of trying to tell the Japanese and Germans to refrain from filling a market demand for their products, Fraser and his counterparts in Detroit auto management should be concentrating their efforts on becoming competitive once again in their own backyard.

[From the Philadelphia Inquirer, Dec. 9, 1979]

Why the Imports Sell While the Impalas Sit

(By Bill Simmons)

I am like most Americans. For years I have heard the tales of great American know-how and I bought the premise hook, line and sinker. I believed that when American engineers and scientists put their heads together, there wasn't anything that couldn't be accomplished.

I believed that was especially the case in the automobile industry. Like everyone else, I marveled at the way General Motors redesigned its big-car fleet for 1977, giving the public cars that were better in every way, lighter and more fuel efficient.

The folks at Ford did the same thing in 1978 when they introduced their new compact lines—Fairmont and Zephyr. These truly were cars for the times. Last April, GM did it again with its family of front-wheel-drive X-body compacts.

Recently, I had lunch with a couple of guys who have been my friends for more than 20 years. They work together these days as owner and general manager of a Philadelphia Toyota dealership. Our talk was certainly an eyeopening experience.

"The trouble with the domestic manufacturers is that they continue with the notion that the American public still wants and needs larger cars," one of them said. "They keep talking about beating the imports at their own game, but when the public is clamoring for smaller cars, Ford introduces a new Thunderbird, Chrysler a new Dodge Mirada and GM redesigns its big cars."

I allowed as how there was some truth to that but I hastened to point out that demand exceeds supply for such cars as Chevy Citation, Plymouth Horizon and Fairmont, meaning that the domestics obviously have products that the public wants.

That was the same as opening myself up to checkmate.

My friends had five new cars on the showroom floor, four being prepped for delivery later that week, five had just been taken off a car carrier, maybe a half-dozen demonstrators and a dozen or so used cars. On top of that, they had back orders for more than two dozen cars.

For contrast, we drove by a nearby Chevrolet dealer. There were what seemed like acres and acres of Caprices, Malibus, Impalas and Monte Carlos, a few Monzas and Chevettes and exactly one Citation.

The point, of course, was that Toyota is giving the American public exactly what it wants and needs—small, efficient, attractive automobiles that can be purchased at a reasonable price. And the situation is the same with Volkswagen, Subaru, Datsun and Honda.

Certainly Americans want the same type vehicles from the domestic manufactureres. The trouble is that GM, Ford and Chrysler were too busy looking at the profit margins they rack up on the bigger cars and adjusted their production schedules accordingly.

The public, however, knows better. They simply aren't buying the bigger cars. The Big Three all are offering rebates, either to dealers to be passed along to customers or to the consumer directly in an attempt to move an unwieldy 65-day supply of cars.

Certainly, there are motorist who want or need larger cars—people with big families, traveling salesmen and so forth. But the days of the big car as a status symbol are over. When a full-sized Chevy cost $4,000 and gas was 30 cents a gallon, we could give in to baser instinct and keep up with the Jonses.

Today, a small car is the in thing. It shows the world that you have concern for our dwindling fuel supplies, that you are not, by nature, a waster. When that big Caddy storms by at 65, you feel good as you look on the driver with disdain.

Meanwhile, Henry Ford II and United Auto Workers President, Douglas Fraser are berating the Japanese for their export policies. They do it in the name of American jobs. It is called protectionism and, I guess, they do have a point. After all, forecasts are for 2.3 million imported cars to be sold in the U.S. this year and that is a lot of manhours lost to overseas workers.

There has been a great hue and cry from some parts of government and the press for Detroit to reinvent the automobile. That's so much drivel. The car has been reinvented. What is needed is for the product planners and sales people to rethink their philosophy.

Toyota is projecting 600,000 sales in the U.S. this year. Datsun more than 500,000, Honda about 400,000. That's 1.5 million from three Japanese makers alone. As long as foreign makers give Americans the kind and numbers of cars they want and domestics don't, Mr. Ford and Mr. Fraser would be well-advised to keep their opinions to themselves.

[From the Saginaw (Mich.) News, Jan. 17, 1980]

Imports: We Are Driven

Douglas Fraser's proposal that Japanese automakers make their autos in the U.S. sounds at first like a fair trade for the driving business Datsun, Toyota, Honda and others are doing among American customers.

But forcing the Japanese to locate plants here is the wrong way to reduce the import tide. Protectionism, previously opposed by Fraser, president of the United Auto Workers, leads to more problems for American exports; insulates industry from competition; and reduces the American buyer's right to choose.

Fraser's change of mind came as thousands of his UAW members were on layoff, partly because imports, 76 percent of them Japanese, captured a record 22 percent of the 1979 car market. How the industry and union respond to the challenge is important to thousands of Saginaw-area and Michigan auto workers.

American carbuyers obviously are making a deliberate choice, influenced by the tardiness of U.S. companies in getting into the small-car business in a big way. The right way to convince them to choose American is for both industry and workforce to get better than the Japanese at their own specialties: Maximum fuel efficiency, quality workmanship, high productivity to cut costs.

Fraser should share concern that the growth rate of U.S. productivity, for instance, has been declining since 1966, to only 0.4 percent in 1978 with an actual decline in the first half of 1979.

A new federal study of how to reinvigorate the auto industry, announced by Transportation Secretary Neil Goldschmidt, can be constructive if it finds ways to help, not hamper, carmakers.

The government also should follow up on one excellent point made by Fraser—that Japan's policy toward U.S. imports should be on a par with the freedom the Japanese have to trade in America. That's not the case now.

On their own, and for their own reasons such as the declining overseas value of of the dollar, the Japanese may do just what Fraser suggested. U.S. production is paying off for Volkswagen, and Honda, satisfied with the quality of American labor, plans to open a plant in Ohio.

The U.S. can compete on the world market—but not if U.S. industry and labor seek to insulate themselves from the discipline of that market.

[Newsletter Entitled "News from Toyota:" Public Relations Office, Toyota Motor Sales, U.S.A., Inc., Torrance, California]

Toyota Executive Speaks Out Against Import Restrictions

WASHINGTON, D.C.—Fewer small cars and higher prices are in store for the American consumer if restrictions are placed on auto imports in the U.S., a Toyota executive said here today. He was addressing the Joint Economic Committee of the U.S. Congress which is examining the implications of restricting auto imports as a possible solution to the U.S. auto industry's current problems.

"This country needs fuel-efficient cars," Norman D. Lean, senior vice president and general operations manager for Toyota Motor Sales, U.S.A., Inc., told the committee. "Restricting imports is against the interest of the American consumer and bad for the economy.

"The imports are filling a gap in the supply of fuel-efficient cars and, as new domestic small cars come into the marketplace in greater volume, the rate of import car sales will decline. If trade restrictions reduce the supply of small cars, the consumer will suffer from higher prices, higher operating costs and lack of choice of small cars. The economy will suffer from further inflation and increased oil consumption."

The executive called the Committee's attention to the remarkable success the U.S. automakers are having in the small car market. He referred in particular to General Motors' X-body cars, Chevette and Chrysler's Omni/Horizon models.

"In February, the X-bodies alone outsold Toyota's entire passenger car line-up," Lean pointed out.

In refuting the claim that imports are responsible for current unemployment in the U.S. auto industry, Lean emphasized that present layoffs resulted from slow sales of large-size cars, trucks and vans. He stressed that the imports and their dealers are now providing jobs for 140,000 Americans.

Lean said restrictions on imported cars and trucks would be contrary to the freedom historically enjoyed by American consumers to purchase the product of their choice. He then added such restrictions would also violate the General Agreement on Tariffs and Trade (GATT).

He went on to say that some of the restrictive proposals would apply only to those who import at an annual volume of 200,000 vehicles or more. "Such a limit," he said, "would obviously be discriminatory."

Noting that Chrysler January import quantities of Mitsubishi-built vehicles more than doubled those of last year, he indicated that the increase occurred "almost simultaneously with the Chrysler Chairman's call for restrictions in imports."

Ford's import of Fiestas was up 60 percent in the same month, Lean reported, and added that Chevrolet's Japanese-built LUV pickup truck had the largest percentage increase for all last year of the volume sellers of imported trucks.

"Those who support restrictions argue that their proposals would help the laid-off auto workers," Lean said. "Our judgement is that the number of buyers who would respond to a restriction on imports by buying a big car, pickup or van, is not large enough to provide any substantial reemployment of the laid-off workers."

In discussing the possibility of a Toyota plant in the U.S., Lean stated that such l project would not provide the solution to the problem of current automotive ayoffs.

He expressed concern for the unemployed auto workers and predicted the problem should be solved as the domestics increase their output of mall cars.

Another fact to recognized, according to Lean, is that Toyota, its distributors and dealers now are employing here more than 31,000 Americans. The total employment in the U.S. for all importers and their dealers is 140,000.

Lean called the Committee's attention to Toyota's $20 million expansion of its truck bed manufacturing plant in Long Beach, California. He said Toyota is the only seller of small imported trucks—including Detroit's Big Three—that manufactures virtually all of its cargo beds in the United States.

A Toyota operation since 1974, the plant employs about 450 people and is part of a total investment of more than $900 million that Toyota and its dealers have in land and facilities in the U.S.

"Most of that investment—$800 million—has been made by our dealers, and these American small businessmen have the largest amount at stake if imported cars are restricted," Lean pointed out.

Small car demand, he said, has been increasing sharply because of the energy crisis and spiraling gasoline prices.

"When a consumer learns from the news media that there is debate as to whether the price at year's end will be $1.79 per gallon or $2 per gallon, the effect on the market demand for fuel-efficient cars is quite predictable," he said.

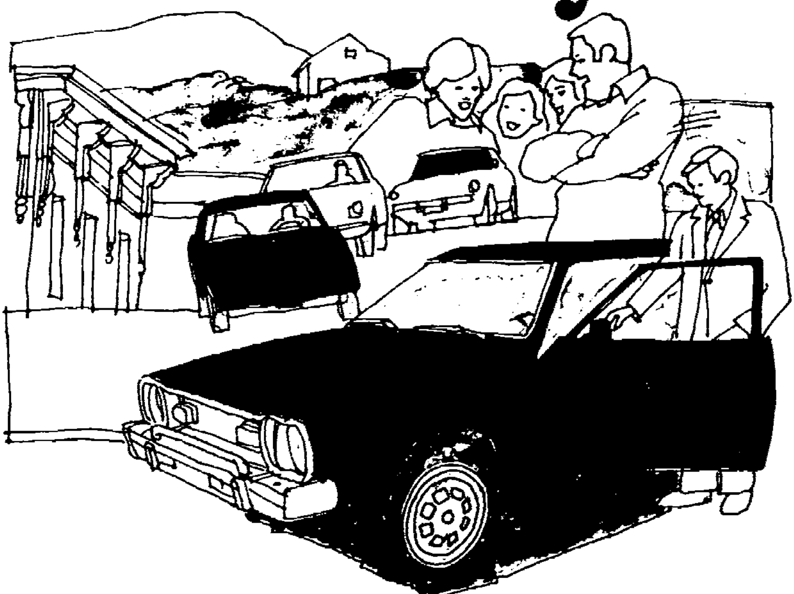
"During these times of strong demand for small cars, availability of moderate-priced import cars to the American consumer has prevents larger price increases on the inadequate supplies of American-built cars of the same type. You can well imagine the price effects if import cars were not available in the U.S.

"The conservation of fuel is a second important way in which import cars reduce inflationary pressure," Lean added. "Without question, availability of import import cars and trucks has lessened the country's requirements for imported oil.

"The reason there is a shortage of good small cars is that the market got far ahead of all of us," he said. "The domestic auto companies obviously did not foresee the tremendous surge in demand for fuel-efficient cars, nor did Toyota and the other imports.

"But now, I believe, the American car companies are right on stream. They have developed new fuel-efficient models and are rapidly increasing their capacity to produce them" Lean concluded.

What Datsun Means to the American Economy



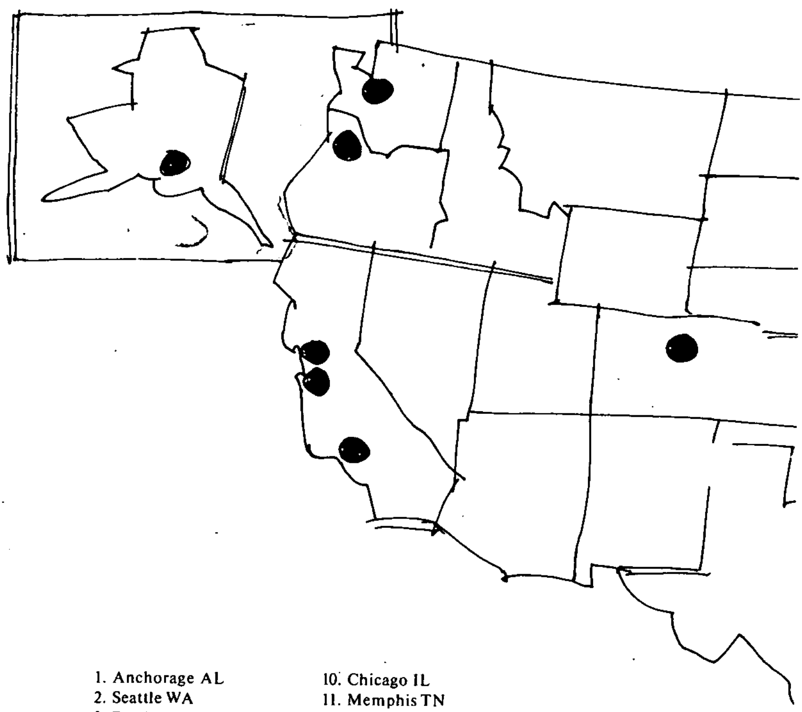
DATSUN

September, 1979

What Datsun Means to the American Economy

This report is condensed from a study prepared by Resource Assessment, Inc. in September 1979 entitled "The Economic Role of Datsun and Its Dealership Organization - A Study of Regional Effects of Import Curtailment on Employment."

Resource Assessment, Inc., a nationally-known research and analysis company, was commissioned by Nissan U.S.A. to study the economic impact that Datsun and its 1,258 dealers in the U.S. have on the American economy in general and the local community in particular.



1. Anchorage AL
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5. San Francisco CA
6. Los Angeles CA
7. Denver CO
8. Dallas TX
9. Houston TX
10. Chicago IL
11. Memphis TN
12. Columbus OH
13. Boston MA
14. Providence RI
15. Newark/New York NY
16. Baltimore MD
17. Norfolk VA
18. Jacksonville FL

Nissan U.S.A., distributor of Datsun cars and trucks, and the Datsun family of dealers nationwide continue to be an important part of the automobile industry in America. We contribute jobs, taxes and investments to the strength of the economy as well as offering high quality, economical Datsun products.

Questions or comments may be referred to:

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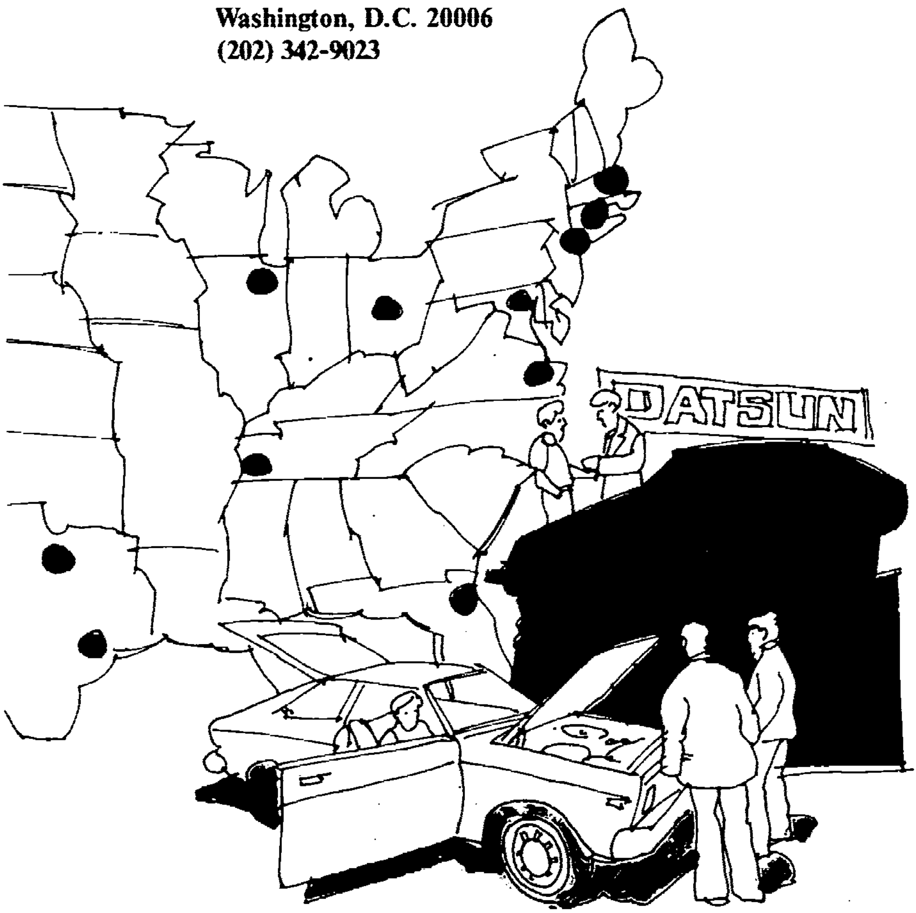
(202) 342-9023



A Vital Contribution to the U.S. Economy

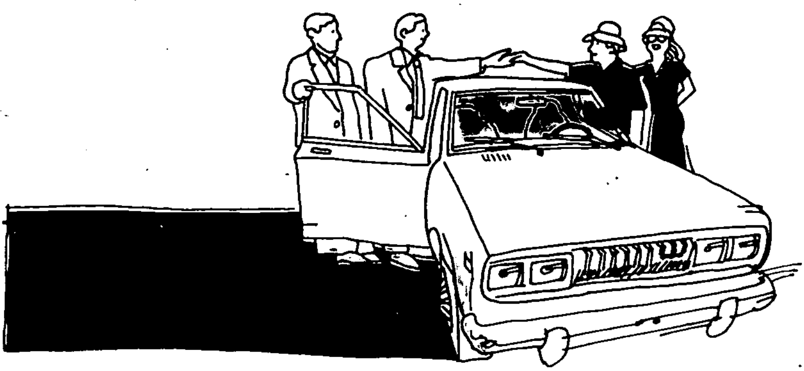
How many jobs are generated by Datsun in the United States?

In 1978, 30,465 people were employed in Datsun dealerships, port operations and national headquarters. Another 10,936 domestic jobs were involved in supplying goods and services to Datsun operations. This means 41,401 people were dependent on Datsun for their living.

How does the Datsun dealership network compare to U.S. corporations?[1]

- ☐ With combined sales of more than $4.9 billion in 1978, the Datsun dealership organization outperformed such companies as Georgia-Pacific, Coca-Cola and 3-M.
- ☐ With total assets of about $1,066 million, the dealerships are on a par with Quaker Oats and Kaiser Steel; ahead of GAF, Black & Decker, and Cummins Engine; almost twice the size of Zenith-Radio, Oscar Meyer, or 20th Century Fox.
- ☐ Datsun dealerships employ more people than Standard Oil of Ohio (SOHIO) or Burlington Industries.
- ☐ The dealership organization in 1978 paid $404 million in wages and $246 million in taxes.

(1) Comparisons are based on data reported for 1978 in the Fortune 500 Directory.



An Important Asset to the Local Community

How does the local community benefit from the presence of a Datsun dealership?

- ☐ The joint contribution of Datsun dealers in wages to employees, local taxes and purchases of assets within their respective communities was $769 million in 1978.

- ☐ An additional $296,310,000 in goods and services was purchased by the dealerships from 60,488 local businesses, including gas stations, parts stores, auto body shops, etc. These purchases created an equivalent of 10,936 jobs in local communities, in addition to the 30,465 jobs generated by the national Datsun organization through its imports and sales operations.

- ☐ The interest on automobile loans financed through local banks resulted in more than $340 million being returned to the community for use in financing homes, new business, hospitals, churches and other investments.

A Generator of Import-Export Activities

What is the port related impact of Datsun imports?

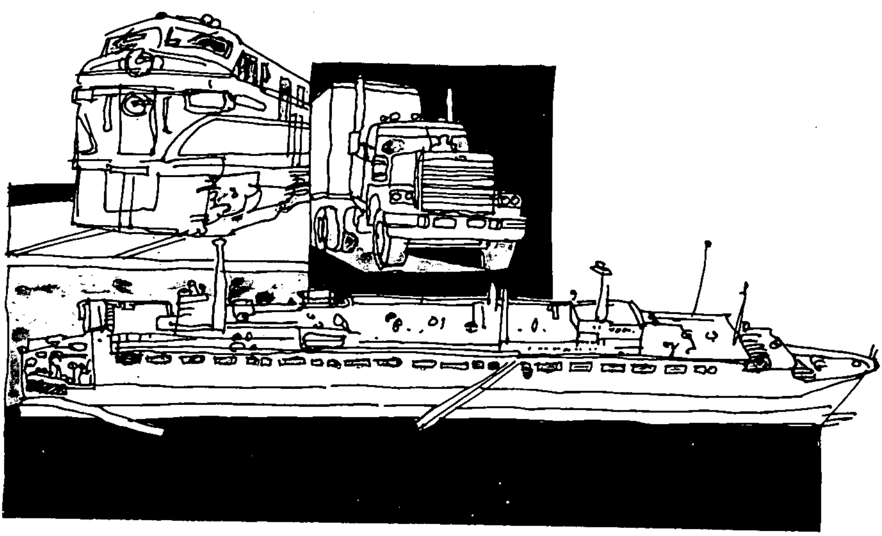
- ☐ During 1978, 780 port-related workers were employed in handling Datsun cars, trucks and parts via ports of entry ranging from Rhode Island to Alaska.[1] Another 940 persons were employed by companies that provide a port-related service for a total employment of 1,720.

- ☐ Port handling and inland shipments of Datsun vehicles and parts in 1978 resulted in revenues of more than $111 million for U.S. transportation companies, including stevedoring companies, railroads, trucking firms, airlines and steamship companies.

What export operations are generated by the Datsun organization?

- ☐ A variety of U.S. manufactured goods are exported for use in the assembly and manufacture of Datsuns, including catalytic converters for emission controls, carpeting, fabric for seats, spark delay valves and circular sealed beam headlights. During 1979, export purchases are expected to reach approximately $39 million.

(2) The ports of entry are Los Angeles, CA; Benecia, CA; Jacksonville, FL; Baltimore, MD; Boston, MA; Newark/New York, NY; Portland, OR; Providence, RI; Norfolk, VA; Seattle, WA; Houston, TX; and Anchorage, AL.



Vital to the Future of America's Economy

From time to time, there are certain people who call for the reduction of imports – including automobiles – as a means to "save" American jobs. If, as a result of quotas or other import restrictive measures, 25% of Datsun sales were suddenly switched to domestic sales, what would the impact be on America's economy based on the projections of Resource Assessment, Inc.?

- ☐ A loss of 429 jobs and a net revenue loss of $27,954,000 at the Datsun ports of entry.

- ☐ Other transportation companies would be affected because of Datsun use of interstate carriers of the "back haul" variety (from the coasts to the interior rather than the "front haul" type from the midwest to the coasts like domestic auto companies). The loss of back haulage would not be easily made up by increased domestic sales.

- ☐ The total dollar value of a 25% reduction in Datsun sales including the port-related and transportation costs, taxes, payroll, advertising, assets, leases and exports, would be more than $66 million.

- ☐ In terms of impact on employment, 25% of all imports is about 450,000 units per year which would be picked up by the 25,000 domestic only or domestic-import dealerships. This is an increase of about 18 units per dealer per year, or two more vehicles per month. Adding Datsun's used car and trade-in ratio would result in a grand total of three additional cars a month for each domestic car dealer. In the opinion of the Resource Assessment, Inc. study, this increase of less than three units a month would not stimulate enough new business for domestic dealers to hire additional personnel, therefore, 9,619 direct and indirect jobs would be lost, including 8,523 connected with Datsun dealership operations. Other job losses would include: 429 port-related workers; 506 Datsun national headquarters personnel; 110 people responsible for Datsun-related exports; and 51 non-Datsun parts and accessory suppliers.

How many jobs would be lost if all imports were cut 25% and those sales were picked up by domestic dealers?

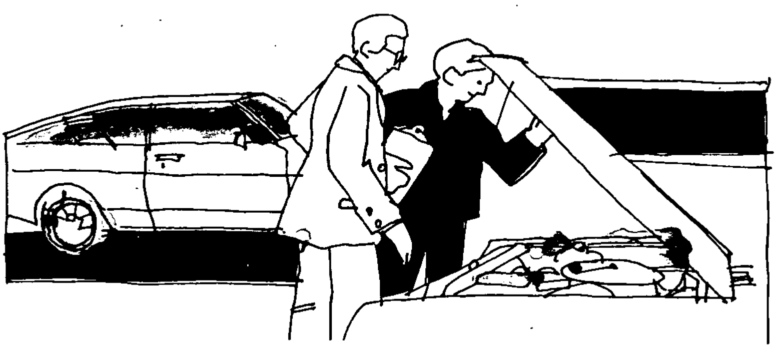
- ☐ There are 5,000 imported car dealers in America (without domestic duals). Resource Assessment, Inc. projects that a 25% cut in sales would mean a 20% cut in personnel, or 4.5 jobs per dealer that would be lost based on their Datsun research. This means that some 22,500 jobs would be lost as a result of such a domestic replacement for imports.

Could the 22,500 jobs lost as a result of the import sales reduction be absorbed by the domestic auto manufacturers?

- ☐ As mentioned before, the jobs are unlikely to be available at the domestic dealership level. Imported dealer job losses would be nation-wide whereas increased manufacturing jobs would only be available in a few heavy auto manufacturing states (California, Indiana, Michigan, Missouri, and Ohio are the states that have significant auto-related manufacturing employment).

Would, then, imposing import quotas on automobiles set the overall market on a counter-productive path?

- ☐ The theory behind most anti-trust legislation today is that anytime smaller members of a competitive market are placed at a reductive disadvantage with respect to larger members, a net loss of jobs over the entire marketplace results. Thus, the import car industry should not be looked at as an importer per se, but as a smaller industry in competition with larger ones.



Motor Vehicle-Related Employment by State
Manufacturing, Sales and Service

State	*Motor Vehicle and Parts Mfrs. (1976)*	*Automotive Sales and Servicing (1972)*	*Percent Mfr'g to Sales and Service*
Alabama	4,640	45,928	10
Alaska	--	3,348	0
Arizona	383	31,449	1
Arkansas	3,556	27,695	13
California	37,805	304,170	12
Colorado	--*	39,402	0
Connecticut	2,435	37,788	6
Delaware	--*	7,899	0
Florida	2,361	114,013	21
Georgia	--*	75,232	0
Hawaii	--*	12,679	0
Idaho	220	12,010	2
Illinois	22,853	143,915	16
Indiana	60,676	78,644	77
Iowa	7,150	44,496	16
Kansas	7,864	35,679	22
Kentucky	11,072	43,651	25
Louisiana	--*	45,696	0
Maine	84	14,512	1
Maryland	--*	54,148	0
Massachusetts	4,154	70,122	6
Michigan	--*	118,506	0
Minnesota	4,126	54,945	8
Mississippi	3,407	28,061	
Missouri	31,640	73,503	43
Montana	90	12,085	1
Nebraska	2,703	25,336	11
Nevada	62	10,215	1
New Hampshire	--*	11,068	0
New Jersey	13,010	85,291	15
New Mexico	499	17,437	3
New York	30,020	169,595	18
North Carolina	6,758	73,602	9
North Dakota	319	9,985	3
Ohio	116,475	152,648	76
Oklahoma	4,290	39,118	11
Oregon	3,195	37,119	9
Pennsylvania	17,301	154,729	11
Rhode Island	612	10,195	6
South Carolina	2,457	34,659	7
South Dakota	524	9,907	5
Tennessee	13,782	61,965	22
Texas	12,544	190,070	7
Utah	743	17,399	4
Vermont	--*	6,660	0
Virginia	--*	69,542	0
Washington	2,403	47,346	5
West Virginia	751	22,426	3
Wisconsin	33,169	56,849	58
Wyoming	--	6,600	0
District of Columbia	--	9,133	0
TOTAL	783,935	2,858,425	27

**Withheld to avoid disclosure.*

Source: Compiled by the Motor Vehicle Manufacturers Association of the United States, Inc. from U.S. Bureau of Census and American Trucking Association data.

Datsun Organization[1] Economic Indicators
Direct Community Impact

State	*Net[2] Assets ($000,000)*	*Datsun Employees*	*Payroll ($000)*	*Local Taxes Paid ($000)*	*Datsun Value Added ($000,000)*
Ala.	14.7	496	6,408	1,643	11.8
Als.	1.6	42	836	184	1.0
Arz.	18.0	510	7,677	1,952	14.3
Ark.	7.2	222	2,559	373	4.9
Cal.	158.9	4,679	80,588	9,017	149.6
Col.	15.5	460	6,860	2,475	13.7
Conn.	16.4	481	6,653	103	13.2
Del.	3.3	82	1,226	4	2.6
Fla.	48.3	1,661	19,455	2,592	36.4
Geo.	20.2	753	9,405	1,129	16.8
Ida.	7.8	237	4,115	17	5.4
Ill.	28.8	860	13,560	1,632	26.4
Ind.	25.2	641	9,303	122	13.4
Iowa	8.7	309	4,401	47	8.6
Kan.	10.9	378	4,878	307	9.2
Ken.	13.8	423	5,394	340	8.7
Lou.	13.2	574	6,304	1,391	10.5
Maine	3.9	132	1,320	15	2.7
My.	24.3	754	12,949	117	22.1
Mass.	15.7	517	7,379	61	12.2
Mich.	32.6	903	14,777	268	25.7
Minn.	7.1	214	3,043	366	5.8
Miss.	10.1	374	4,350	33	7.5
Mo.	13.6	492	6,652	804	11.6
Mont.	5.9	218	2,452	8	4.5
Neb.	5.4	174	2,115	252	3.8
Nev.	6.1	167	3,049	380	5.6
N.H.	4.1	129	1,747	30	3.3
N.J.	24.0	582	9,813	123	18.9
N.M.	10.2	381	4,194	128	7.7
N.Y.	40.0	1,100	17,298	6,498	31.6
N.C.	15.2	524	6,502	894	12.0
N.D.	2.2	74	1,025	4	1.8
Ohio	22.8	663	8,696	522	15.5
Okl.	11.0	394	5,139	709	10.0
Ore.	24.8	794	12,353	1,438	22.9
Penn.	35.4	1,177	15,406	112	27.7
R.I.	5.6	151	2,212	56	3.8
S.C.	9.8	349	4,510	23	7.8
S.D.	5.3	178	2,493	567	3.9
Tenn.	23.6	745	10,069	2,886	17.8
Tex.	41.7	1,386	18,585	2,189	36.1
Utah	7.7	186	2,690	293	5.6
Vt.	1.4	49	542	7	1.1
Va.	21.6	764	11,100	1,184	19.7
Wash.	25.5	808	11,942	685	24.1
W.V.	7.1	174	2,398	61	4.6
Wis.	8.2	319	4,608	31	7.8
Wyo.	3.8	128	2,597	182	2.5
D.C.	1.3	55	785	91	1.6
Other	25.9	807	6,293	117	20.0
Dealership	915.4	27,863	404,379	44,461	755.8
Corporate	17.9	2,225	57,065	826	11.18
Gr. Total	933.3	30,088	461,444	45,287	769.5

1 Includes Nissan Headquarters contributions.
2 Net of depreciation.

Datsun Organization[1] Economic Indicators Indirect Community Impact

State	No. of Local Suppliers	No. of Supplier Jobs Created	Value Added Created ($000,000)	State & Fed. Taxes ($000)
Ala.	1,102	132	3.87	3,615
Als.	120	8	0.25	127
Arz.	863	181	5.29	4,736
Ark.	574	66	1.93	1,240
Cal.	7,123	1,776	43.41	51,269
Col.	839	144	4.21	3,046
Conn.	1,082	137	4.06	6,079
Del.	107	27	.79	72
Fla.	3,350	647	13.51	3,505
Geo.	1,400	187	5.46	4,109
Ida.	826	69	2.04	1,304
Ill.	2,057	277	8.06	7,427
Ind.	115	185	5.53	5,100
Iowa	786	95	2.76	1,935
Kan.	638	106	3.11	2,141
Ken.	1,032	118	3.45	3,398
Lou.	1,118	113	3.34	2,418
Maine	574	36	1.04	960
My.	953	332	6.69	7,601
Mass.	1,303	138	4.06	4,325
Mich.	1,466	294	8.74	9,225
Minn.	442	58	1.76	1,533
Miss.	1,009	95	2.77	2,903
Mo.	1,004	145	4.17	3,107
Mont.	608	47	1.39	103
Neb.	489	44	1.29	873
Nev.	292	50	1.48	1,429
N.H.	440	35	1.05	19
N.J.	1,609	293	5.87	6,673
N.M.	1,188	89	2.63	2,368
N.Y.	3,038	346	10.19	9,539
N.C.	1,175	156	4.49	3,843
N.D.	153	20	.58	448
Ohio	1,852	183	5.38	4,887
Okl.	1,005	103	3.02	1,918
Ore.	1,733	278	8.08	936
Penn.	2,397	333	9.70	12,234
R.I.	271	88	1.08	1,469
S.C.	553	108	3.12	2,891
S.D.	309	47	1.40	1,249
Tenn.	1,532	257	7.39	5,573
Tex.	2,899	405	10.15	11,207
Utah	488	64	1.89	1,829
Vt.	194	13	.38	4,800
Va.	1,158	249	5.82	4,761
Wash.	1,792	492	7.02	8,107
W.V.	777	58	1.72	1,353
Wis.	612	84	2.43	2,215
Wyo.	212	28	.82	429
D.C.	69	13	.38	462
Other	3,760	235	6.90	6,539
Dealership	**60,488**	**9,484**	**296.31**	**229,329**
Corporate	**--**	**816**	**--**	**795**
Gr. Total	60,488	10,300	296.31	230,124

1 Includes Nissan Headquarters contributions.

Senator BENTSEN. I find your argument against restraints on trade very persuasive. And you have such strong logical arguments against a mandatory percentage of local content. I sure wish you'd tell that to the people back in Japan.

You know, when Japan requires local content on our aircraft exported to them; and when the Nippon Telegraph and Telephone Company excludes American companies from submitting bids on much of their equipment, I have just about had enough. I think it's time we have some quid pro quo.

Earlier I referred to the fact that the sealanes of the world are terribly important to Japan. Yet, they spend 1 percent—less than that—of their GNP to help defend the free world. We spend over 5 percent. In effect they get a free ride. They are a major economic power in the world today, and they ought to measure up to the responsibilities that come with that role. Japan must look at the big picture and the future of the world's democracies.

You have stated that you can't speak insofar as the decisions they are making in Japan because they don't have any representatives here at this moment. But all I have to do is look at these front tables to see the power and the representatives of Japan.

I am for free trade. I don't like restraints. I understand the logic of trying to hold inflation down by free trade. But it has to be a two-way street. We just can't afford to be patsies in this kind of a deal. The Japanese have to understand that. They are an intelligent, powerful, aggressive nation, but trade is a two-way street.

Congressman Brown.

Representative BROWN. Thank you, Mr. Chairman.

Mr. Lean, there have been press reports that one very cogent reason that Nissan and Toyota have not located in the United States is that they view the U.S. labor force with some skepticism.

We have heard from the Volkswagen representative and also from the representative of Honda that their experience does not confirm that kind of rather difficult judgment on the American labor force.

Also, we are given the impression that Japanese manufacturers are very concerned with how American midlevel managers will fit into the corporate structure of Nissan and Toyota.

Are those reports accurate?

Mr LEAN. Mr. Brown, I don't know if they are. I have read some of those things, too. I think certainly those things would be considered in the overall discussion. However, many of those items such as American labor and American management have been faced in the 22 years that Toyota has invested in this country and they have all been conquered. I consider that we have a very, very viable American network of dealers and our own operations here I consider to be very successful.

I would like to take a moment to respond to Mr. Bentsen's comments because I think they are very appropriate to this particular forum.

With respect to the fair trade issue, I would like to represent that I think a great deal more study needs to be done on that, particularly as it relates to automobiles. The automobile situation is not restricted in Japan as far as imports of our products to that particular country to the degree that is normally represented. And I'd like to point out that, one, there is zero tariff on cars imported into Japan, and here we have a 2.9 percent tariff.

Senator BENTSEN. How much does a Pinto sell for in the United States and how much in Japan?

Mr. LEAN. I have read many of those comments, too, sir, and many of those are related to things which are in no way governmental restrictions. Many of those are a result of the free enterprise that exists there as it does here. The biggest percentage of those high prices are the dealer markups that apply to those automobiles.

But I think there are many things that have happened over the past 2 or 3 years that should be brought to the attention of the people who are the thought leaders of this country. We would like to do that, assist in any way, and provide some information on that current situation.

Representative BROWN. Let me retrieve my second question, if I may.

I think we are all aware that the Japanese society, while it is in a political sense free, is in an economic sense very controlled by comparison to the American society, in that the interrelationship between government policy, financing, manufacturing decisions, social programs, and the like are all literally controlled by what, as I referred to before, has come to be known in this country, at least, as corporate Japan.

My concern is that while we have benefited from the marketing effort that the people like yourself have undertaken to sell Japanese products—and there has been an investment of a billion dollars—the fact of the matter is that we have lost the opportunity, for whatever reason, to benefit economically from the manufacturer of those products here.

Perhaps I am not asking the question but making a little lecture as the chairman did, but I want you to know that this is a bipartisan feeling. That is, I think the Japanese certainly as a society have grown up, and so have we, to understand the problems that each other has.

Really what we are looking for here is a reciprocation on the part of the Japanese to the economic impacts that have fallen on the United States that have not quite fallen to the same degree on the Japanese.

Would you not agree that there have been some benefits—or rather I should say some controls within the Japanese society limiting sales of American products abroad to Japan, and also subsidizing the sales of Japanese products in the United States.

Mr. LEAN. No, I don't agree with that, and I am speaking from the standpoint of Toyota. I will make two or three points very quickly.

Representative BROWN. Let me just ask: Are you disagreeing with that as a general assumption?

Mr. LEAN. Yes, I am, and I will tell you why. I have had now a little over 10 years with Toyota, and in that 10 years I have had an opportunity to do some study of Japan as a totality and specifically Japan as a business power.

Many of these situations that have come to be beliefs I think stem from newspaper stories that have been written and a long history of tradition which is changing rapidly.

A point on subsidization with respect to Toyota.

Toyota is a very large, independently prosperous company, which primarily exists on its own resources and virtually has little borrowing even from the banks. It positively does not get subsidization from the Government of Japan or control from the Government of Japan. And from that standpoint, I think some of these things do need to be explored more fully so we don't get a broad-brush as it applies to one Japan auto industry or to the major powers within Japan's auto industry.

Senator BENTSEN. Congresswoman Heckler.

Representative HECKLER. Since it is quite obvious that the American consumer does not want to buy large American-made cars or large cars, period, why is Detroit continuing to pıoduce them?

Mr. LEAN. Well, in the first place, they have substantially reduced their production of large cars, and that is primarily one of the factors that is resulting in the unemployment, along with the light truck, which is substantial, and the vans. And I'd like to point out we give no competition in the van area. We are talking about 500,000 reduction in 1979 alone in vans.

However, as an example, in the current month of production, the large-car sector, including the large luxuries, was off about 60,000 units.

I think there is a very rapid displacement going on. You heard testimony this morning about the new K-body cars that are on stream for this fall, about the new J-body cars, the new Ford products that are on stream for this fall. And those are the points I referenced in my comments, that these changes are well in place and well under way.

There is also a trend in Detroit to light, fuel-efficient trucks which are essential to compete in this sector.

Representative HECKLER. In the past few months how many dealers are going to go out of business because they have the gas-guzzlers shipped to them and nobody is buying them?

Mr. LEAN. That is a very serious problem, Congresswoman Hecker, and I don't know what the answer is. However, I know Chrysler has had substantial rebate programs aimed at assisting the dealer.

Representative HECKLER. What is the percentage of changeover to smaller cars?

Mr. LEAN. I think by this fall we will have in the magnitude of 700,000 to a million additional capacity in the industry.

Senator BENTSEN. Thank you very much. Thank you for your testimony.

Mr. LEAN. Thank you very much.

Senator BENTSEN. Our next witness, Mr. Suzuki, will be here representing Nissan.

Mr. Suzuki, if I mispronounce your name, please correct me.

Mr. SUZUKI. That's correct.

Senator BENTSEN. We are pleased to have you here.

STATEMENT OF YASUHIKO SUZUKI, VICE PRESIDENT, EXTERNAL RELATIONS, NISSAN MOTOR CORP. OF U.S.A., WASHINGTON, D.C., ACCOMPANIED BY LESLIE A. KELLY, NATIONAL PUBLIC AFFAIRS MANAGER

Mr. SUZUKI. Mr. Chairman, members of the committee, my name is Yasuhiko Suzuki, and I am vice president, external relations, of Nissan Motor Corp. in the United States. With me is Leslie A.

Kelly, national public affairs manager. My company is the sales and service subsidiary of Nissan Motor Co., Ltd. of Japan.

I very much appreciate the invitation that you extended to us last Thursday to testify here today. As you will appreciate, we have had little time to prepare this testimony. Nevertheless, I will do my best to deal in general terms with the two key issues that you identified in your letter of invitation. These are: one, the economic implications of restricting imports of automobiles, and two the economic implications of stimulating direct investment in the United States by overseas-based automobile manufacturers. If I am unable to answer fully some of your questions, with your permission I would be pleased to submit further responses and comments at a later date.

With respect to import restrictions, you will not be surprised to hear that we oppose them. But we do so because we believe that they would benefit neither our company nor the U.S. automobile industry and American consumer. It is generally agreed that the closing of American plants and the lay-off of American workers have been caused not by the Japanese imports but by the sharp decline in demand for large, less-fuel-efficient automobiles. We sympathize with those American workers but we feel they are accusing the wrong people for their plight.

It seems clear, therefore, that the problems now besetting Detroit are directly caused by the energy crisis and short supply of fuel-efficient Detroit makes. It seems equally clear that these problems are only temporary in nature, since the domestic manufacturers are retooling very rapidly to the production of the small, fuel-efficient automobile like the GM-X car. In the model year 1981, we can look forward to the introduction of the GM-J car, the Chrysler-K car, and the Ford Erika. Beginning in the forthcoming model year, the domestic manufacturers will be well positioned to supply most of the demand for small, fuel-efficient automobiles.

The current automobile problem is not an issue of imports versus domestics, but large cars versus small cars. In 1979 while imports sales increased by 12.5 percent over 1977, the U.S. subcompact car sales surprisingly increased by 84.9 percent. In 1979, U.S. large-car sales slipped 21.2 percent compared to 1978 sales.

We believe that import restrictions—looked at solely in domestic terms—would not appear to be advisable. In the first place, they would not help Detroit retool any faster, since General Motors, Ford, and Chrysler are already moving as quickly as they can to the production of small, fuel-efficient cars.

In the second place, we do not believe that import restrictions would stimulate demand for the larger automobiles. With the steadily increasing cost of gasoline, we find the consumer determined to purchase the smaller automobiles.

The implications of import restrictions for consumers are severe. Quotas on imports mean reduced availability of fuel-efficient cars to potential buyers in the United States. Prices of these cars will inevitably rise. Many consumers will be forced either to purchase larger, less-fuel-efficient cars at higher prices, thereby adding to American demand for foreign oil, or they will decide to forego a new car purchase, thereby shrinking the total domestic auto market. None of these alternatives will benefit anyone.

Our sales of automobiles, like those of other Japanese manufacturers, have admittedly increased. But these sales have been made without recourse to unfair trade practices. There is no evidence of dumping or subsidization that anyone has brought forward. In fact, such evidence doesn't exist. Moreover, our sales have been made in response to the demands of the American consumer. If domestic production cannot meet such demands, I believe that it is the classic and proper role of imports to do so, so long as they are of good quality and priced fairly. Our automobiles have consistently met those standards.

Mr. Chairman, in summary, we feel that import restrictions are harmful for the following reasons:

One, they will not put American auto workers back on the job.

Two, they will cost American consumers lots of money.

Three, they will serve only to increase inflation.

Four, they will deny the consumer freedom of choice.

Five, they will increase fuel consumption and dependence on OPEC.

Senator BENTSEN. Mr. Suzuki, your time has expired. Thank you.

[The prepared statement of Mr. Suzuki, together with attachments, follows:]

PREPARED STATEMENT OF YASUHIKO SUZUKI

Mr. Chairman, members of the committee, my name is Yasuhiko Suzuki and I am Vice President, External Relations of Nissan Motor Corporation in U.S.A. With me is Leslie A. Kelly, National Public Affairs Manager. My company is the sales and service subsidiary of Nissan Motor Company, Ltd. of Japan.

I very much appreciate the invitation that you extended to us last Thursday to testify here today. As you will appreciate, we have had little time to prepare this testimony. Nevertheless, I will do my best to deal in general terms with the two key issues that you identified in your letter of invitation. These are (1) the economic implications of restricting imports of automobiles and (2) the economic implications of stimulating direct investment in the United States by overseas based automobile manufacturers. If I am unable to answer fully some of your questions, with your permission I would be pleased to submit further responses and comments at a later date.

With respect to import restrictions, you will not be surprised to hear that we oppose them. But we do so because we believe that they would benefit neither our company nor the U.S. automobile industry and American consumer. It is generally agreed that the closing of American plants and the lay-off of American workers have been caused not by the Japanese imports, but by the sharp decline in demand for large, less-fuel efficient automobiles.

It seems clear therefore that the problems now besetting Detroit are directly caused by the energy crisis and short supply of fuel efficient Detroit makes. It seems equally clear that these problems are only temporary in nature, since the domestic manufacturers are retooling very rapidly to the production of the small, fuel efficient automobile like the GM X-car. In the model year 1981, we can look forward to the introduction of the GM J car, the Chrysler K car, and the Ford Erika. Beginning in the forthcoming model year, the domestic manufacturers will be well positioned to supply most of the demand for small, fuel efficient automobiles.

The current automobile problem is not a issue of imports vs. domestics, but large cars vs. small cars. In 1979, while imports sales increased by 12.5 percent over 1977, the U.S. subcompact car sales surprisingly increased by 84.9 percent. In 1979, U.S. large car slipped 21.2 percent compared to 1978 sales.

It is therefore regrettable that arguments have surfaced which seek to blame imported cars for sagging sales of U.S. built cars and related layoffs, giving rise to emotionally-charged and sometimes politically-motivated calls for action to restrict or otherwise regulate imports. We believe that import restrictions—looked at solely in domestic terms—would not appear to be advisable. In the first place, they would not help Detroit retool any faster, since GM, Ford, and Chrysler are already moving as quickly as they can to the production of small, fuel efficient cars. In the second place, do we not believe that import restrictions would stimulate demand for the larger automobiles. With the steadily increasing cost of gasoline, we find the consumer determined to purchase the smaller automobiles.

The implications of import restrictions for consumers are severe. Quotas on imports mean reduced availability of fuel efficient cars to potential buyers in the United States. Prices of these cars will inevitably rise. Many consumers will be forced either to purchase larger, less fuel efficient cars at higher prices, thereby adding to American demand for foreign oil, or they will decide to forego a new car purchasse, thereby shrinking the total domestic auto market. None of these alternatives will benefit anyone, least of all automobile workers.

In the third place, import restrictions are not needed, since the current problem is clearly temporary, and the domestic industry is already taking the steps that will assure its resolution.

Our sales of automobiles, like those of other Japanese manufacturers, have admittedly increased. But these sales have been made without recourse to unfair trade practices. There is no evidence of dumping or subsidization that anyone has brought forward. In fact, such evidence doesn't exist. Moreover, our sales have been made in response to the demands of the American consumer. If domestic production cannot meet such demands, I believe that it is the classic and proper role of imports to do so, so long as they are good quality and priced fairly. Our automobiles have consistently met those standards.

In summary, we feel that important restrictions are harmful for the following reasons:

1. They will not put American auto workers back on the job.
2. They will cost American consumers.
3. They will serve only to increase inflation.
4. They will deny the consumer freedom of choice.
5. They will increase fuel consumption and dependence on OPEC.

It is well known that imported cars have made important contributions to the automobile industry in the United States and thus to the entire U.S. economy. We are proud of the reputation we have achieved in Japan, as well as in the United States and throughout the world, for Datsun products of high quality available at reasonable prices.

We are also proud of Nissan's contribution to the economy of this country. Throughout the United States over 40,000 people depend on Datsun cars for their living. Another 10,000 plus are employed in supplying goods and services to Datsun operations. Our dealerships alone employ more people than either Standard Oil of Ohio or Burlington Industries. Their total assets here in the United States exceed $1 billion.

These contributions to the economy of this country reflect, of course, our sucess in producing in Japan our small, fuel efficient vehicles and in selling and serving them in the United States market. We cannot, however, claim all the credit for our success. Fundamentally we have merely been meeting the demands of a special segment of the American market—the small car market—which has rapidly grown from a minor portion to the major portion of the U.S. domestic market. It is a market in which we have met vigorous competition from European and other Japanese manufacturers, but in which there was remarkably little competition from the Big Three domestic manufacturers. As a result, for many years there have been essentailly two automotive markets in the United States: the large car market, served almost exclusively by U.S. manufacturers, and the small car market, served largely by foreign manufacturers.

The current market situation is now rapidly changing due to the two major problems confronting the world economy—a high inflation rate which enhances the attractiveness of smaller cars, and less abundant, higher-cost energy supplies which place a premium on fuel efficiency. In response to these critical problems, domestic automotive demand in this country appears to have shifted permanently in the direction of smaller automobiles. The demand for large cars has fallen off, large car plants have been shut down, and some 200,000 automobile workers have been idled.

In response to this problem, as mentioned before, General Motors, Ford, and Chrysler are all accelerating their shift to the small car end of the market.

In September of last year, Nissan had a study prepared by Resource Assessment, Inc. entitled "The Economic Role of Datsun and Its Dealership Organization—A Study of Regional Effects of Import Curtailment on Employment." According to the projections in that study, if, as a result of quotas or other import restrictive measures, 25 percent of Datsun's sales were suddenly switched to domestic sales, approximately 9,600 direct and indirect jobs would be lost, including some 8,500 connected with Datsun dealership operations.

Translating this into a cutback of 25 percent of all imports, with all lost sales being picked up by domestic dealers, the study estimates that some 22,500 jobs would be lost as a result of such a domestic replacement for imports. These jobs are unlikely to be available at the domestic dealership level.

Job losses such as these must be taken into account in considering any proposals ostensibly designed to put people back to work. This is particularly true when it can be demonstrated that there is no connection between Japanese imports and layoffs of auto workers in this country. The figures published by the Department of Labor on 15 Feburary 1980 indicate that, of the 200,000 workers then unemployed at US plants, approximately 191,000 had worked in plants producing large and intermediate cars and trucks. This means that fewer than five percent of these idle workers were employed in manufacturing the compacts and sub-compacts which compete with Japanese imports.

Let me now turn to the second issue, which concerns investment in this country. We are quite aware of the general impression in this country that my company and other Japanese manufacturers have been dragging their feet, as you say. We are constantly advised to decide promptly to establish an assembly plant in this country. We have not yet reached a decision on whether to begin automobile production or assembly in the United States. While I cannot tell you what our ultimate decision will be, I can tell you some of the problems with which we are grappling in attempting to reach a decision.

First of all, of course, is the cost. An investment of several hundreds of millions of dollars would be necessary to buy or build and equip a plant large enough for mass production utilizing economies of scale sufficient to compete in this market. A minimum capacity of 20,000 units per month would be required. The recent firming of the dollar against the yen has made such an investment far less attractive than it would have been a year ago, when we were in the early stages of exploring investment possibilities.

Second, the timing of an investment at this point would be extremely bad. As I have indicated, the Big Three are already well along in their conversion to small-car production. If we were to begin investment in similar plants today, our first production models several years from now would face powerful competition from companies whose production capacity of small cars will be millions of units. The imbalance in economies of scale and a projected small car glut in the U.S. market make a potential investment extremely risky.

Finally the Japanese pattern of automobile production relies heavily on components manufactured by suppliers rather than by the automobile company itself. Whereas Japanese companies manufacture only 30 percent of their own components, General Motors manufactures 50 percent to 60 percent in house. It would be difficult for us to transplant this pattern to the United States without facing, serious problems of both quantity and quality of the supply of parts and components. Our competitiveness might therefore be seriously endangered by impairment of two cornerstones of our reputation, quality and reliability.

Some have asked why Nissan finds it difficult to decide to invest in the United States when Volkswagen has done so and Honda has decided to do so. We think our circumstances are quite different from theirs. Volkswagen made its investment decision at a time when the Deutchmark had experienced a substantial appreciation against the dollar, which nearly priced their product out of the U.S. market and also reduced the cost of the investment for the German company. Our situation is reversed. The yen, on the other hand, has lost approximately 30 percent of its value over the past year in relation to the dollar.

At the present time there is little economic justification for Nissan to contemplate the three to four hundred million dollar investment required to establish a production plant in the United States.

They say Honda suffers from a lack of production capacity in the home country. The U.S. is the major market for Honda automobiles and it may make economic sense for Honda to plan to manufacture automobiles in the United States. I might add that Nissan has established a procurement office in Detroit and is actively seeking to expand our purchase of local components and materials.

Mr. Chairman, I would like to deal briefly with several misconceptions which have been translated into charges against Japanese automobile manufacturers.

A leader of American industry recently said that Japanese automobile companies have dumped their products in the United States below the prices at which they sell them in Japan. This is simply not so. Without going into the details of why the price comparisons referred to constituted comparing apples with oranges, I will merely point out that in 1976 the U.S. Treasury Department instituted a dumping investigation against Japanese automobiles and found no sales at less than fair value. Nissan was not dumping then, Nissan is not dumping now, and Nissan will not dump in the future.

Finally, it is said that Japan is a closed market to foreign automobiles. While this may have been true at one time, it is no longer true today. The Japanese eliminated all tariffs on imported automobiles in March 1978; the U.S. tariff is 2.9 percent with the European Community's tariff at 10.9 percent. The commodity tax is applied uniformly to domestic and foreign imports, at the rate of 20 percent on cars with engines of 2,000 ccs and above and 15 percent on those under that level. Emission and safety standards are also uniformly applied, except that imports enjoyed a three-year exemption form the more rigid standards on emissions adopted several years ago. As far as any bias against large cars is concerned, it is essentially no different from that which can be found in two United States laws, the so-called "gas guzzler tax" in the Energy Tax Act of 1978 and the corporate average fuel economy standards in the Energy Policy and Conservation Act of 1975.

In closing, Mr. Chairman, I would call your attention the many editorials in major American newspapers which have deplored the pressures for protectionist action against small cars which happen to be made by foreign manufacturers, calls which the editorial writers see as contrary to the best interest of American consumers. Copies are attached to my statement.

That completes my statement. I would be happy to try to answer any questions you or your colleagues may have.

Attachments.

[From the Los Angeles Times, Monday, Mar. 10, 1980]

Cars, Not Quotas

General Motors is getting ready to lay off 2,400 workers and shut down its South Gate assembly plant while it retools to produce a new line of smaller cars. That action is part of a much bigger move by U.S. auto companies to convert the better part of their production to the more fuel-efficient cars that people are demanding. Catching up with this need is going to be expensive, costing tens of billions of dollars in the next five years. Failure to anticipate the need has already proved expensive because of sales lost to foreign car makers.

The figures are impressive and, for American auto manufacturers and auto workers, grim. In February, sales of U.S.-made cars were down 19 percent from a year earlier, while sales of imports rose 31 percent. Foreign cars now account for 26 percent of the American market.

From one perspective, that means a lot of lost jobs and a lot of lost production and profits for the U.S. auto industry and those who supply it. From another perspective, it means considerable fuel savings for drivers because of the generally better mileage of the imports that they have been buying. And it means more cars on the road that are likely to be cheaper to maintain and that may last longer besides, because in the experience of a lot of car owners—which is supported by a poll of automotive engineers—foreign cars tend to be built to higher standards of quality than do many American models.

In a sense, what has happened at GM's South Gate plant capsulizes the misjudgments of the U.S. auto industry. Once before, after the Arab oil embargo six years ago, the plant was retooled to make smaller cars. But the cars weren't very good, and oil supplies once again became plentiful, and gasoline costs, though they went up, were not the burden that they have become today. Besides, there was more profit to be had from making big cars than small ones. So back into production went the more fuel-hungry cars, even as import figures began to creep steadily higher.

There is no reason at all why U.S. car makers should not in time be able to meet public demands for cars that are not only competitive with imports in fuel efficiency but also—if they put their hearts in it—competitive in overall quality as well. The move toward doing just that has already begun, and sales figures for the new generation of cars look good. The trouble is that not enough of these cars can be produced yet to meet demand. So import figures keep climbing.

Quality of production along with a volume of production tuned to the market is the surest way to meet the import challenge, but that could take years to accomplish, and some people are in no mood to wait. They want import quotas enacted now, on the implied and dubious assumption that, if Americans are prevented from buying all the foreign cars they prefer, they will turn out of necessity to the U.S. models. That's not only bad reasoning but it's bad policy as well.

Protectionism only invites retaliation, which would not serve the U.S. economy at all Protectionism in this case would also deny Americans a freedom of choice that, as they have shown, they are keen to exercise. It would also have the unhappy side effect of retarding the encouraging decline in gasoline demand that has been occurring. Import quotas plainly aren't the answer; competition is.

The U.S. auto industry's blind and even arrogant refusal to recognize that fact has helped force more than 200,000 auto workers off the payroll. The industry's long indifference to fuel economy improvements, its too-casual attitude toward production quality, its smug rationalizing year after year that it was giving the public what it wanted are very much at the heart of its current problems. Now comes the push to penalize U.S. car buyers for industry's mistakes by levying import quotas. The American people simply won't buy that, nor should Congress even consider it.

[From the Los Angeles Times, Thursday, Feb. 14, 1980]

THE GREAT AUTO WAR

Japan sold a record 1.7 million cars in the United States in 1979, even as unemployment among American auto workers was accelerating, and the indications are that both trends are continuing this year. In January, Japanese-built autos took about 22 percent of the U.S. market, while layoffs in the auto industry reached 220,000. Douglas A. Fraser, the head of the United Auto Workers, is one of those who sees a direct link between the import and unemployment figures, and he is in Japan now asking for help in both areas.

Fraser wants the big Japanese auto makers to respond in the short term by limiting their exports to this country, and he is suggesting that in the absence of voluntary curbs the UAW might lead a drive for mandatory quotas on imports. For the longer term, he is urging the companies that make Toyotas and Datsuns, which last month alone had combined U.S. sales of more than 100,000, to build American production factories that would provide jobs for American workers.

Volkswagen, the big German car company, already has an assembly plant in the United States, and Honda, the third laıgest of the Japanese auto makers, is planning to build one; the Toyota and Datsun people do say that they are considering doing the same, but that's as far as they go. It seems to us that it would be in their interest, as well as in the interest of U.S. workers and the U.S. economy. for them to go further. A firm market for their products exists, just as it does in the case of Japanese television sets assembled in the United States by American workers. Bringing the product closer to the market makes sense.

It would not make sense to try to slap limits on imported cars, for such protectionism would only invite retaliation against U.S. products, and in the end both countries and their workers would be the losers. So would American consumers lose by being restricted in their buying choices. Japanese cars sell well here not because they are cheaper than comparable American models—they aren't—but because they have a reputation for good fuel economy and sound quality. People buy them in large numbers because they are the kinds of cars that people want to have. It's that simple.

U.S. car sales are down and auto industry unemployment is up largely because American auto makers have been shockingly slow in adapting their products to changing public tastes and needs, including an insistence on better quality control. Blame greedy management decisions for that, and leave some blame for the casual sloppiness with which too many auto workers go about their jobs. But don't blame the Japanese or try to punish them with quotas just because they build cars that Americans like, and because they had the foresight to see what the market would be.

[From the New York Times, Feb. 17, 1980]

AMERICA CAN'T AFFORD FORD'S SOLUTION

Times are tough in the American auto industry—so tough that one manufacturer, Ford, has broken its longstanding commitment to open world trade and is calling for restrictions on imports. Consumers can expect a campaign, aggressively supported by the powerful United Auto Workers, to curb the booming sales of foreign automobiles in this country. We hope Congress and the White House have the political will to resist. We can sympathize with the plight of the industry and its workers. But the cost of import relief is unacceptably high.

Detroit's problems stem, of course, from the steep price and uncertain availability of gasoline. Buyers are snapping up smaller, fuel-efficient cars as fast as they can be produced. The domestic manufacturers have been caught with too many big cars. Imports captured 22 percent of the American market in 1979—up from 18 percent in 1978—and further inroads are expected this year. As a result, only General Motors among the Big Three is making money on domestic operations. And some 175,000 autoworkers have been laid off.

Ford's proposed remedy is to cut 1980 imports to 1.5 million cars annually, about a million fewer than foreign companies would otherwise sell here. Import quotas would no doubt accelerate the plans Japanese manufacturers have made to build plants in the United States. But under the best of circumstances they would need years to gear up for American production. Meanwhile, Chrysler, Ford and G.M. would be assured bigger slices of the sales pie.

The consequences of such formal quotas—or of informal agreements to limit imports, like those already won by the textile and shoe industries—would be unfortunate. Consumers aren't shopping for imports because they dislike buying American. Detroit can't make small cars fast enough, so imported cars are the only ones available to meet demand. If a million foreign autos were turned away at the dock this year, a million would-be buyers would be left unsatisfied—and probably burning more gas.

Another strike against Ford's import quota idea is that it would be inflationary. Buyers are already paying premium prices for fuel-efficient Rabbit diesels and Hondas. If there were many fewer small cars coming in from Japan and Europe, the bidding could well go higher. And the rebates now offered on larger American models would likely disappear, as consumers were forced to settle for what was available.

The American auto industry might have taken the oil crisis seriously enough in 1974 to gear up for small car production in 1980; it didn't. The American auto industry might have supported stiff gasoline taxes in 1976 or 1977 to ease the transition to fuel-efficient cars; it didn't. Now the autoworkers and Ford want consumers to bear the burden for these errors of judgment; they shouldn't.

[From the Detroit Free Press, Jan. 16, 1980]

FRASER: HE ARGUES FOR PROTECTIONISM, BUT WE NEED A BETTER ANSWER

With more than 200,000 auto workers now laid off, it is easy to understand th pressures that drove Douglas Fraser to depart from his union's traditional free trade posture. And there are enough caveats and conditions to what he said that Mr. Fraser's comments have to be interpreted with some caution.

Nonetheless, there should be no mistaking the message in the UAW leader's statements of this weekend, and there should be no underestimating the dangers posed by this country's ineffectual response to the question of the Japanese inroads in the American automobile market. When Douglas Fraser argues, even conditionally, for a protectionist response to the imports, you better believe we are in trouble. That kind of shift does not come easily to the UAW.

It is important that the United States find an effective response to the fact that imports have reached the level of 22 percent of total American automotive sales. And it is important that that response be non-protectionist.

The problem with building tariff walls and setting import quotas is that they feed on each other. Japan's policies threaten American jobs, so we respond by imposing tariffs or quotas. They then respond by curtailing even more U.S. access to their markets. And the easy answer of protectionism becomes ever more enticing, leaving us behind a protectionist wall to nurse, rather than solve, our problems of inflation and marketing competitiveness and productivity.

So Mr. Fraser's threat of support for import quotas ought to goad the U.S. and the Japanese governments to new concern about the imports: to U.S. encouragement to Japanese manufacturers to build U.S. plants, as Honda has announced it will do, and to Japanese efforts to make the trade relationship truly free, with U.S. access to Japanese markets on a more equitable basis.

But even more than governmental efforts is the need for an industry response equal to the challenge. The 1979 figures on imports are the worst we have seen for a reason: The U.S. manufacturers were unable to meet the demand for small, fuel efficient cars. The Iran embargo caught the American manufacturers flat-footed; they did not have the capacity to produce the kinds of cars that the public, in a panicky state over gas lines and threats to the supply of oil, wanted.

Those more competitive cars are on their way, and the American industry is trying desperately to produce them in the quanities needed and in the types needed to induce buyers to buy American products. And the import levels certainly need not remain for long at the 22 percent level.

Is the right answer really to limit the freedom of choice of American consumers, or is it to try to build what they want to buy? Do we help our economy by limiting freedom of choice or by responding to what consumers, acting freely, are telling us about what they want? Is it in the interest of the U.S. to try to limit access of others to the American market, when the U.S. needs access to world markets to pay for its huge foreign oil bill?

No, a country that receives the big share of the fuel needed to run the automobiles we build here cannot afford to go far down the protectionist's yellow brick road. It can bargain, it can cajole, it can pressure, which is probably what Doug Fraser is intending to do.

Any significant attempt to build a protectionist policy, though, is ultimately doomed to disappointment and failure–failure for the consumer, for the country and for the working man who wants to produce cars. So the country had beetter come up with a better answer than Doug Fraser's. It might provide short-term relief, but it is not a prescription for a real answer to our problems.

[From the Chicago Tribune, Feb. 20, 1980]

Hang in There, Mark?

Poor Mark Thatcher. He's just a bloke trying to get the best deal around. In the midst of the latest. "Buy British" ad campaign, he did a modeling stint for a Japanese textile firm. For that, the Daily Express called him an embarrassment to his mother, Prime Minister Margaret Thatcher. Which just goes to show that some Brits can be as foolishly protectionist as some Yankees, like the ones who want to limit imports of TVs, cars, clothes, steel and what not.

The smartly patriotic thing for everyone to do is to buy cheap. Buying American or buying British even when the quality is inferior or the price too high does nothing to make the home products better or cheaper. Such patriotic insularity is really unpatriotic hogwash. It's like drugging a patient to make him feel better instead of treating what's killing him.

The answer to the Japanese TV invasion is to build better TVs. Americans aren't buying Sonys because they're cheaper [they're actually dearer here] but because they're technologically superior. Americans aren't buying Japanese cars just for the price, but for better mileage and fewer repairs. American car makers are catching up in both respects. But this is precisely because foreign competition has stirred them to action.

American steel doesn't help itself or other U.S. industries by hiding behind "trigger price" import barriers and threats of antidumping suits against foreign steel. This just perpetuates American steel's narcolepsy, while more vigorous competitors grab ever more of the world market.

Why has U.S. Steel just hired Nippon Steel for technical advice on making better blast furnaces? Because Nippon was beating the pants off American steel, that's why.

So the next time British textiles or some other whining protectionists take a swipe at Mark Thatcher, he should tell then to go out and hire themselves some foreign advice on improving productivity.

[From the Christian Science Monitor, Feb. 20, 1980]

Keep U.S. Carmakers in the Race

United Auto Workers President Douglas Fraser has been in Tokyo warning Japan's car manufacturers to restrict their exports to the US or face Congress-imposed quotas on Toyotas, Datsuns, and other models Americans are turning to in increasing numbers. The Fraser lobbying is a sign of deep problems in the

US auto industry. With some 200,000 auto workers laid off and US auto sales dropping (down 30.4 percent in the first 10 days of February from last year, their lowest level for the period in almost 20 years) America's carmakers are concerned that foreign imports, led by those from Japan, are taking an ever larger bite out of the US market.

Something must be done to pump new vitality into the US industry. The current trend, if allowed to persist, will create more economic hardship for production workers and have a deleterious effect on the US economy. It would be a mistake, however, for the US industry to place all of the blame for its slumping sales on Japan's and other foreign imports. As Japanese manufacturers are quick to note, the "true" reason their motor vehicles sell better is that escalating gasoline prices have created an overwhelming demand in the U.S. for fuel-efficient cars. And US automakers, partly because of poor management decisions and partly due to increased government safety and environmental regulations, have been slower to give the American car-buying public what it wants.

Protectionist measures by the US are not the answer. They could very well lead to retaliation by Japan and thereby further increase tensions between the two trading partners. Japan ought to be more forthcoming in trying to ease its trade imbalances. And the government in Tokyo, sensitive to the criticism in the US, is, in fact urging Nissan and Datsun to limit their sales in the US. Such steps may help in the short run. Convincing Japanese firms to make parts and build assembly-line plants in the US would help even more. Honda Motor Company already is committed to constructing a $200 million assembly plant in Ohio, and other Japanese manufacturers are said to be giving serious consideration to similar moves.

One concern of Japanese auto executives considering a shift of operations to the US is whether Americans will adhere to their exacting standards of quality control. Although modern quality-control techniques originated in the US in the 1920s, foreign carmakers, those of Japan and West Germany in particular, have acquired in recent years a reputation as producers of reasonably priced cars of superior workmanship and dependable performance. Foreign importers, for instance, generally have fewer autos recalled for safety defects than do US carmakers.

The long-term solution lies not in Tokyo but in Detroit—in sharpening the American industry's ability not only to produce fuel-efficient cars but to raise production and quality standards to meet the competition from abroad. When Volkswagen opened its first US assembly line two years ago, more than 10 percent of its American-made components had to be rejected because they failed to match VW's European standards. Since that time, quality control has improved and VW officials today say they are pleased with the US components they are getting. Such experiences show the challenge management and workers in the auto industry must face up to. More important, they show that American industry is capable of meeting that challenge.

[From the Atlanta Constitution, Feb. 19, 1980]

Japanese Saw the Light

(By Bob Ingle)

When I was a kid they told me in America anybody with a better idea willing to work hard can get ahead. I believe that, but I've come to see folks in high places reject that principle when it suits their purpose.

Take a look at what the auto interests are doing to Japan. The Japanese work hard and turn out cars that operate efficiently using little fuel. They also tend to hold together longer.

This makes them extremely popular and they've been selling well just as that old principle dictates. Japanese cars represent about 20 percent of the American market.

Somebody must think they're headed for an even larger share because the president of the United Auto Workers, Douglas A. Fraser, went to Japan to warn his hosts to set voluntary export limits and open assembly plants here.

If they don't, Fraser said, the Japanese face imminent action from the Congress here in the Cradle of Free Enterprise.

Fraser warned that this is an election year, 220,000 American autoworkers have been laid off and "people tend to become emotional." They do if people like you, Mr. Fraser, can build up enough hate and resentment.

This anger is misdirected at the Japanese. Why can't the nation that put a man on the moon build a better car than Honda? Not so long ago Honda was building motorcycles only. In 1973 Honda introduced the Civic, then in 1976 came the Accord. Both cars are hard to get without being put on a waiting list. Honda, by the way, has announced plans for a 10,000-car per month plant in Ohio.

Fraser acts as if Japanese manufacturers put guns to people's heads and force them to wait in line to buy a car.

Is it the price? Labor is cheaper over there, they keep telling us. Anybody who says a Honda, Datsun, or Toyota is cheap hasn't been car shopping lately.

No, the people who are buying those cars want something that will hold together at least until it's paid for. They are smart enough to know gas prices aren't going to decline and there is no good fuel alternative on the horizon.

So the question then is why didn't the American car companies see the same light the Japanese did? It's been about seven years since the first Arab boycott.

The Big Three tell us they don't make cars like Honda because Americans don't want them. Yeah, they don't want them so badly they wait three months for delivery.

The Big Three haven't cared what the public wants. They build a car they want to build, name it after a wild animal or something macho-sounding, then try to convince us we need it with slick advertising. For years they had no foreign competition. We took what they offered or nothing. They want that again.

When it comes to safety regulations they fight all the way. U.S. firms want the government to stay out of the market place.

When Chrysler fails it has to be propped up with government guarantees.

When Japanese sales take bigger and bigger bites of the market they warn of government restraints against our ally.

Congress should ignore them. Let them take their lumps—it's how the free enterprise system works. We're the world leader in things like aircraft and computers, we can be in cars. But first the Big Three have to be led by people who understand that basic principle about better ideas.

[From the Detroit Free Press, Sunday, Feb. 17, 1980]

In Our Opinion: Walls Won't Solve the Auto Import Riddle

(By Joe H. Stroud)

The guys on the line at the Rouge are just waiting, I know, to hear what any of us has to say about Japanese imports.

And those who are at home, waiting out the layoffs of this winter, want nothing so much as another newspaperman citing economic theory to tell'em why we might need to be cautious about moving toward protectionism.

To show that you really don't understand what it's like out there on the streets and in the plants, all you need to do is quote some rustic New England poet to try to make a point about the international trade in automobiles.

Well, OK, I accept that hazard. My experience has been that the guys on the lines know more about poetry and economics than most folks give them credit for knowing. Sometimes, some of them even know as much as newspaper people, which often isn't much.

At least once in every generation of American newspaper writers, some one of them quotes—almost always out of context, and almost always approvingly—the line from Robert Frost's poem "Mending Wall": "Good fences make good neighbors."

It happened in the Free Press again not long ago.

If you look at just a few more lines of the poem, which everyone knows but evidently no one reads, you find other sentiments being expressed by Frost: "Something there is that doesn't love a wall."

At the very heart of the poem:

> "Before I built a wall I'd ask to know
> What I was walling in or walling out."

As I watched Douglas Fraser's trip to Japan unfolding last week, I thought of that journalistic error, one I made myself once. Doug Fraser wasn't talking to the Japanese about walls exactly; he really wanted them, he said, to come over to our side of the wall and build some plants to serve the American market they have been exploiting so well.

The achievements of the Fraser trip are at best mixed. Certainly there is little evidence that the Japanese manufacturers are going to build plants in the U.S. in anything like the numbers the UAW would like to see. And meanwhile, Mr. Fraser may have set the stage for more efforts to isolate the American market and protect it for American manufacturers and American workers. More walls, rather than fewer.

As I thought about Doug and his mission and the rising tide of sentiment among American workers for retaliation against the Japanese, I found myself thinking not just about Robert Frost, but about advertising and styling and knowing the market and going after it with a vengeance. And it struck me that unless the U.S. recognizes the true import of the Japanese challenge and gets at meeting it, we're going to be launched on a fruitless crusade to bar them at the ports and a totally wrong diagnosis of what they are doing to us.

Let me say here and now that I make it a point to buy Detroit products, and I have mostly been pleased. Once, early in our marriage, my wife got infuriated with me because I couldn't bring myself to buy a Renault because I was mad at General De Gaulle. Life is complicated at our house. And late last year, we bought a Chrysler, on the assumption that we ought to put our money where our mouth was about the need to have the No. 3 auto maker survive. Besides, it's a nice car, and not half bad on gas.

So, at a personal level, I try to "buy Detroit" because I think Detroit's auto manufacturers need some help in weathering this storm and because they have something to offer the consumer.

But as I read the newspaper ads and the magazine ads and see the television commercials, I find the Japanese competing with us and sometimes beating us at many of Detroit's own games: efficiency, cost, marketing, often even such Detroit staples as styling. Just one look was not all it took for me, but it surely is for a lot of American consumers, and Detroit has got to do more to respond to what those consumers are saying in the marketplace.

Yes, it's true the Japanese often don't play fair. They have consistently wanted access to our markets and found slick ways to make it impossible for us to win access to theirs. When you're importing better than 90 percent of your energy supply, as the Japanese are forced to do, you have to be a hard-selling international trader. I don't have to approve of their tactics to understand what drives them.

Our problem, though—Detroit's problem, and the Big Three's problem, and the United Auto Workers' problem and Doug Fraser's problem—is that the Japanese have been scoring too many points against us on our home ground. They have been out-competing us.

One answer to that in the short run always is to resort to protectionism. I know that's what Doug Fraser says he isn't doing. I know, I know.

But when faced with a challenge such as that posed by the bewildered consumer of American automobiles, an industry can do one of several things:

> Redouble its effort to compete and not leave any significant share of the field to go by default to the overseas competition;
>
> Convince its management people and its workers on the line that this is a tough competitor we're up against and go out to meet the competition with a high-quality performance;
>
> Invite the foreign competitor to come and compete using American workers and show us that it isn't the work force that's the problem;
>
> Negotiate more shrewdly with our trading partners in the Far East; or
>
> Build a wall.

With Robert Frost, before I built a wall, I'd "ask to know what I was walling in and walling out."

A trading country such as the United States, due to be heavily dependent for years on foreign oil and foreign raw materials as well as many consumer goods, might well wall out something it really didn't want to do without.

[From the Detroit News, Jan. 17, 1980]

OUR OPINIONS: INVITATION TO JAPAN

The Japanese success in making small cars and big gains in the U.S. market is beginning to pinch some sensitive American nerves.

In 1979, imports made up 22 percent of the automobiles sales in the United States and 76 percent of those imports were made in Japan. That country's growing market share comes at the expense of the troubled American auto industry. Rising gasoline prices have finally forced the domestic auto industry to begin the costly switch from big-car to small-car philosophy. Chrysler Corp. is under the shadow of possible bankruptcy. Economists predict that 1980 will be a bleak year for auto sales. And more than 200,000 UAW workers have been laid off.

That last fact has driven UAW President Douglas Fraser to advocate legislation that would force Japanese auto makers to begin manufacturing a substantial portion of their products in the United States as a condition of continued access to U.S. markets. Mr. Fraser has even gone so far as to suggest the possibility of import quotas, a turnabout in the UAW's traditional free-trade philosophy.

Quotas, of course, are nothing new to the Japanese attitude toward trade. Until 1965, Japan had strict import quotas, and 35 percent import duties on cars. The quotas were eliminated and the tariffs completely lifted by 1978, but many less visible barriers have kept Japan's total car imports to only 1.1 percent of its export total. Japan's import discouragements include: difficult to obtain import licenses, a 15 percent commodity tax, a 5 percent automobile acquisition tax, weight and road taxes favoring small cars, and exhaust-emissions and safety regulations so much stricter than those in the United States that it adds considerably to the price tag of imports to bring them up to standard.

Trade with Japan hasn't exactly been a two-way street. It's time the Japanese made some concessions to their largest foreign market. We agree with Mr. Fraser that Toyota and Datsun should emulate the example of Volkswagen, which now supplies 78 percent of its U.S. market through U.S. plants.

Encouraging Japan to open U.S. plants is good policy. American-based production will employ American workers and boost the American national product. It will improve the balance of payments and thus the dollar's status. And Japanese factories in America will still apply the goad of foreign competition to domestically owned auto companies.

The American auto industry has nothing to fear but Japanese efficiency and innovation; indeed, Japanese producers will be put on an equal footing with domestic companies in the area of labor costs.

The threat of import quotas may be one way to force the recalcitrant Japanese to invest in U.S. plants, but a retaliatory imposition of import limits alone would be a mistake. Trade restrictions provoke protectionist reactions, reduce beneficial trade, and can develop into an unhealthy trade war of the 1930's variety. Such restrictions remove the innovative spur of foreign competition to prop up inefficient industries.

The Japanese auto manufacturers should not be locked out of the American market. Rather they should be invited in to establish factories and provide jobs on this side of the world.

[From the Washington Post, Jan. 15, 1980]

THE UAW AND JAPANESE CARS

By calling on the Japanese automobile companies to manufacture cars here in the United States, the United Auto Workers are taking an enlightened position. The union could have gone the other way. It could have done as the steelworkers do. The steelworkers push over the American steel companies for outsized wage increases, then join hands with those same companies to lobby here in Washington for protection against less expensive Japanese imports. But the present restrictions on steel imports are proving costly to consumers and inflationary to the whole country.

The UAW, in contrast, understands perfectly well that the Japanese manufacturers are the only serious competition these days to General Motors. It is the imports, and particularly the Japanese imports, that are holding down prices for the small cars. To keep Japanese cars out by import quotas would be extremely dangerous. To draw them in more deeply, inducing them to begin production here, would be good for everybody—for American consumers, Japanese companies, the UAW and even General Motors.

Ideally, the future would find American companies making and selling their cars in Japan as well. Or, more precisely, it would find both countries' companies making parts of their cars here and parts there. So far, Japan has not been notably receptive to foreign companies' operating on any large scale there, although some

American companies have tentatively entered partnerships with Japanese producers. But because the Japanese manufacturers have been spectacularly successful in the wide-open American market, it is now up to them to take the next step.

The Honda Motor Company announced in Tokyo last Friday—two days before the UAW meeting opened here in Washington—that it will begin making cars in a new plant to be built near Columbus, Ohio. The bigger companies, Nissan (which makes Datsun cars) and Toyota, are thinking about it. The UAW is calling for legislation. But it would be better for the present to hold off legal requirements to see what can be accomplished without them. Presumably, the Japanese manufacturers all perceive that to manufacture here will greatly diminish the prospect of protectionist reactions against them.

The nature of competition is changing fast in the American automobile market. Until that crucial year 1973, when the price of oil shot upward, the American companies generally chose not to fight very hard for the small car sales. But now they see that their futures depend on their small cars. Competition is fierce, and it will get fiercer over the next year or two as the American companies fill their showrooms with an increasing variety of models designed specifically to meet and exceed the imports' standards of fuel economy. The possibilities for ugly political friction are obivous. One remedy is to give American working people a stake in the Japanese companies' progress here—just as, eventually, Japanese workers may have a stake in American companies' production for Asian markets.

[From the Columbus Dispatch, Jan. 22, 1980]

Auto Union's Concern

When the boss of the United Auto Workers recently demanded there be a limit on the number of foreign automobiles sold in the United States he made an interesting differentiation.

While Douglas Fraser said the UAW is pleased that Honda of Japan plans to build an assembly plant near Marysville, Ohio, he lambasted Datsun of Japan as behaving "outrageously."

At the moment, Datsun is an exporter. Yet it, too, says it will build a plant in the U.S. After that, presumably, Datsun will be in Fraser's good graces.

Fraser, of course, is looking for more employment for his union membership as well as more union members.

But he overlooks an important factor in the economy of the auto business—the consumer. And one reason why imports are selling so well in America is that an increasing number of Americans seems to like what they see in the imports compared to what Fraser's people are turning out.

There is an old saying about building a better mousetrap; it does not mention where it is built. Maybe "better" is the element which should concern the UAW President.

[From the Atlanta Constitution, Feb. 20, 1980]

We Know Lemons

The Japanese folks at Toyota are doing us no favors.

Toyota Motor Co., Japan's No. 1 automaker, has announced that it will hold its 1980 exports to the United States to the 1979 level of 610,000 units. The action is an obvious concession to American warnings of import quotas.

The freeze means several things, none of which is flattering or helpful to Americans. Right off the bat, it means a higher price for the 1980 Toyotas. The U.S. demand for Toyotas is strong—and when the demand is stronger than the supply, up goes the price. Surprise, Toyota officials have announced a price increase. It's a price boost we're forcing on ourselves.

Beyond the price boost, the Japanese must be laughing up their sleeves (kimonos?, whatever) at us—that the once mighty Americans have been reduced to this.

It's clear that threats of import quotas by U.S. government and business officials are the reason that Toyota is limiting Toyota sales in the U.S. Such threats, using slogans such as "Free Trade, Fair Trade," are the coward's way out.

It's true that it would be "fairer" for Japanese automakers to build plants in the U.S., and it's true that Japanese automakers have some advantages that U.S automakers don't. For one thing, the Japanese government is very cooperative in "helping them out" in various ways. For a second, Japanese labor wages are considerably lower. For a third, Japan imposes considerable import fees on U.S.-made cars sold in Japan (which doesn't mean much since most Japanese are smart enough to buy their own, better cars).

Why has Toyota been so successful in America? Because Toyota cars generally are quality products, well-designed, well-made, and don't self-destruct in seven years. Lower price used to play a role, but in recent years Toyota prices, due to the fall of the U.S. dollar, have risen appreciably. The same why-to-buy arguments generally hold true for other foreign-made autos.

There was a time when American automakers would have taken on the Japanese automakers and run them into the ditch. But that's the used-to-be. In the 10-year period 1967–1977, Japanese productivity rose 107 percent, America's, a pitiful 27 percent; the U.S. trend has been steadily down in recent years. American labor complains the Japanese do well because their labor is low paid; since U.S. labor is wo well paid, shouldn't we be doing much, much better?

There was a time when Made-in-Japan meant cheap; now it means quality. There was a time when Made-in-U.S.A. meant quality; now it means cheap. When American automakers build quality, efficient autos again, Americans will buy them eagerly. But not till then. We know lemons when we see 'em.

[From the Forum, Opinion/Analysis/Commentary, of the Cleveland Plain Dealer, Mar. 1, 1980]

DON'T BAR FOREIGN CARS

(By Michael J. Hihn [1])

Douglas Fraser, president of the United Auto Workers, recently returned from Japan, where he threatened possible retaliation for the growing imports of Japanese cars. He should have gone to learn.

For example, why are Japanese auto workers almost twice as productive as our own? Or why can't American auto workers turn out something like the recently introduced Subaru Rex, which gets 61.5 miles per gallon at 37 miles per hour and sells for $2,000 in Tokyo?

The productivity of labor is more critical than the cost of labor (wages) in determining price levels of finished goods. And productivity is a direct function of invested capital (profits) and sound management.

The awesome productivity of an automated punch press operator (whose "labor" consists of moving his finger a quarter-inch) reduces prices, regardless of the operator's wage. The American economic "miracle" consisted of the world's highest-paid workers turning out the world's lowest-cost products, thanks to the superior productivity created by invested capital.

As proof, Henry Ford (a capitalist) introduced the five-day, 40-hour week, paying twice the going industrial scale.

By improving the production line process and by investing more capital in each worker, Henry Ford increased his profits, doubled the prevailing wages, increased workers' leisure time and made automobiles affordable for the masses. Just your typical robber baron.

Today, those who produce these benefits are called exploiters, while those who receive the benefits are described as exploited.

The American economic miracle isn't dead yet . . . We've exported it. Even socialist Sweden takes less capital from industry, in taxes, then the so-called capitalistic United States. Our government takes more business taxes, as a percentage of GNP, than any other major industrial nation.

We steal from today's productivity, leaving too little to invest in tomorrow's.

The UAW seeks a four-day work week (with five day-wages, of course). It's not honest enough to bargain for this goal openly, preferring to add a few extra days-off in each contract. But the final results will be the same; imports will become even more competitive.

This is the real reason Fraser seeks "protection" from imports. Rather than increasing employment, as liberal economists claimed it would, more paid time off has increased layoffs, as free-market economists correctly predicted. The

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[1] Publisher of Cleveland Business Review and executive director of the Small Business ACTION Alliance.

proposed "solution" is import quotas or tariffs, which would transfer this unemployment to workers in other industries and further increase auto prices.

Higher U.S. auto prices, caused by lower American productivity, forces consumers to forego purchases that would otherwise have been made from other industries, thereby causing unemployment in these industries.

In effect, the UAW would transfer the unemployment penalties of their actions to other (lower-paid) workers. This, from a union that claims to defend the "little" guy!

A relatively small number of highly paid auto workers must not be permitted to exploit the American public for their private gain. The arrogant abuse of union monopoly power must be stopped.

As consumers, we should provide no political support for import quotas or tariffs. Even those who never buy imported cars, under any circumstances, receive the benefits of foreign competition. Thus, foreign competition is our only guarantee of the finest possible American cars, at the lowest possible prices.

[From the Our Opinions Column of the Detroit News, Mar. 2, 1980]

Discontent Over "Local Content"

Pressures on Congress to put up barriers against the influx of foreign autos are quickly mounting this election year.

One idea already mentioned by UAW President Douglas A. Fraser and several Ford executives is a "local content" law, which would require that cars sold in the U.S. market contain a certain percentage of American-made parts.

Mr. Fraser hasn't mentioned a specific percentage. But Ford's William O. Bourke, whose North American auto operations lost $199 million in 1979, has suggested a 75-percent local-content requirement.

With more than 150,000 UAW workers on indefinite layoff, and with foreign autos—primarily Japanese—accounting for a record 27 percent of the U.S. market in January, a local-content rule has a certain insidious appeal.

It would, after all, force investment by the Japanese and others in plants here, creating more U.S. jobs and ending the price advantage enjoyed by some foreign models.

Certainly, for precisely these reasons, the Japanese should be encouraged, and indeed leaned on with diplomatic pressure, to build plants in the United States. Tokyo has already indicated a willingness to extend tax credits to its manufacturers to build here, and many American states have tax-incentive programs to lure new plants.

At the same time, America should press its partners in international commerce to agree to trade-rule changes that would permit the federal government to provide American exporters the same tax advantages, under our direct income-tax system, which other nations afford their exporters through rebates of indirect value-added or commodity taxes.

But for the United States, one of the world's most advanced industrial economies, to slap a local-content requirement on foreign auto makers would be a regressive and self-hurting step.

The United States is the richest auto market, but it is not the only auto market, and it does not have the growth potential for American manufacturers that foreign markets have.

According to GM chairman Thomas A. Murphy, there is one car for every two persons in the United States, but only one car for every three persons in Europe. In South America, the ratio dwindles to one car for every 40 people, and the density for the Asia-Pacific region is similar.

A dozen years have passed since more cars were sold outside than inside North America for the first time.

In that period, the major U.S. auto manufacturers have been developing the concept of the "world car", or "rational car," in which components are manufactured in one country for installation in another country. Ford has been able to build its Fiesta in Europe with components from 16 Ford plants in six countries (Western Europe doesn't have local-content requirements). GM is planning to do the same with $2.4 billion in plant investments in Spain, Austria, and Northern Ireland.

If a self-sufficient auto industry must be constructed in microcosm in every nation, the cost per unit goes up. Economics of scale are lost; tooling costs take longer to recoup, giving consumers fewer innovations and a narrower range of models.

Where local-content rules are in force, GM and Ford are even now negotiating reductions. GM extracted a local-content reduction from Australia in exchange for a new engine plant and a promise to export many of the engines. Ford has persuaded Argentina to lower its local-content rules.

It is, therefore, inconsistent (not to say schizophrenic) for Ford to argue for a U.S. local-content rule, while its officials abroad are pressing foreign governments for an easing of precisely such restrictions.

A U.S. local-content rule not only would set a perverse example for other nations, and thus hamper American auto making abroad, it would also adversely affect the domestic market. Such a requirement, for example, could jeopardize American Motors Corp's arrangements to produce Renault vehicles here.

For these reasons, a U.S. local-content rule would be a mistake.

Mr. Bourke, however, raises a very good point. All cars sold in the United States must meet federal fuel-efficiency standards, which increase steadily, if unevenly, each year to a required fleet average of 27.5 miles per gallon by 1985. The U.S. American content to be counted in the fleet average, while foreign manufacturers' products do not.

If Congress really wants to aid the slumping U.S. auto industry, eliminating the North American content requirement in the fuel economy rules would be a mighty fine way to start.

[From the Times Board of Economists Column of the Los Angeles Times, Tues., Mar. 4, 1980]

Protectionism Is Bad for Everybody

(By Arthur B. Laffer [1])

Amid the crash and clatter of the presidential primaries, a quiet assault on America is proceeding unnoticed. The combatants are Americans and Japanese. Ironically, the assults on the American standard of living is being mounted by the Americans, while the Japanese defend us against our own worst inclinations.

President Carter's personally commissioned field commander is none other than Douglas Frazier of the United Auto Workers. His job? To restrict imports from Japan. The new twist? To convince the Japanese to voluntarily withhold their products from American consumers. If successful, Frazier will be able to return triumphantly from the Far East to throngs of resultantly poorer Americans.

"Protectionism," the use of government barriers to shield domestic workers and business from the competition of imported products, has long been a disease to which Americans are readily susceptible. One major bout lost to protectionist sentiments was perhaps the single most important cause of the Great Depression. In 1929, legislation referred to as the Smoot-Hawley Tariff, was proposed with the intent to raise taxes by enormous amounts on imported products. It was passed by both Houses of Congress and was signed into law by President Herbert Hoover. The effects on the stock market as this legislation wound its way through Congress and ultimately was signed by Hoover are documented in detail by Jude Wanniski in his book "The Way The World Works." The impoverishment of America ensued.

Later bouts with the protectionists also had significant, although less dramatic, consequences on the American economy. In the mid 1960s when the disease again became infectious, the initial manifestations were relatively harmless. Following on the heels of the enlightened Kennedy Round tariff reductions, mild attempts to restrict capital outflows were being proffered. These attempts soon spread into specific commodity import restrictions, "buy-American" programs and the like. This stage of protectionism culminated in the 1971 dollar devaluation, gold-export prohibitions and a temporary across-the-board tariff surcharge on imports. Investments in foreign-made machinery were also excluded from the highly advantageous investment tax credit, and anti-dumping and countervailing duty programs, each of which furthers protectionism, were enforced with renewed vigor.

While not exactly dormant, protectionist anti-foreign sentiments seemed to be arrested as the economy's attention focused on other issues. It is now surfacing again, however.

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[1] Charles B. Thornton professor of business economics at the University of Southern California.

In fact, many of the problems encountered by the U.S. auto industry may well be attributed to U.S. restrictions on steel imports. The denial of access to low-cost and high-quality foreign steel has placed artificial impediments in the path of an already ailing domestic industry.

The so-called gains from trade are legendary in scholarly writings on the subject of international trade. Economists and historians for generations have pointed to the substantial losses incurred by countries when they attempt trade restrictions. The average American consumer, for example, spends a sizable portion of his income on foreign-made products. Even when products are manufactured in the United States, many of the ingredients going into them come from abroad. As a result, restrictions on the importation of foreign-made products raise the costs and lower the quality of the products available to the consuming public. This has one immediate effect. It makes Americans poorer.

Other less direct but equally powerful forces are also at work. As anomalous as it appears at first blush, import restrictions reduce exports as well as imports. Exports represent the means by which one country acquires the wherewithal to purchase goods from other countries. Thus, if other countries are restricted in their efforts to sell to us, they are less likely to buy from us, as well. Import restrictions therefore cost jobs in our nation's exporting industries. That is one reason why a majority of America's export industries oppose import restrictions.

Perhaps the strongest argument against the protectionism is that foreigners are much better at producing some products than we are. We in turn are much better at producing other goods. If restricted from trading, we then have to squander our resources producing items we produce less well, instead of buying them from abroad. We all become poorer and productivity declines.

Trade restrictions also grant immense market power to industries within the United States. Wiohout the threat of external competition, protected industries soon find that they don't have to be on their toes to sell their products. Consumers have no choice. They must buy from the protected domestic industry or not buy at all. Monopoly power follows and ultimately results in wasteful production—and in firms that are insensitive to the needs of their customers. It is precisely these deleterious results of excessive market power to which our antitrust legislation is directed. Trade restrictions further enhance the concentration of power in industry—a result which we all abhor.

Studies show that those countries which have permitted the most rapid growth in imports are on average those countries which have enjoyed the most rapid growth in output. More rapid output growth is a prerequisite for more rapid growth in employment and a country's standard of living. The benefits from freer trade are more than just an academic issue. They really work.

One would hope that in this year of heightened political activity, the issue of trade restrictions versus freer trade would take center stage. The quality of iife in America is at stake, as it is with so many other issues. In the meantime let's hope that the Japanese maintain their resolve in protecting us from ourselves.

[From the Atlanta Constitution, Mar. 12, 1980]

The Japanese Didn't Do It

(By Lee May)

At last, we've heard it from a motormogul's mouth, and it's about time. It's about time that an American automobile manufacturer acknowledged that Americans should not blame the Japanese for problems in the United States automobile industry. The problems are our own making; we just don't make cars like the Japanese do.

Maybe General Motors Corp. President Elliott Estes said what he said because he happened to be traveling in Japan, and maybe he said it because GM is the top holder of shares in Japan's Isuzu Motors Co. (Isuzu manufactures LUV, a truck which sells well here, so what's good for Isuzu is good for GM), but whatever the reason Estes got it right when he rejected the feeling that Japanese automakers are responsible for putting 200,000 Americans on the list of the unemployed.

The Japanese didn't do it; the Americans did. More specifically, the American automakers did.

Even Rep. Charles Vanik, the Democrat from Ohio who is trying to talk the Japanese into building more plants in this country, realizes the fault is not Japanese.

Says Vanik, "The industry should have seen the handwriting on the wall after the first five minutes of the 1973 Middle East war," when Arab nations cut off oil sales to America.

That cut should have been the signal to Detroit to regroup and retool.

The only signal Detroit understands, however, is the proverbial bottom line, and that ran toward the red for some American carmakers as the Japanese grabbed 22 percent of the American market. When that began to happen, something in the decisionmakers' minds clicked like the light bulb in the Ford ad: Let's give'em what they want—smaller cars, cars that get better gasoline mileage.

This discovery ranks right down there with Jimmy Carter's recently discovering that America has a slight problem with inflation, and maybe it's time to start thinking about retooling the economy.

While Estes realizes we shouldn't blame the Japanese for our unemployment, he still does not seem willing to blame himself and his fellow producers of bloated cars. Instead he uses the tired-old fallacious line about American producers not being prepared for an almost-overnight jump in the demand for small, efficient cars. During a press conference in Tokyo last week he pointed out that the Japanese, on the other hand, are "well suited to take advantage" of the situation.

We aren't prepared, but the Japanese are. That combination of facts leads to at least one conclusion: The U.S. automakers should hire as many Japanese consultants as they can find to keep them on top of developments in the American market. That way, maybe the American auto people won't be caught with their sales down when consumers shift to the next sensible direction in automobiles.

That's not likely to happen of course. More likely is the continuance of what's happening now: a lot of griping and crying about how we need protection against those bad Japanese and about how we can't sell enough of our cars over there because of the Japanese government's trade barriers.

Nonsense. This country wouldn't sell many cars in Japan even if the Japanese government didn't make it tough for foreign manufacturers. Why should the Japanese buy what Americans won't buy?

A bloated car is a bloated car by any nationality.

America has the talent and the technology to put this country at the top of the auto sales heap. Excuses and a stubborn affinity for gas hogs are the chief barriers to doing that.

Is the change coming at last? Have American automakers belatedly awakened to reality? Maybe. According to Estes the size of GM cars is continually being geared down. The boss of the giant automaker claims General Motors is running at full speed, redesigning its plants to produce smaller cars, cars that are fuel-efficient.

If we can believe that GM really is doing that and that the rest of the industry is following suit, sometime in the future we may see an American auto industry that can compete with the Japanese. Until then, let's revel in the small step toward honesty that Elliott Estes has made in saying the Japanese are just beating us at our own game: free-market competition.

Footnote: Estes and his counterparts had better step faster. The Soviets are planning to jump into the American market in 1981 with a car called Lada. The Fiat lookalike is said to be a sturdy "no-frills car." Just what Americans and everyone else need today.

[From the Sun Chronicle, Wed., Feb. 27, 1980]

Yankee Ingenuity, Not Restriction

U.S. auto makers are calling for restrictions on the number of foreign vehicle imports, limiting the number of cars that can enter this country.

They are concerned that more than 200,000 auto workers here have been laid off because of slumping domestic auto sales.

And in the meantime, a United Auto Workers Union official visiting Japan has called for legislation requiring auto importers who sell more than 200,000 units here annually to build their vehicles in the United States.

The firms that fall into that category are Toyota, Nissan, Honda Motor Co., all of Japan, and West Germany's Volkswagen.

VW already has an assembly plant in Pennsylvania and is planning another near Detroit. Honda intends to build a car assembly plant in Columbus, Ohio, adjacent to its motorcycle works.

The construction of foreign cars here makes a lot of sense and should be encouraged. But moves to limit imports could quickly result in similar trade barriers placed against the United States.

The best way for domestic auto makers to end the sales slump is to construct vehicles that can compete with imported models—cars that measure up in quality and performance.

U.S. auto executives and the UAW have allowed other countries to take the lead in developing new techniques and new designs that are hardy and fuel-efficient, outperforming America at its own game.

What is needed is some good old Yankee ingenuity in producing a superior product, not trade restrictions.

[From the Cleveland Plain Dealer, Feb. 29, 1980]

Build a Better Auto

There. At last. It's out in the open.

An admission by scores of U.S. automotive engineers that yes, the best automobiles are produced by foreign makers, confirms what an increasing number of Americans decide on their own.

The engineers should know whereof they speak. They design products for Ford, General Motors, Chrysler, American Motors and Volkswagen of America. All but those employed by Volkswagen gave a majority of their votes for car superiority to Japan. Germany ranked a close second in the survey reported in the March issue of Ward's Automotive News.

If the survey results are a blow to the prestige of the mighty American automobile industry, they should be seen also as a clear signal of danger. The danger is that if the American public becomes further convinced that foreign cars are better, the American industry—and the American economy—are going to suffer even more grievous harm.

When Japanese auto makers can capture 22 percent of the U.S. market, it is obvious that it takes more than appeals to buyer patriotism to sell American-made cars on the home market.

Buyers' preferences, plus the engineers' views, indicate that better quality is the best answer to the problem of competition from overseas. If quality is to improve, there must be concern all the way from automotive board rooms to assembly lines.

If hourly workers and executives cannot work together to improve quality, their industry may be in for more trouble than they realize.

[From the Harbridge House, Inc., Boston, Mass., June 1979]

We Wouldn't Have To Buy Any Oil From OPEC

If every car in the U.S. got the same fuel economy as the average imported car

A recent research study established that among all domestic automobiles in use in the United States in 1977, the average fuel economy was 13 mpg. Imported cars in use in the U.S. averaged 32 mpg. Based on these figures, the study arrived at the following conclusions:

If all of the cars in the U.S. (in 1977) had been as fuel efficient as the average imported car, the country would have saved 45.6 billion gallons of gasoline, or nearly 57 percent of the amount of gasoline we did consume.

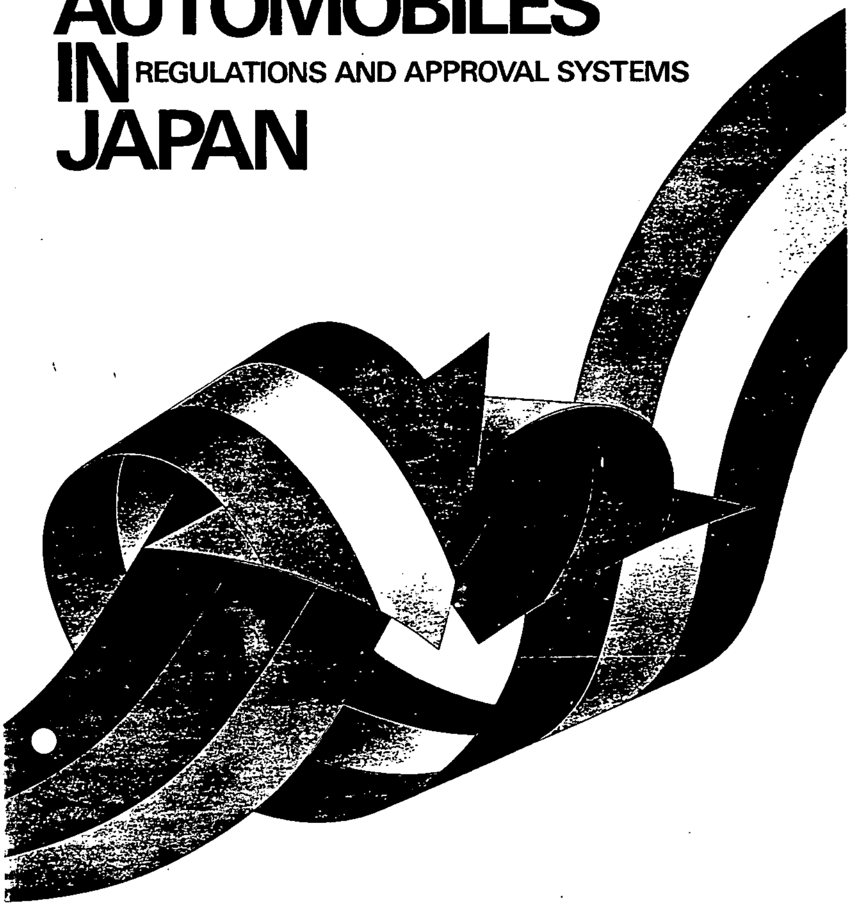
Conserving 45.6 billion gallons of gasoline would have decreased our need for crude oil by 2.5 billion barrels. Since we imported 2.4 billion barrels of crude in 1977, this means that, had all cars been as fuel efficient as the average imported automobile, we would not have needed to import any crude oil at all to meet American gasoline requirements.

To put it another way, without the imported cars operating in the U.S. in 1977, we would have been forced to import an additional 331 million barrels of crude oil, at a cost of $4.5 billion.

Driving a fuel-efficient automobile, domestic or imported, helps reduce America's dependency on the oil-producing nations. The more that 4,500 American businesses that sell and service imported automobiles and their 138,000 American employees thought you should know.

FOREIGN AUTOMOBILES IN JAPAN

REGULATIONS AND APPROVAL SYSTEMS



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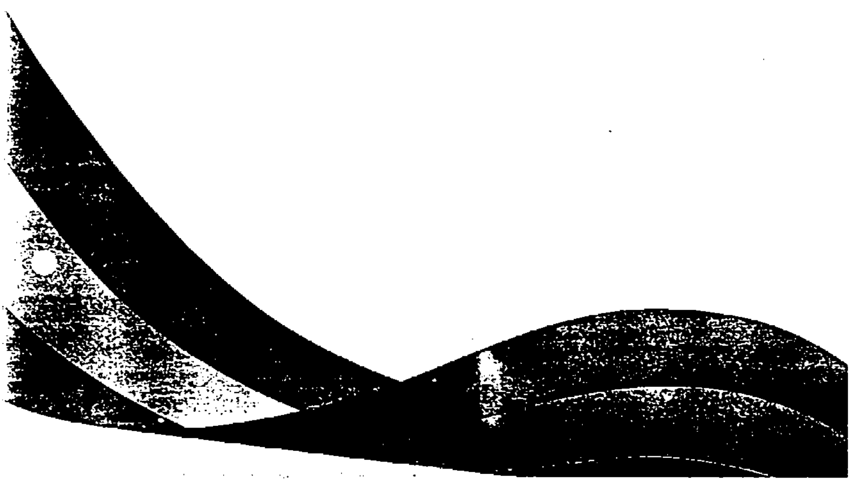


TOWARD IMPROVED TRADE RELATIONS

Recently, the Japanese automobile market has been the subject of various complaints. This, of course, is due at least partly to the steady growth of exports from Japan to overseas countries, supported by the growing reputation of Japanese vehicles for quality and economy and the general growth of the industry itself. Thus, foreign automobile manufacturers increasingly voiced their complaints against what they perceived as non-tariff barriers preventing an equal growth of auto imports into Japan.

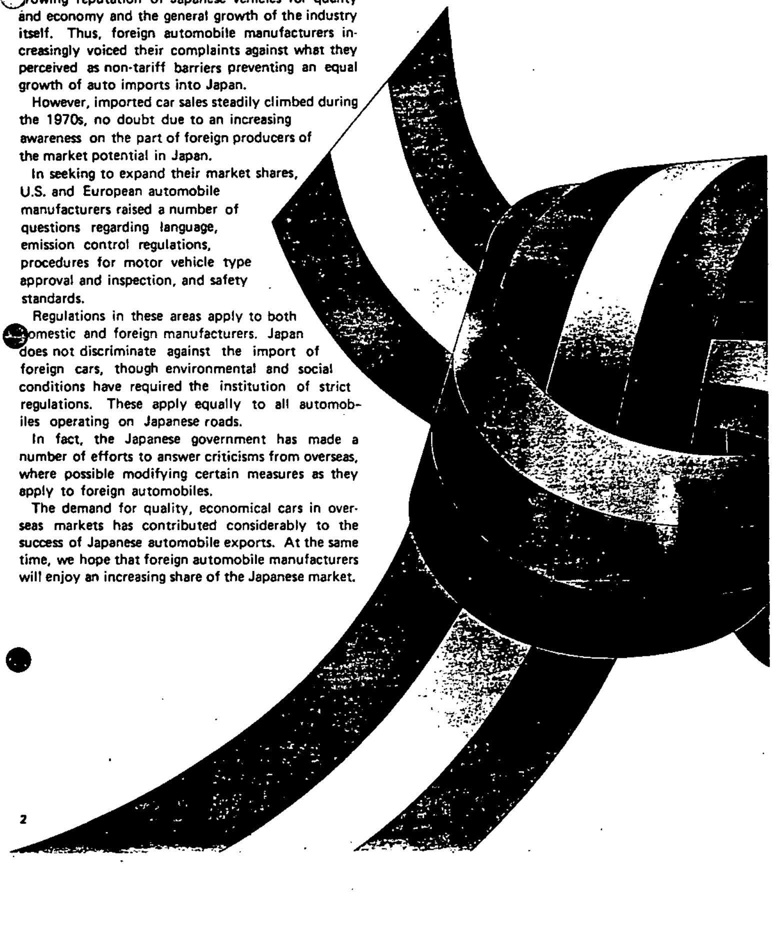
However, imported car sales steadily climbed during the 1970s, no doubt due to an increasing awareness on the part of foreign producers of the market potential in Japan.

In seeking to expand their market shares, U.S. and European automobile manufacturers raised a number of questions regarding language, emission control regulations, procedures for motor vehicle type approval and inspection, and safety standards.

Regulations in these areas apply to both domestic and foreign manufacturers. Japan does not discriminate against the import of foreign cars, though environmental and social conditions have required the institution of strict regulations. These apply equally to all automobiles operating on Japanese roads.

In fact, the Japanese government has made a number of efforts to answer criticisms from overseas, where possible modifying certain measures as they apply to foreign automobiles.

The demand for quality, economical cars in overseas markets has contributed considerably to the success of Japanese automobile exports. At the same time, we hope that foreign automobile manufacturers will enjoy an increasing share of the Japanese market.



Our association is certain that foreign manufacturers will increase their market share in Japan as they gain greater knowledge and experience in the Japanese market. However, we also realize that a communication gap still exists between Japan and its major trading partners.

Not only manufacturers, but leaders in government, media and the private sector in general need more accurate and up-to-date information on Japanese regulations and standards. The purpose of this booklet is to better acquaint the reader with the situation in Japan as it applies to automobile imports.

Based on information from the Ministry of Transport, the booklet contains non-technical coverage of procedures for motor vehicle type approval, current emission control regulations, trends in automobile sales in Japan, and answers to some of the major criticisms leveled at Japan with respect to imports of foreign automobiles.

Our association, in the past and at present, recognizes that world trade is a two-way street. We hope this booklet will serve as a stepping stone to further mutual efforts in communication and trade.

TYPE APPROVAL SYSTEM

Until 1976, all motor vehicle testing and certification procedures for both domestic and imported automobiles were conducted by the Ministry of Transport in Japan. When applied to imported autos, however, this created some prob·ıms and delays due to the logistical problems of shipping test vehicles to Japan.

In addition, import procedures did not proceed smoothly at times because of the unfamiliarity with application procedures on the part of foreign manufacturers and Japanese importers.

In order to alleviate this situation, the Japanese government was requested to recognize approval tests conducted outside the country.

As a result of an inspection tour of testing facilities in foreign countries, the Ministry of Transport agreed to send special inspectors to the EC countries and the United States to conduct preliminary tests, when requested by the manufacturer. The ministry also agreed to authorize certain testing facilities in the EC countries to undertake part of the inspection.

Furthermore, the ministry initiated an instruction program for imported car dealers, and took steps to reorganize and rationalize the inspection system.

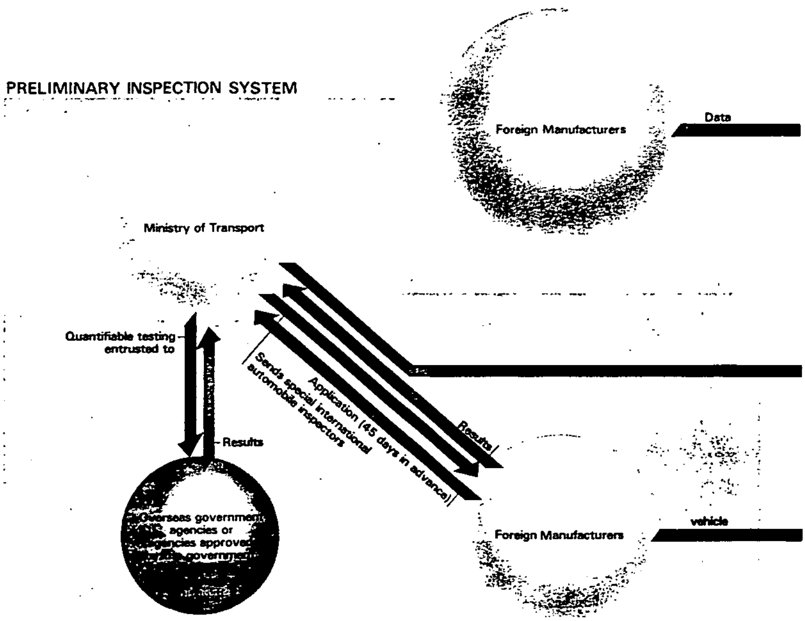
As a result, the time required for certification of foreign 1977 models unveiled in 1976 was 45 days or less, a much shorter time than the approximately 90 days it takes for domestic cars to get approval.

Preliminary Inspection System

There is a total of 64 items which must be inspected in order to receive type approval. Beginning in 1977, 46 of these can be tested in the countries of export provided application is

NEW TYPE NOTIFICATION (TYPE APPROVAL)

PRELIMINARY INSPECTION SYSTEM



made by the manufacturer 45 days prior to the requested test date.

Testing of six of these 46 items is entrusted to inspection agencies in the country of manufacturer, i.e. emergency brake, noise, exhaust emission (modes 10 and 11), fuel evaporation, and heat damage. Tests of the remaining 40 items are conducted by special international automobile inspectors sent from Japan by the Ministry of Transport. In July and August 1977, inspectors were sent to Volkswagen and Audi in West Germany, as well as Ford and Chrysler in the United States.

As outlined in the accompanying diagram, the manufacturer wishing to take advantage of the preliminary inspection system submits an application 45 days before the test date, specifying those items which the applicant wants tested.

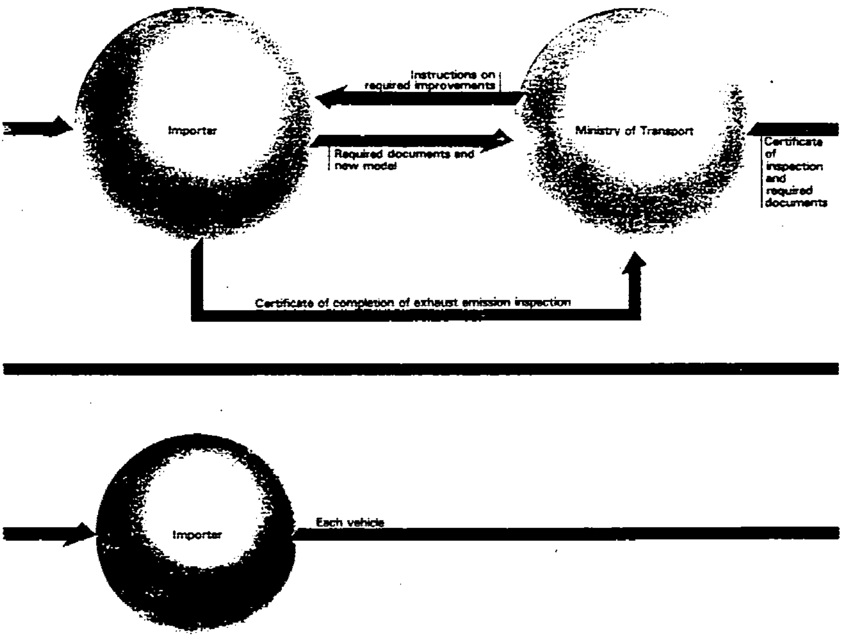
Originals of the application are sent to the Automobile Type Approval Test Division, Traffic Safety and Nuisance Research Institute of the Ministry of Transport. Copies are sent to the Engineering Division of the Motor Vehicles Department, and the Road Transport Bureau of the same ministry.

The Automobile Type Approval Test Division notifies the applicant of the testing date, and subsequently returns the results to the manufacturer as quickly as possible. The manufacturer then submits these results for use in completing type approval procedures.

Thus, full use of the preliminary inspection system almost completely eliminates the need for testing to take place in Japan.

Type Approval

All automobile models sold in Japan must pass type approval and motor vehicle inspection procedures. Imported



models now enjoy a special advantage, if requested by the manufacturer, because the preliminary inspection system drastically reduces the steps which must be followed in Japan as well as the time required for certification.

There are two kinds of procedures to follow for type approval: type designation and new type notification. The manufacturer can choose either procedure to obtain type approval.

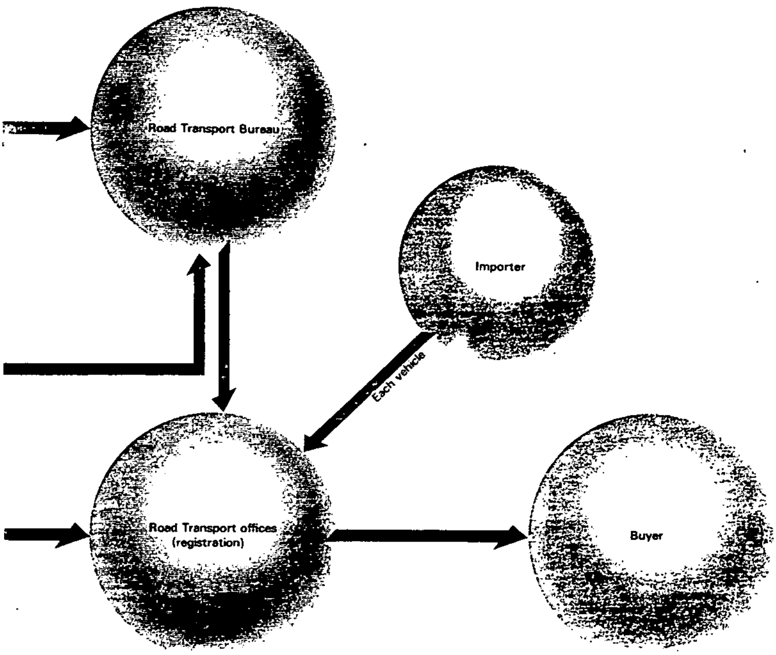
If the manufacturer chooses the type designation process, for example, an application and other required documents, as well as three sample automobiles of the model to be approved, must be sent to the Ministry of Transport. Upon acceptance of the application by the ministry, the manufacturer can initiate inspection and testing procedures.

However, all test equipment and facilities must be inspected by the ministry in advance. In addition, after designation approval is obtained, the ministry will make periodic inspections of the manufacturer's facilities.

Manufacturers are responsible for reporting sales and issuing Completed Inspection Certificates. If such certificates are submitted, the manufacturer may dispense with the Road Transport Office inspection, which requires each vehicle to be taken to the local office.

The type designation process is strictly supervised by the government. Further details on this process and the new type notification process can be obtained from Automobile Type Approval System in Japan, recently issued by the Ministry of Transport.

The accompanying diagram outlines the steps for obtaining type approval using the new type notification procedure, including preliminary inspection.

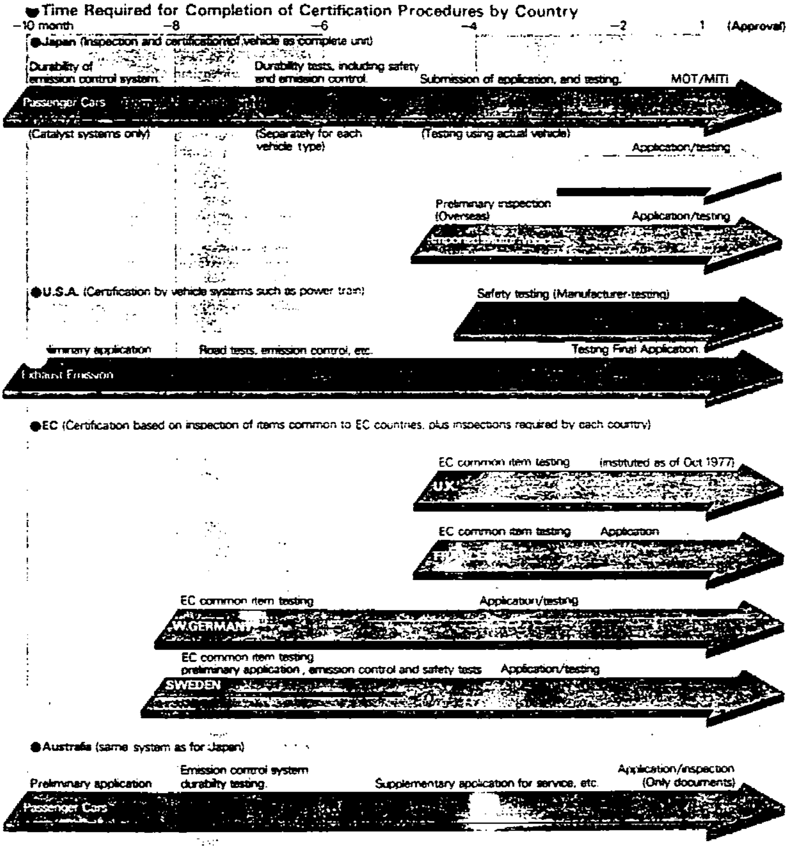


TIME REQUIRED FOR CERTIFICATION PROCEDURES

Certification procedures and testing methods differ from country to country. Each nation invariably has an established system by which it ensures that automobiles operated in that country meet the safety and environmental standards its ple require.

The recent establishment by Japan of the preliminary inspection system for imported cars has reduced the time required for their certification to approximately 45–60 days, including transportation from the country of origin.

●Time Required for Completion of Certification Procedures by Country



Note: Time period in foreign countries is based on the experiences of JAMA member companies.

EMISSION CONTROL REGULATIONS

Japan has the strictest emission control standards in the world due to growing public concern for the environment and the effect of pollution on public health.

This growing environmental concern and constant pressure for high environmental standards have made it necessary to steadily strengthen emission control standards during the 1970s in order to lay a foundation for the coexistence of people and the products of their industrial society.

Japan, with a land mass about the size of California or two-thirds the size of France, has a population of more than 110 million people. Because of the country's mountainous terrain, however, only 33 percent of the land is habitable. As a result, most of the population lives in crowded urban areas.

In addition, the phenomenal rate of economic growth achieved in the postwar period has made Japan an increasingly consumer-oriented society. Today there is a buoyant demand for more and more goods, such as automobiles, which were once considered luxuries.

In 1965, there was one car for every 13.7 persons in Japan. Today, as of 1976, this increased to one car for every 3.7 persons. In a sense, people and cars are competing for the country's limited space, but who could imagine life today without the automobile?

Standards Set

Carbon monoxide (CO) and hydrocarbon (HC) standards were established in 1975, at 2.10g/km and 0.25g/km, respectively.

In addition, the recently announced 1978 standards for nitrogen oxide (NOx) emission complete the gradual moves, starting in 1973, toward emission control in this area. Effective in 1978, the average NOx emission allowable for new, domestically-manufactured passenger cars will be 0.25g/km, with a maximum of 0.4g/km.

These standards apply to all new models as of 1978. For new production runs of current models, however, there is a later enforcement date for both domestic and foreign models.

In answer to strong requests from foreign manufacturers, Japan's Environment Agency held special hearings on then-proposed emission controls in May and June, 1976.

As a result, imported cars in Japan were granted a special three-year extension of the 1978 standards, until 1981, for both new models and new production runs of current models. This followed the four-month grace period for the 1975 standards, and the one-year lead time granted for the 1976 standards.

Another special consideration applies to imported models with a limited annual sales volume. They have been exempt from meeting the average NOx emission standards since they were instituted, needing only to comply with the maximum NOx emission standard, as long as they meet the CO and HC regulations.

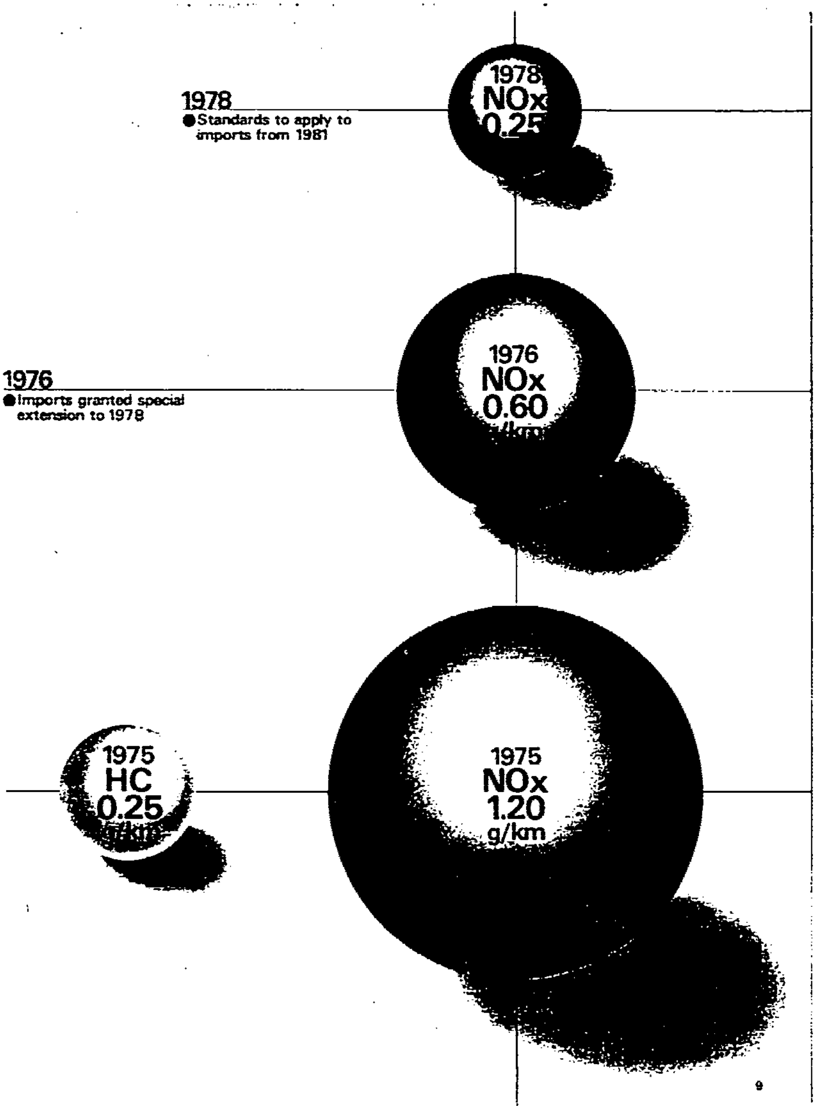
1973

- Preliminary standards for CO (18.4 g/km) and HC (2.94 g/km)
- First-stage NO_x standards (2.18 g/km)

1975

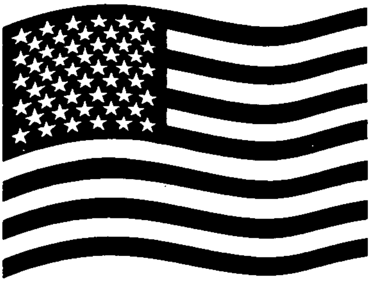
- Standards set for CO and HC
- Second-stage NO_x emission standards
- Imported cars granted four-month extention for meeting NO_x emission standard

Note: All figures represent averages of established standards.


1978
Standards to apply to imports from 1981
1978
NOx
0.25
1976
Imports granted special extension to 1978
1976
NOx
0.60
1975
HC
0.25
1975
NOx
1.20
g/km
9

●Imported Autos Meeting Japan's Emission Standards

(as of Sept. 1977)



GM (37) ●**CADILLAC**▶ Seville/DeVille/Fleetwood Brougham/Fleetwo
BUICK▶ Regal/Skylark "SR"/Skyhawk
OLDSMOBILE▶ Ninety Eight Regency/Delta 88 Royale/O
PONTIAC▶ Ventura/Firebird Esprit/Firebird Formula/Fireb
CHEVROLET▶ Monte Carlo/Chevelle Malibu Classic/Cam

FORD (16) ●**LINCOLN**▶ Lincoln Continental/Lincoln Continental M
FORD▶ Thunderbird/Gran Torino Brougham/Gran To
MERCURY▶ Grand Monarch/ Montego MX Brougha

CHRYSLER (8) ●**CHRYSLER**▶ New Yorker Brougham/Cordo

GM (23) ●**CADILLAC**▶ Brougham/Eldorado
BUICK▶ Regal/Skylark, Skylark SR/Le Sabre/Electra/Skyha
OLDSMOBILE▶ Cutlass Supreme/Cutlass Salon/Omega B
PONTIAC▶ Grand LeMan/Ventura "SJ"/Firebird Esprit/Fi
CHEVROLET▶ Monza 2+2/Town Coupe

FORD (1) ●**LINCOLN**▶ Versailles

CHRYSLER (6) ●**CHRYSLER**▶ Plymouth Volare, Dodge Asp

BRITISH LEYLAND (5)
●**JAGUAR**▶ Jaguar XJ12 L/Jaguar XJ: 5.3 C/Jaguer XJ: 4.2 /Jaguar XJ: 4.2 C/Jaguar XJ–S

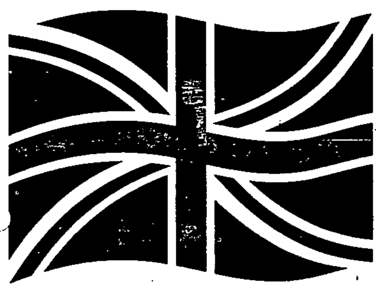
ROLLS ROYCE (3)
●**ROLLS ROYCE**▶ Silver Shadow / Silver Shadow Long Wheel Base Saloon / Silver Shadow 2

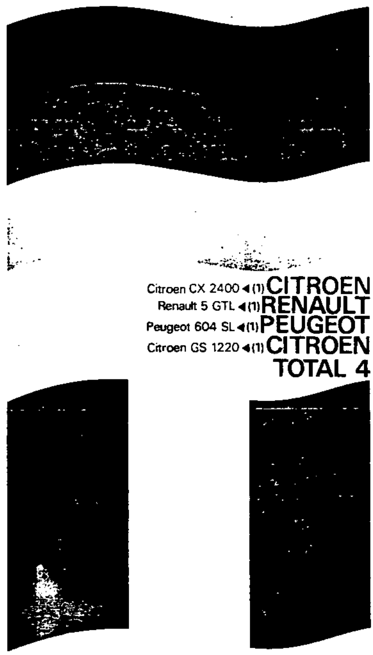
LOTUS (1)▶ Lotus Elite

ASTON MARTIN (1)▶ Aston Martin F

FORD (U.K.) (1)▶ Ford New Cortina

TOTAL 11





Citroen CX 2400◀(1) **CITROEN**
Renault 5 GTL◀(1) **RENAULT**
Peugeot 604 SL◀(1) **PEUGEOT**
Citroen GS 1220◀(1) **CITROEN**
TOTAL 4

Meeting 1975 Standards
Meeting 1976 Standards

od Eldorado/etc.

mega Brougham/Omega/Starfire/Cutlass Supreme/Cutlass "S"/Cutlass Salon/Toronado Brougham/Sunbird
rd TransAm/Grand LeMans/Grand Prix
aro LT/Nova Concours/Caprice Classic /Camaro/Caprice Classic/etc

ark IV
rino F[illegible]/Mustang II Mach 1 /Granada/etc
m/C[illegible]r XR-7/Bobcat/Monarch Ghia/Cougar Brougham/etc

ba, Dodge Charger SE/Plymouth Fury Sport/Plymouth Volare, Dodge Aspen/Plymouth Fury Salon/Dodge Monaco Brougham

wk
rougham/Delta 88 Royale/Ninety Eight Regency/etc
rebird Trans Am/Bonneville Brougham/Sunbird

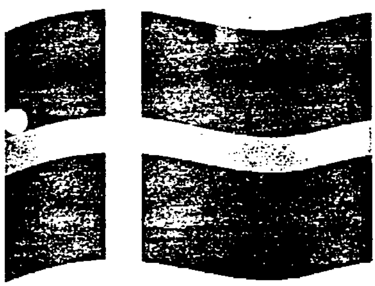
en/New Yorker Brougham/Cordoba, Dodge Charger SE

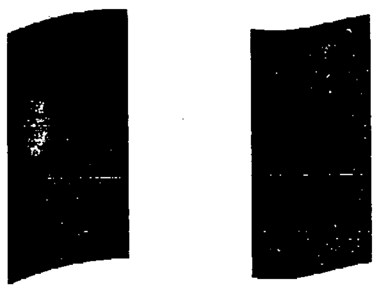
TOTAL 91

VOLKSWAGEN (8) ▶ Volkswagen 1200 LS/Golf LS/Scirocco TS/Passat TS/VW 1303 LS/etc
AUDI (3) ▶ Audi 100 GL/Audi 80 GL/Audi 80 GLE, Audi 80 LE
PORSCHE (2) ▶ Porsche 911S/Turbo
BMW (1) ▶ BMW 530i
FORD (W. GERMANY) (1) ▶ Ford Capri
DAIMLER BENZ (8) ● MERCEDES BENZ ▶ 450 SE/280 F/450 SL/450 SLC/280 S/230/280 E/280 SE
BMW (1) ▶ BMW 320i
PORSCHE (1) ▶ Porsche 942
AUDI (1) ▶ Audi 80

TOTAL 26

Alfetta GT Alfetta ◀ (2) **ALFA ROMEO**
Fiat 131 Fiat X1-9 ◀ (2) **FIAT**
Beta Coupe ◀ (1) **LANCIA**
TOTAL 5





VOLVO (2) ▶ Volvo 244/Volvo 264
TOTAL 2

Note: I[illegible]cates number of models which have received type [illegible]roval as meeting Japan's 1975 and 1976 emission c[illegible]rol standards. However, in some cases this does n[illegible] include all types manufactured under a given model name.

TRENDS IN AUTOMOBILE SALES IN JAPAN

Automobile sales in Japan were on the increase until 1973, when the energy crisis occurred. From 1973 to 1975, total automobile sales (domestic and import) declined by 17 percent, due to the decline in domestic model sales.

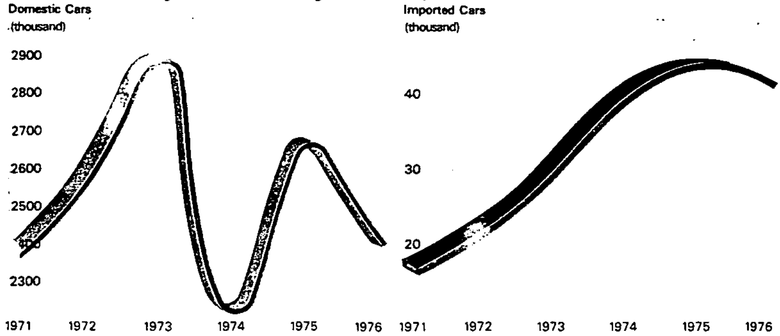
Nevertheless, the overall growth of imported car sales in Japan during the 1970s has been quite good. From 1971 to 1976, sales volume increased 240 percent.

Meanwhile, sales of domestic cars which had increased until late 1973, have declined 17.5 percent since then.

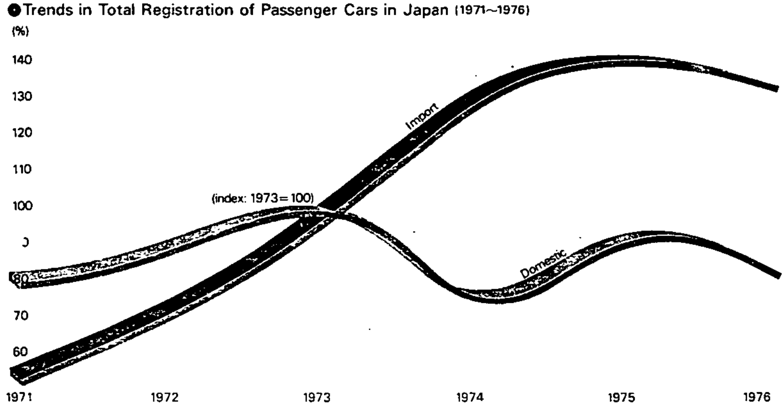
In 1976, sales of both imported and domestic cars declined. Japan's domestic economic recovery continued to lag, and certain factors affected imported auto sales in particular. For example, sales of some import models were discontinued because they could not meet Japanese emission standards, and there were long delays in certification of imported cars.

However, growth of imported car sales is expected to rebound. Administrative measures such as the postponement of the application of the 1978 emission control regulations

●Trends in Total Registration of Passenger Cars in Japan (1971~1976)



●Trends in Total Registration of Passenger Cars in Japan (1971~1976)



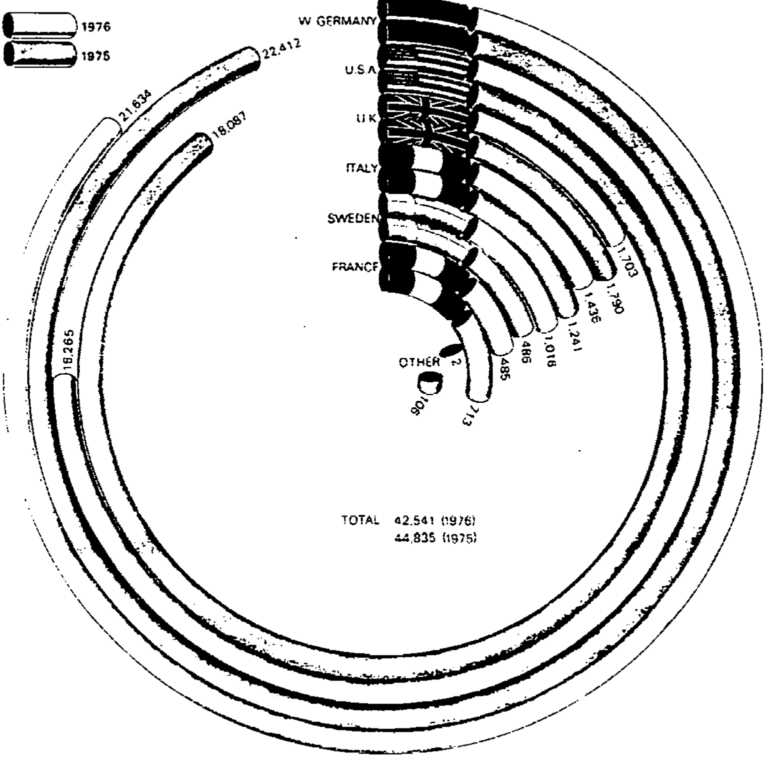
and the establishment of the preliminary inspection system favor the promotion of imported auto sales.

In addition, the expected introduction of new models by many foreign manufacturers, the reintroduction of Renault, ! new foothold of British Leyland in Japan, and the adoption of a pricing policy by foreign car dealers aimed at increasing sales volume by import dealers will also work to enhance the foreign car market in Japan.

Leaders in Sales of Imported Cars in Japan

West Germany and the United States surpass all other countries in automobile sales to Japan. West Germany dominates the small-size imported car market, with a market share of 82.3 percent, while the United States holds 71.7 percent of the large-size imported car market. Overall, manufacturers from these two countries account for 90 percent of imported car sales in Japan.

● Total Sales of Imported Cars in Japan in 1975 76 by Country of Manufacture



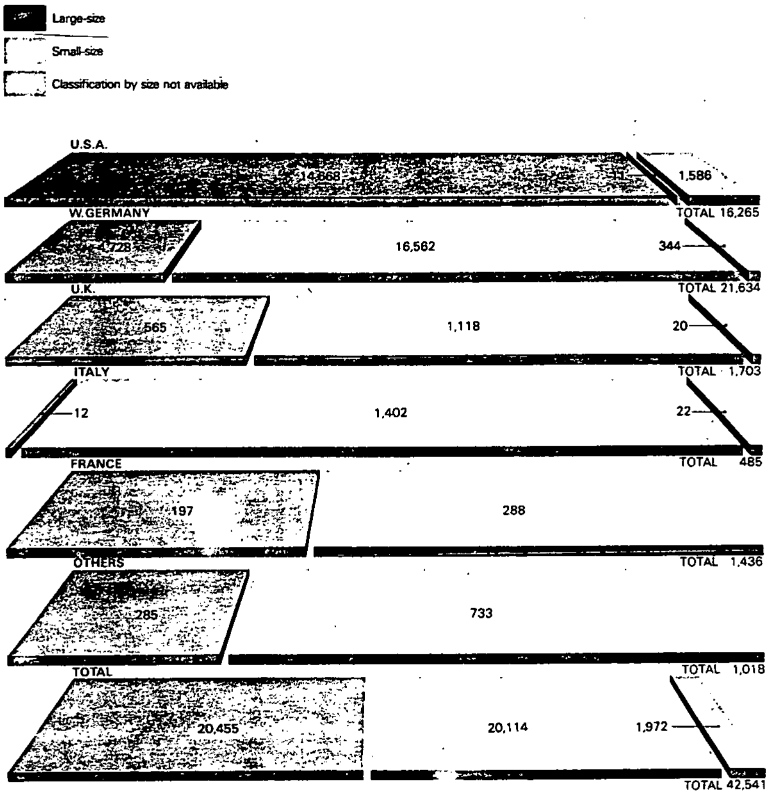
Imported Passenger Car Registrations in Japan

Volkswagen leads the other foreign manufacturers in the imported passenger car market in Japan, having achieved a 36.4 percent share in 1976.

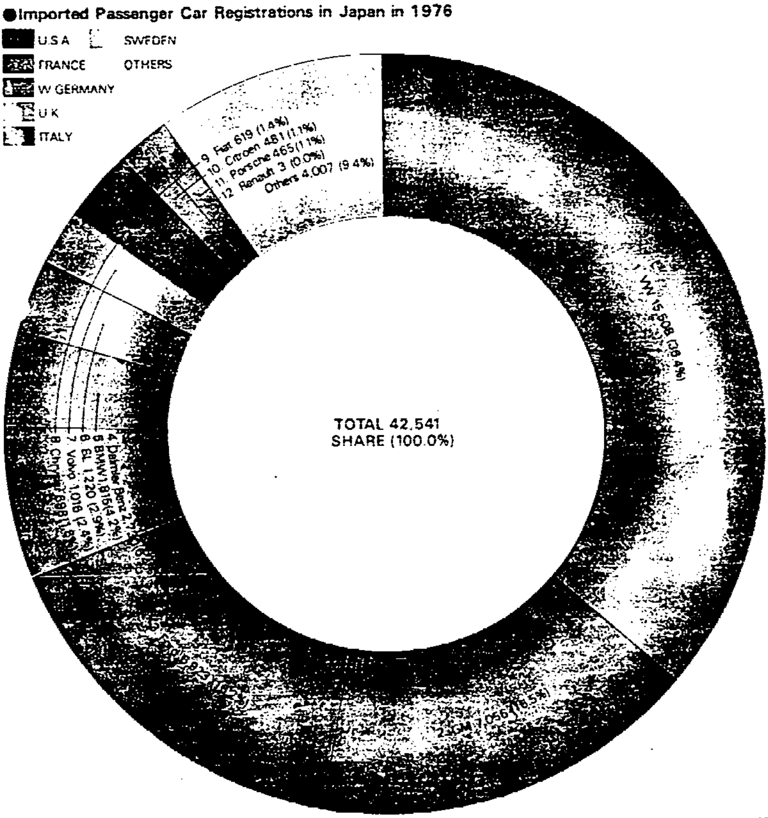
General Motors and Ford are traditional rivals for second place. GM won with 16.5 percent of the market in 1976, versus 16.2 percent for Ford. The two U.S. manufacturers are still running close in 1977.

Daimler Benz and BMW round off the list of the top five foreign manufacturers in Japan's imported car market, with 1976 market shares of 6.4 and 4.2 percent, respectively.

●Total Registrations of Imported Passenger Cars in 1976 by Size Category



●Imported Passenger Car Registrations in Japan in 1976



CRITICISMS AND ACTION

A number of complaints have been leveled at Japan regarding measures which have been interpreted as restrictions against foreign automobile imports.

Safety and emission standards, motor vehicle approval procedures, and other regulations differ from country to country, depending on public opinion and social conditions.

However, all regulations in Japan on safety, emission controls, approval procedures, etc. apply to both domestic and imported autos, as outlined in the previous pages of this booklet.

The major complaints against Japanese standards and regulations, particularly from the EC, are summarized below along with the responses of the Japanese government.

TRANSLATION

1

The Japanese language is sometimes considered to be a non-tariff barrier to trade. In particular it has been charged that it was very difficult to obtain clear details, for example, of automobile testing procedures. Foreign manufacturers requested the Japanese government to supplement the partial translations of standards already available with complete translations.

—The Japanese government responded by stating that, as was the case in other countries, it was a basic principle that the laws of a country be written in the language of that country. Nevertheless, in order to promote mutual understanding, the government promised to provide translations of automobile-related regulations in English as far as possible.

An English-language manual, Automobile Type Approval System in Japan, outlining certification procedures was recently published by the Ministry of Transport for use by non-Japanese administrative personnel. It is approximately 800 pages long.

Governments do not routinely publish regulations in foreign languages. It is felt that translations, whether on the government or corporate level, should be the responsibility of the party needing the information. It might be pointed out that Japanese auto manufacturers have not received any translations into Japanese of other countries' regulations.

DIFFERENCES IN REGULATIONS

2

The major criticism in this area is that only a very small part of Japan's automobile regulations coincide with those adopted by most other countries, a situation which cannot be justified only by road conditions in Japan. Japan should approve foreign regulations and notifications if they functionally comply with Japanese regulations, according to a request from the EC Commission.

The Ministry of Transport began a study of Japan's current automobile safety regulations in December 1976, in order to revise them to greater reflect international standards while taking into consideration special Japanese traffic conditions and auto uses. The study is targeted for completion in 1977. An overall revision of standards is anticipated to take place during 1978. New standards formulated in the interim will be put into effect as they are decided.

CERTIFICATION PROCEDURES

3

The EC commission claimed that the detailed paper work required for Japan's certification tests made the relative cost burden for each vehicle excessive. The Commission requested the Japanese government to recognize tests conducted in Europe, and that tests be performed by officials of the Ministry of Transport on the spot in EC auto plants, just as the EC dispatches officials to Japan to conduct tests.

Current certification procedures have been outlined in this booklet. As a result of the establishment of preliminary inspection procedures for foreign automobiles, the time required for approval of imported cars was shortened considerably.

As detailed in the section on type approval, the Japanese government has entrusted quantifiable testing to overseas government agencies or agencies recognized by the governments. All other tests will be conducted by inspectors dispatched by the Ministry of Transport. In July and August, 1977, inspectors were sent to Volkswagen and Audi in West Germany and to the United States after requests were received from those manufacturers.

DATE OF APPLICATION OF STANDARDS

4

It was charged that application of standards as of date of import rather than date of manufacture was disadvantageous to overseas auto manufacturers because of the distance involved in transportation and other matters.

適用

In response to a request to apply standards as of the date of manufacture, the Ministry of Transport instituted a change in date of application, effective April 1976.

NOTIFICATION OF REGULATIONS

5

Foreign manufacturers said that details of new procedures and regulations were not announced well enough in advance for them to comply. They requested that notification be made at least two years in advance for standards and regulations which require important modifications in motor vehicles.

They also asked that at least one year lead time be granted to allow them to conform to new regulations.

As one result of discussions, application of the 1978 emission standards to imported autos was extended three years to 1981.

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CONCLUSION

The increasingly interdependent world economy and the growth in world trade have led to friction among countries as more and more businessmen must deal with different social and economic conditions. In turn, such friction has often led to charges that countries have imposed certain regulations and standards in order to restrict trade and competition from foreign goods.

Some foreign automobile manufacturers have criticized certain Japanese regulations and standards in this manner.

As stated elsewhere in this booklet, however, all motor vehicle regulations and standards in Japan apply equally to both domestic and imported automobiles. There is no discrimination. On the contrary, imported models enjoy special exemptions such as the grace period granted for compliance with 1978 emission control standards.

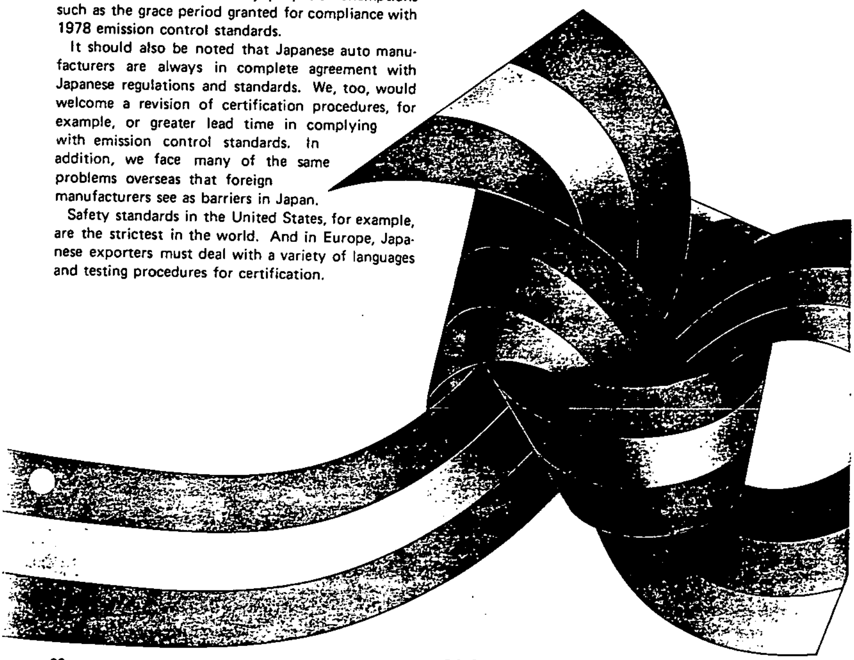
It should also be noted that Japanese auto manufacturers are always in complete agreement with Japanese regulations and standards. We, too, would welcome a revision of certification procedures, for example, or greater lead time in complying with emission control standards. In addition, we face many of the same problems overseas that foreign manufacturers see as barriers in Japan.

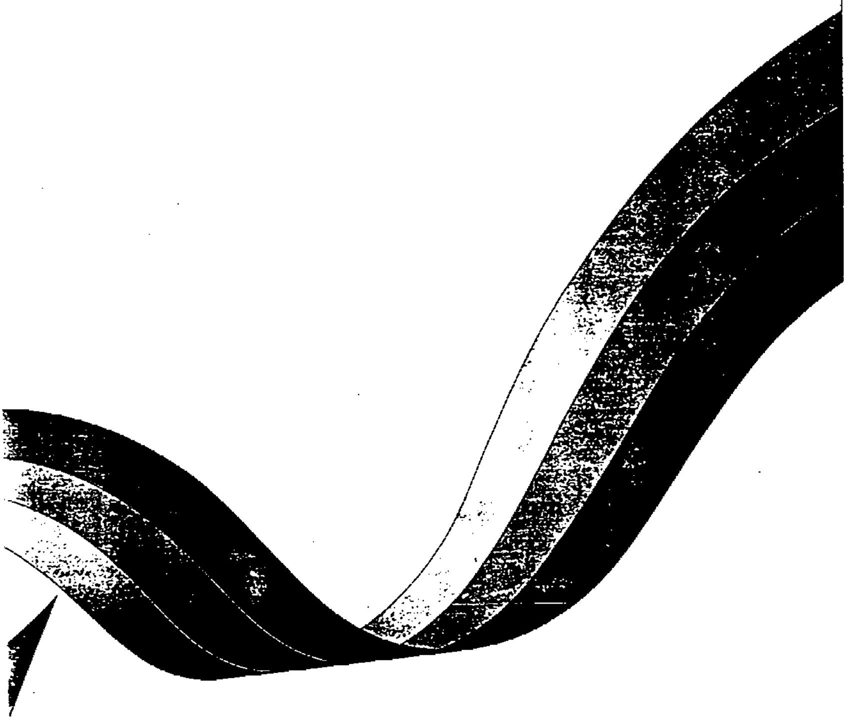
Safety standards in the United States, for example, are the strictest in the world. And in Europe, Japanese exporters must deal with a variety of languages and testing procedures for certification.

Differences among nations have deep roots in the history and social development of each country. Only the most idealistic could ever imagine that such differences will disappear. We must continually strive to heighten our awareness of and accept the fact of these differences.

We are confident that a greater exchange of information and effort by all sides will help us all to learn more about each other's countries and customs.

The Japan Automobile Manufacturers' Association looks forward to receiving and discussing any comments or criticisms from the readers of this booklet.





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[From the Monday Guest Column of the Grand Rapids Press, Mon., Feb. 18, 1980]

GETTING OFFENSIVE IN THE CAR WAR WITH JAPAN

"We're faced with the good possibility that, during the 1980 model run, Japan for the first time will produce more automobiles than the United States."

In 1979, sales of imported cars in the United States accounted for 22 percent of the new car market.

About 75 percent of those imports were from Japan, which next year may replace the U.S. as the world's biggest car maker.

That's alarmed a lot of Americans.

Criticism of U.S. import policy as too lax flows like the money pouring into Japanese hands.

Owen Bieber, director for the United Auto Workers Region 1–D, is one of those advocates of import quotas. Bieber, 50, recently nominated (under current leadership that just about means elected) to fill a union vice presidency, talked recently about that and other auto matters with Press Reporter Tom McCarthy.

Q. How do you feel about imposing exportation quotas on foreign car makers?

A. Number one, the UAW and I are not advocating that we build import barriers around this country. That would be ridiculous. Overall, we're still far better off on our balance between import and export. We come out on the long end of the stick on that one. What we're saying in the case of the Japanese automobile question is simply this: In 1979, foreign imports picked up roughly 23 percent of the market in this country and the Japanese furnished 76 percent of those cars. If the Japanese want to come here and sell cars, that's fine. But then they should be willing to manufacture cars in this country. We think, Nissan and the rest of them ought to do what Volkswagen has done. In 1979, Volkswagen sold 214,835 of their Rabbit models in the United States. Seventy-eight percent or 166,339 of those cars were built in this country. Volkswagen has three plants operating here. We know that there's going to be at least two more plants in a planned Volkswagen expansion. That's what the Japanese should be doing. We're not saying you can't bring any cars from Japan. When you pick up that percentage of the market, then you have a responsibility to bring plants into this country. We're not saying don't import Japanese cars—don't put them on the American market. But certainly we want some import controls. It's interesting to note that the Japanese have a 2 percent limitation on foreign imports.

Q. It's been said that most American cars can't compare with the Japanese or other import vehicles in quality.

A. We have to recognize that quality is measured in two ways, repair and recall. That's a good yardstick. Let's talk about recall. Recall percentage must be figured in cars recalled versus cars produced. On this basis, it's true that Datsun has the best record. But Datsun is followed very closely by General Motors, Volkswagen and Ford. One of the worst recall records is held by a foreign car, Fiat. There's no question imports are costlier to repair and buy parts for than American-made cars The consumers forget they pay more for sticker price on imports. They also forget that the cost of repairs and parts eats up the so-called gasoline savings these foreign cars supposedly have over the American cars.

Q. Is construction quality a cause for the poor sales record of Chrysler cars and, ultimately, that firm's financial problems?

A. Yes and no. It's true Chrysler got burned in its 1976 and 1977 Aspen and Volare series. They had to recall a great many of them when it was discovered the fuel pumps were installed wrong. It hurt their reputation. Those two models were relatively small cars, which would play an important role a little later in their sales scheme. At the same time, Chrysler guessed wrong on small-cars-versus-big-cars. They didn't project the enormous shift in buying habits. And they didn't convert to small cars when they should have. Now they have the Omni and Horizon. But they couldn't produce their own engines They were limited by the number of engines Volkswagen would produce for them. General Motors and Ford really didn't see the market coming either, but they had the resources to redesign and retool faster than Chrysler.

Q. Chrysler is looking to a deal with Mitsubishi as part of its solution to financial problems. This being a Japanese company, do you see a need for an exception in a quota system to fit Chrysler needs?

A. There isn't any need for an exception. Mitsubishi, for the last several months, has made Chrysler's survival more difficult. They have been requiring cash payments up front before they'll deliver cars to Chrysler. And, 1980 imports cannot be used in calculating fleet miles per gallon in statistics American auto producers must submit to the U.S. Government to show they are meeting mileage minimums. This has put a strain on Chrysler and has put more pressure on Mitsubishi to locate a plant in the United States.

Q. You mentioned mileage. Is it really that difficult to provide a fuel-efficient engine, or is everyone sleeping with the big oil companies?

A. I'll take the last half of that question first. I'm unhappy with the lack of an energy program in this country. We've been talking about the problems of high-priced fuel since the early 1970's. We still do not have a meaningful energy program. Worse than that, we do not have a department set up within our government that can tell us what our resources are in this country—what projected usage will be. They can't tell us anything about realistic pricing of gas at the pump. I think that's tragic. Certainly we ought to get on with that now. It's unrealistic that our government has to rely on oil companies of this country and the world to tell whether or not the price of gas is realistic. I submit it is not. Look at the enormous profits that oil companies have reaped. It's just not fair to say that all of our economic woes are the result of increased oil import cost. We need a government agency that has some power and at least can give us honest figures as to whether we need to pay $2 a gallon.

Q. OK, so what about the engines?

A. It's fair to say that, although the engine has much to do with that fuel efficiency, you also have to take into consideration other factors, such as the weight of the vehicle. And, that's a problem. Take too much weight out and you raise the question of safety. You must have metal to protect occupants. There is no reason to believe mileage ratings won't get better. We have the technology. However, these changes cost money and take time. You can't just redo an engine, the transmission, the structure of a car overnight. GM X-cars get about 28 miles per gallon. Yes, American automakers can do it.

Q. Is there that large a difference in the wages of foreign and American workers?

A. Well, there is some difference. But not as large as the American consumer, maybe even the American auto worker, might think. In Japan, the average wage is about $8 an hour, versus $15 an hour in the U.S. The $15 includes fringe benefits—the whole ball of wax. That's not true in the $8 wage for the Japanese worker. In Japan, workers enjoy national health care, cheaper public transportation and housing. But it doesn't show up in the $8. When you compare those things, plus the guarantee of lifetime employment in Japan, the hourly wage of the Japanese auto worker is much closer to the American. Imports still sell from $1,500 to $3,000 higher than domestic cars. There is a reason why that's true, Sweatshops still exist in Japan and in many of the supplier countries where parts for those cars are made. So parts supplier wages are much below those in the U.S. If this is all true. why are we paying more for an import car? Obviously somebody is making a lot of profit. When the American consumer buys that car, he often thinks only of the gas mileage. He never really sets down and puts a pencil to the gas savings versus sticker price and what it's going to cost for repairs and parts.

Q. In other words, the "problem" with imports is public awareness?

A. Public awareness would go a long way in starting to turn the table on the imports. For 1981, GM has another new series of models coming out. Ford has a front-wheel-drive car coming out. Chrysler has one or more new models that will be out in the near future. Those cars are going to give gas mileage on a par with imports. A good example is the GM X-car. I defy anyone to get into the X-car and compare the room in it to any of the imports. It's got them beat. And the efficiency is there. There are many friends and organizations joining us, the UAW, in a push for legislation on imports. That legislation will come about. And it will be good, because it will say to the Japanese, "All we're saying to you is if you want a part of our market then come over here and produce some cars." And we're not putting as tough a restriction on them as they put on our cars.

Q. What's the lot of auto workers in the Grand Rapids, compared to those in other areas?

A. We don't have any assembly plants. We're pretty much a town that's an auto industry supplier. That's even true in the case of GM. It doesn't produce a final product. We've had a greater percentage of layoffs in the auto supplier plants in this area than we've had in some other parts of the country and maybe even some other parts of the state. We have auto supplier plants here who are producing for Chrysler and Ford. They have had a very difficult time. We have several plants, for example, at which employment normally is 800 or 900 people and are down to 200. One plant that had a work force of 500 is at less than 100 today. I don't think we're going to see layoffs that are a falling-off-of-a-cliff sort of thing. Hopefully, by the early part of March, we will see an increase in employment when some people are called back to build the 1981 models.

Q. Recently, you were nominated for a UAW vice presidency. Do you know what your duties will be?

A. No. The first thing is to get elected in June at the convention. I feel pretty confident running on the slate headed by a very brilliant labor leader, Doug Fraser. Once we get through that convention, the president of the international union has the responsibility of assigning vice presidents. I made the decision to seek the nomination for one of the vice presidencies based on the knowledge that the president would make the assignments. It would be wrong for me or anyone else to try to pressure the president into giving an assignment. I have preferences, but they shall remain known only to me and I will accept whatever assignment the president gives me.

Q. With the change in the presidency of the AFL-CIO, do you see any possibility of the United Auto Workers joining the AFL-CIO?

A. I don't think the changing of the presidency, in itself, is going to play that great a part. There's not a great deal of difference in the philosophy of Wayne Kirkland, who has succeeded George Meany—understandably so. Do I see the possibility of reuniting labor's house? I would hope that comes. I'll tell you this, it will not be an item at our convention. I think it makes good sense to talk about a timetable now. A year and a half ago, that discussion took place on our board. I was one of those—as was President Fraser and the other three people who are seeking officer's positions for the first time—who were advocates. It is a possibility. There are some very important things to resolve before that can take place. If we have one house, so to speak, we're all stronger than when we operate from independent positions. However, that does mean that any of us are advocates of going back into the AFL-CIO at any cost.

[From Ward's Auto World, Detroit, Mich., March 1980]

SECOND ANNUAL WAW SURVEY FINDS U.S. ENGINEERS RANK IMPORTS TOPS—IN QUALITY, NOT TECHNOLOGY

(By Erwin Maus III and Richard L. Waddell)

What country produces the best-quality cars today? It's the authoritative opinion of automotive engineers who design and build cars for the five American auto companies that the best-quality cars come from—Japan.

So say nearly half (47.2 percent) of the several hundred respondents to WAW's second annual survey of U.S. automotive engineers. Barely one-fourth (27.2 percent) of them believe America produces the best-quality cars. Germany at 23% is right behind.

Japan's preeminence on the best-quality vote is due to balloting of auto engineers from American Motors Corp. (47.4 percent), Chrysler Corp. (60.5 percent) and Ford Motor Co. (67.3 percent). Most General Motors Corp. engineers still think the best quality is found in American cars (41.2 percent), but by only 4.1 percentage points over Japan. Germany's strong showing is due largely to the 48.1% preference of Volkswagen of America Inc. engineers, comfortably 7.4% ahead of Japan.

Ford engineers also rate Germany (22.4%) much higher than the U.S. (8.2%) on quality. Bias arising from close relations with Ford of Cologne (Germany) colleagues and their products may account for that.

It also could be why 5.3 percent of AMC engineers pick France (where they have a new partner in Regie Nationale des Usines Renault) for best-quality leader. None of the other companies' engineers went that far, reinforcing the twist that familiarity can breed admiration, not contempt.

Germany's only slightly behind Japan in quality in the opinion of GM engineers responding to the survey. Like those at Ford, GM engineers give the Germans a high share of their vote—20.8 percent. Thus, as it turns out statistically, the No. 1 company's professionals hand a plurality to domestic makes, but the combined Japanese-German preferences deny them a majority victory. There was a maverick 1 percent vote for Italy, but 57.8 percent voted for Japan together with Germany. The rest remained loyal to the Stars and Stripes.

GM response, heavy for the U.S., exposes a techical weakness in assessing opinions. Engineers, like just about everybody else including Supreme Court justices, tend to let numbers and public approbation in the marketplace (or voting booth) influence their professional judgment, technical considerations GM's esprit de corps undoubtedly emanates, at least in part, from the marketplace success of its front-wheeldrive (f-wd) X-body compacts.

That emerges from GM engineers' comments added to their yes-and-no answers. For example, Robert Rankin, senior electronics technician at GM's Delco-Moraine Div., frankly states his bias in picking U.S. cars as best: "I cannot accept foreign cars over U.S. cars." Consumers buying Citation, Skylark, Omega and Phoenix X-cars at record levels obviously don't want to, either.

William Gryc, senior project engineer supervisor at Chevrolet Div., grits his teeth and makes a Solomon-like decision for domestic cars: "The U.S. makes the best . . . but also the worst!"

Some survey respondents volunteered criteria by which they give imports such a resounding stamp of approval. Others coupled applause with criticism, only grudgingly conceding superiority. A Chrysler engineer, for instance, says Germans make the best cars, but refuses to go all the way: "They have the best quality, at least in perceptible 'fit and finish,' but long-term life is still best in the U.S."

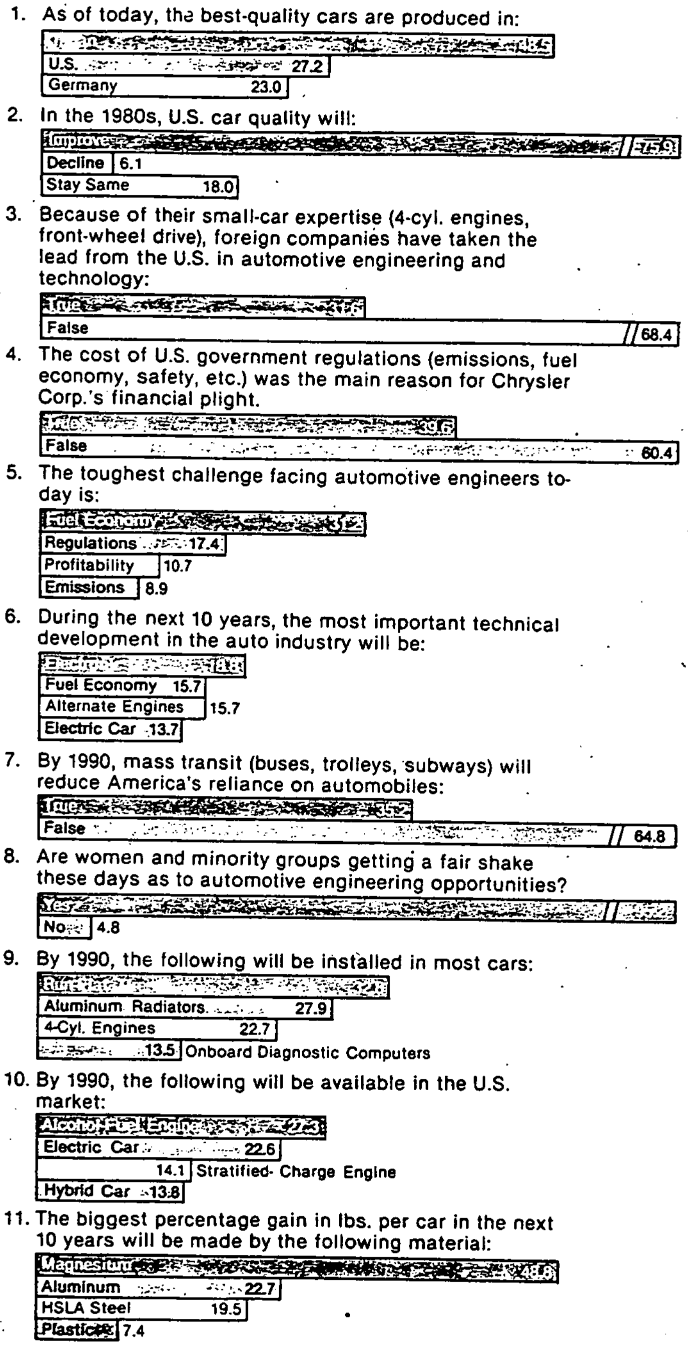
John D. Velte, Ford's chief engineer-chassis engineering, goes along with that but adds this note: "Japan for unsophisticated mechanicals, Germany for paint, finish and fits."

Where does the blame lie for relatively poor U.S. quality? In an echoing chorus of denials, American engineers flatly refuse to accept culpability for the admitted import superiority.

It's not because foreign manufacturers lead in technology or its application, they say. Rather, superiority stems from better workmanship on the production lines, attention to fine detail and rapport with management that lets voices from the assembly line be heard.

WAW asked engineers whether expertise and experience with small 4-cyl. engines and f-wd put importers in the lead technologically. No way, the majority says. Overwhelmingly—68.4% to 31.6%—respondents replied that just isn't true. The feeling is even more pronounced if you factor out the VWA vote. Over 84% of the German-owned company's engineers in this country declared small-car import know-how leads the way. But those working for the top four U.S. auto companies just as overwhelmingly deny it.

Engineering Survey Results at a Glance



NOTE: In multiple-choice questions, chart shows top responses only, omitting other categories with statistically insignificant percentages.

So once more, answers to a survey question reflect the self-esteem that success breeds—VWA's in this case. But that could be a major moral builder for domestic professionals as American small cars reach showrooms this fall in growing numbers.

Chrysler, strangely enough, is a good example of how this works. Of all the engineers, Chrysler's should be the most down in the mouth because of the company's financial uncertainty. Yet their subcompact success in Omni/Horizon cars—on the road since 1977—inspire confidence. It's their opinion, by a whopping 81.2% majority, that Americans don't have to take a back seat to foreign small-car expertise.

The same goes for GM professionals who can see results of their work as X-cars stream off assembly lines to meet demand. By 74.2 percent GM engineers say: "We can top the import expertise on smaller vehicles."

Even some VWA engineers agree, up to a point. E. B. Post, a laboratory engineer, thinks import know-how now leads the way but, pointing to X-cars, he says: GM has learned this and has taken corrective action."

Chrysler's John Vorobel, senior engine development engineer, even establishes a definite time frame for Americans to overtake the fuel-efficient image that small-car imports boast: "We (the U.S.) never had the lead in 4-cyl. cars. We will within five years." His confidence obviously relates to the imminent introduction of Chrysler's own 2.2-liter (134-cid) engines and new K-body compacts this fall.

A GM engineer from Detroit Diesel Allison Div. (DDA) agrees with such optimism: "They may have the lead up to this time," says Richard I. Haus, a senior engineer, "but in the next few years this lead will change."

Project Engineer S. W. Eisenberg of GM's Buick Div. comments: "They (imports) lead in direction, not technology. U.S.-made vehicles are electronically superior, more reliable and safer for the majority of U.S. customers."

Three Ford engineers also depreciate the idea of technical superiority by Japanese or German companies, despite their top-quality products. J. A. Pflug, Ford chief engineer-body design, repeats Mr. Eisenberg's analysis: "The problem is one of direction. American engineering has not pointed in the same way."

Ford's R. G. Morrissett, who picked Japan for top quality, changes his stance when it comes to the question of technical leadership. He votes no, explaining: "British Leyland put one of the first f-wd transverse vehicles on the road and it didn't take the lead from anyone. Foreigners lucked out with having small cars at a time when the Arabs were raising the price of crude oil."

Echoes Robert G. Westphal, Ford engineering department manager: "The U.S. is still ahead in electronics and automatic-transmission development."

This refusal on the part of engineers to accept blame for import popularity creates a dichotomy that begs an explanation. On one hand, a majority of American professional engineers agree that German and Japanese imports rank No. 1 in quality, but not, it seems, because of any technological superiority or expertise.

How come? It's the factory's fault, they say.

In a detailed answer to WAW's query, GM's Lee Caudill, senior engineer at Fisher Body Div., insists that "all the major innovations are still coming from U.S. auto engineers." He says 4-cyl. f-wd cars have been around since the '20s, so there's no breakthrough there. And American transmission engineering is better. So why did he name Japan as topping U.S. quality?

"Three reasons," he says. "(1) The conscientious effort of the assembly-line worker to follow engineering specifications exactly; (2) if something is wrong in design, the assembly-line worker suggests a change and management investigates; (3) through cultural education, both quality and pride of workmanship are a way of life (they are not old-fashioned terms).

A Ford engineer agrees: "We can equal the quality factor in design, but we don't have the same worker responsibility."

There's a broad hint in all this, however, that engineers blame relatively poor domestic quality and unsatisfactory sales on management as much as workers. They direct their criticism in some cases at top-policy decision-makers and middle management. What they seem to be saying is: "We have the ability, but it hasn't been put to use making the right cars."

Remarked Vern T. Crickmore, section supervisor-material control at Ford: "We see the light a few percentage points too late."

"The toughest challenge for engineers? Their managements," curtly remarks G. W. Cermak, GM Research Laboratories psychologist.

Even more colorful in making the point is Ford's Clare Parker, a senior engineer, who says technologists are stymied. He suggests "getting upper management off its ego trip and the bean counters out of their dream world."

When asked to tackle the riddle of Chrysler, many engineers cite poor management for the company's present financial predicament. They blame neither the worker nor their profession.

Only a minority (39.6 percent) say the cost of government regulations on emissions, mileage and safety did Chrysler in, almost to the point of bankruptcy. The rest, most of them from companies other than Chrysler, say mandated standards may have been a big part of Chrysler's problem, but they don't completely buy that as a truly valid excuse.

For some insiders, it's a tossup. Chrysler Analyst Ray E. Calcagno, international product planning, says: "It's a question mark. Government regulation is one of two reasons. The other is poor, poor management."

James C. St. Amand, senior design engineer for GM's Rochester Products Div., agrees: "Their management has been terrible since the L. L. (Tex) Colbert (former president and chairman) mess." But another GM man zeroes in on Chrysler stylists, although they may have just been reflecting management tastes. Marvin Owen, a senior project engineer, blames the government, then adds: "But that's not the only reason. Their styling has been the ugliest in the industry."

From Chrysler engineers who don't want to be identified, the survey produces vigorous responses that downsize the government's role as the chief cause of Chrysler's problems. They also say their own management, before Chairman Lee A. Iacocca took over, simply magnified product pitfalls into which all Detroit management stumbled. Here's a sample of Chrysler engineer analyses about what caused their company's woes:

"40 percent government, 30 percent quality, 30 percent management decisions."

"Poor middle management; and just short of conspiracy to maintain a status quo of methods in key business areas."

"We could have survived our bad decisions if government regulations had been merely reasonable."

Even today, their sour comments notwithstanding, these professional men agree with Thomas E. Dewey's trenchant crystal-ball view when he was running for president against Harry S. Truman: "The future lies before us." Interpretation? Forget the miserable past few months.

Mr. Dewey lost his race, but Detroit engineers don't think they will. Quality, they say, is going to improve. More than 75 percent agree on this.

Such agreement may reflect a case of necessity. If quality improvement doesn't materialize, it's Katy-bar-the-door to imports. "We must improve or face continuing sales losses," Ford Design Engineer J. R. Arnold declares.

It's a challenge engineers feel sure their companies will meet. Ford's Mr. Crickmore, who picks Japan as tops in quality adds: "Ford's target is DQR. That stands for Durability, Quality, Reliability."

But achieving quality goals won't be easy, say even those engineers who are most optimistic. It can come from a couple of places. H. B. Frist, DDA Div.-Industrials, supervisor of quality engineering, thinks technology will help: "A greater degree of manufacturing automation will reduce the effect of human error."

Job pressures will help, too, says Michael J. Glovis, VWA senior analyst: "Higher unemployment may make workers more conscientious."

What's more, the government might reduce its apparent capriciousness, as new Secretary of Transportation Neil Goldschmidt promises. "If we can reduce the rate of change due to last-minute changes in government regulations," says Norman P. Patterson, senior project engineer at Chrysler, maybe companies can pay more attention to quality.

A few pessimistic engineers see nothing but more of the same for quality. "It is difficult to motivate union assembly-plant personnel," says Ford's John Greenup. M. G. Skinner, a Chrysler engineering supervisor, cites another hitch: "Pressure of costs will about equal gains in engineering."

Such cost pressures—something Detroit engineers learn to live with as a professional discipline—are not going to be confined to quality improvements.

Auto buyers themselves, faced with steep price increases, may dictate what Detroit does, as they have in the past. Engineers, for instance, see air bags going nowhere but back to the halls of Congress, where they say they belong. Only 3.2 percent see them around as late as 1990.

Almost gleefully, B. J. Howard, GM senior project engineer, cracks: "Air bags? If you think the 1974 starter-interlock public outcry was big, just wait for the 1982 passive-restraint rebellion (when the government decrees Detroit must come up with something)."

Quality and regulations aside, engineers still see challenges running through to the 1990s and beyond in which their own professional ingenuity will be the determining factor in success.

Take the immediate picture. Many use an obvious answer to the question of challenge. "It's foreign competition," as GM's AC Spark Plug Div.'s W. J. Parker, product engineering supervisor, puts it.

That translates into another quick but hard-to-achieve answer from one of Mr. Parker's colleagues at Pontiac Div. L. R. Ashmore, project engineer, replies: "Lightweight autos."

Expanding that idea still further leads to Ford's wisecracking Mr. Parker's brief, but nevertheless challenging, assessment of what lies ahead: "Making it into the '90s."

To do that profitably, engineers have a variety of scenarios on technological changes, not the least of which relates to weight, the controlling element above all in fuel economy.

David E. Heilala, Ford supervisor manufactoring engineering, spells it out clearly: "Development and implementation of new materials to meet weight/cost objectives," he says, will be the challenge of the '80s, bar none.

Alwin L. Bryant, senior staff liaison engineer, GM manufacturing development, concurs. In looking ahead, he sees "the return of the all-aluminum engine" to cut weight.

But by no means do engineers see themselves puttering around with old concepts and simply substituting new materials. There's a rainbow out there somewhere, they seem to be saying, with new technology as the pot of gold. Many are struck by the idea of electric cars.

By 1990, more than 30 percent of the engineers think electric cars or hybrid versions will be on the market. Only alcohol-fueled engines come close to equaling that prediction.

Still, next to electronics for computer-controlled cars, battery-powered vehicles assume greatest importance in technical developments during the decade.

That's the opinion of K. O. McLemore, Oldsmobile engineer in the Industrial Engineering Dept. Another GM man didn't specify electrics, but tends to agree that the old reliable reciprocating engine faces competition. George J. McKeel, Fisher Body product manager, says the future promises "new propulsion systems."

Echoes Allen L. Fehrmann, buyer for AMC on Renault and Southeast accounts: "It'll be mass production of cars powered by a noninternal combustion engine."

The obvious reason for such opinions stems from almost unanimous agreement that the U.S.—and the rest of the auto world—must unleash itself from foreign oil dependency. That shows up in such cryptic comments as that from R. G. Stewart, senior project engineer: DDA's developments of importance in the next decade must include "vehicles of high efficiency priced to meet a market that will decline in total number."

Or take Fred K. Boutwell's reply. He's section head at GM's Delco Electronics Div. near Santa Barbara, CA. He envisions "development of multifuel engines and special-purpose commuter vehicles."

Summing up the general consensus in which the oil shortage is the villian, James F. Marlow of GM's Inland Div. says: "The most important development will be the one that is independent of foreign oil."

It's as simple—and difficult—as that for engineers during the 1980s. Most, by a large percentage, think they'll still have to apply their brains to make the internal-combustion engine (ICE) more versatile and efficient to break free from the oil dilemma.

What about mass transit? Will it reduce reliance on cars and, hence, imported oil?

Quips bright-minded Mr. Parker of Ford: "That's true . . . by about .01 percent."

Like most other engineers, he believes Americans still want personal transportation because of the freedom it affords. Besides that, many cite the obvious demographics involved. "Cities are not built to handle it," says a GM researcher. Adds Mr. Haus, the GM senior engineer for DDA: "People live too far from any central type of system."

From these and other comments, which show a large majority pooh-poohing the idea of changing the very structure of American society, it's clear Detroit engineers aren't worrying about their jobs. They'll continue designing, engineering and producing cars.

They may be different, but they'll still be cars. "The American love affair with the personal car, even in the face of steeply rising gas prices, continues to expand and grow," proclaims B. J. Howard, senior GM project engineer.

That's enough to convince engineers that "the future lies ahead."

Senator BENTSEN. I will say what I said earlier. I want you to tell the fellows back in Japan who said the Boeing airplane had to have 40 percent of Japanese content in it, that that same argument applies there. Tell Nippon Telephone & Telegraph that when it comes to our communications, that the same argument applies here. Tell them that when we are trying to export our large computers to Japan, that that same argument applies.

Now, Mr. Suzuki, when do you expect Nissan to reach a decision on investment in the United States?

Mr. SUZUKI. Well, on that assembly plant issue, our parent company advised me that within 3 months——

Senator BENTSEN. Within 3 months?

Mr. SUZUKI. They will announce their final decision on a light-duty truck manufacturing plant in the United States.

By that I don't mean we will definitely establish an assembly plant or not, but we will come to a conclusion within 3 months on that light-duty truck.

Senator BENTSEN. Thank you very much.

Congressman Brown.

Representative BROWN. Mr. Suzuki, I tend to agree with your conclusions about the inadvisability of restrictions on trade because that is the position that I come from emotionally. But I must say I get wrapped up a little also in the emotion of what may be happening to the work force if there is not something done to deal with this problem.

And it is no secret after this hearing, and certainly was not before, that the subject of imposing tight import quotas or high tariffs or restrictions about content on foreign-built autos is being kicked around.

Now, if the Congress were to take that kind of formal action, what would your company—and I ask the question in both areas, both as a marketing company and as a manufacturing company—do? What policy decisions would be made if such proposals were to be put into law?

Mr. SUZUKI. Well, just as a sales arm of Nissan in Japan, I don't think we can speak to much of that issue. However, that sort of action by the Congress might penalize the American public by letting the American public buy much more expensive cars sometimes and many more gas-guzzlers also.

I think there is some misconception that American Detroit automakers are weak. I don't think Detroit automakers are weak at all. GM and Ford are much stronger than Japanese companies. So they can compete.

Yesterday it was stated Detroit just turned the corner. I believe they will provide the American public with enough energy-saving cars.

Representative BROWN. Do you foresee a slowing, therefore, of imports of Japanese-made cars when American manufacturers have completed their down-sizing operations——

Mr. SUZUKI. Yes.

Representative BROWN. When U.S. manufacturers are in full production of fuel-efficient models?

Mr. SUZUKI. Yes.

Representative BROWN. If I can ask you for the sales side of Nissan, then what is your position?

Mr. SUZUKI. What is that, sir?

Representative BROWN. Do you foresee a slowing of imports of Japanese-made cars in the United States? What kind of scenario do you see in terms of Japanese auto sales in the United States? And in the face of that scenario, what is the position of the sales arm of your company which you, I understand, represent?

Mr. SUZUKI. Well, I think we have to face the same situation as the current American manufacturers face. We have to increase our exportation to this country as long as we can serve it.

Representative BROWN. I'm sorry; I'm not quite hearing your response.

Mr. SUZUKI. Quite frankly speaking, I really do not understand your question, sir. [Laughter.]

Representative BROWN. I don't want to keep us going, but it is a question I'd like to get an answer to. It is a two-part question.

First, do you see a slowing of imports of Japanese-made cars coming into the United States? And depending on your answer to that, then what will be the policy determinations to be made by the sales arm of your company, Nissan Motors?

Mr. SUZUKI. Well, regarding the No. 1 question, our sales might go down.

No. 2—that is a very tough question to answer

Representative BROWN. That's why I asked it. [Laughter.]

Mr. SUZUKI. Well, on that issue I think I have to give enough time and think it over and I'll come back to you with the answer.

Representative BROWN. If you would, please.

Thank you, Mr. Chairman.

Senator BENTSEN. Congresswoman Heckler.

Representative HECKLER. Mr. Suzuki, why does Japan sell very few cars in Brazil while Chevrolet is building a fuel-efficient version of a Chevette in Brazil? Why is it they can do it in Brazil and not the United States? Why is Japan not looking to the Brazilian market?

Mr. SUZUKI. We are not selling our cars there.

Representative HECKLER. Mr. Fraser said in his testimony that he visited Japan and suggested a system of voluntary restraints from them which would hopefully make any legal restraints or changes of policy on a formal basis unnecessary. What was the response from the Japanese Government to a voluntary restraint policy?

Mr. SUZUKI. I believe that they opposed it, but I don't think I can speak for the Japanese Government.

Representative HECKLER. What was your first comment, sir?

Mr. SUZUKI. I believe that the Japanese Government is opposing that.

Representative HECKLER. Is supporting a voluntary——

Mr. SUZUKI. No; is opposing it. But I don't think I can speak for the Japanese Government.

Representative HECKLER. Has there been any official communication or public notice in Japan whether or not they acknowledged Mr. Fraser's request and what their response was? Has this been in the press in Japan?

Mr. SUZUKI. I don't have much knowledge of that. I don't have enough information on that. I do not know that.

Representative HECKLER. You don't know whether this has been mentioned in the press in Japan?

Mr. SUZUKI. No.

Representative HECKLER. That's all.
Senator BENTSEN. Thank you very much for your testimony.
That will conclude the hearing for this morning.
The hearing is adjourned.
[Whereupon, at 12:45 p.m., the committee adjourned, subject to the call of the Chair.]
[The following information was subsequently supplied for the record:]

NISSAN MOTOR CORPORATION IN U.S.A.,
WASHINGTON CORPORATE OFFICE,
Washington, D.C., March 21, 1980.

Hon. LLOYD BENTSEN,
Chairman, Joint Economic Committee, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR BENTSEN: During the hearing on March 19, 1980, at which I appeared as a witness, a question was asked by Congresswoman Heckler about press coverage in Japan of UAW President Fraser's position with regard to Japanese auto imports. I responded to the effect that I did know about that because I was unable correctly to understand her question.

I would appreciate your entering for the record of the hearing that the question should have been answered as follows:

The Japanese press carries considerable coverage about Mr. Fraser's position, as well as about the Japanese auto import issue in the United States.

Sincerely,

Y. SUZUKI,
Vice President, External Relations.

PREPARED STATEMENT OF ROBERT M. MCELWAINE, PRESIDENT, AMERICAN IMPORTED AUTOMOBILE DEALERS ASSOCIATION, AT A HEARING BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS, MARCH 7, 1980

World Auto Trade: Current Trends and Structural Problems

INTRODUCTION

Mr. Chairman: My name is Robert M. McElwaine, and I am President of the American Imported Automobile Dealers Association (AIADA). I am accompanied by Dan Unfug, Chairman of our Board of Directors, and Bart S. Fisher, Esq., of the law firm of Patton, Boggs and Blow in Washington, D.C. We appreciate the opportunity to be heard by this Committee on behalf of the nation's 4,500 imported automobile dealerships and their 140,000 American workers. The issues before this Committee are vital to the future and even to the survival of our industry, one which has a major impact on the U.S. economy.

To appreciate the role we play in that economy, it is important to recognize that our annual payroll of more than two billion dollars is exceeded only by the ten largest industrial corporations in the United States. We have total assets in this country with a value of more than $8.6 billion and pay more than $607 million in taxes annually.

Mr. Chairman, we applaud you for holding hearings on current trends and structural problems in the automobile industry. Our testimony first describes the historical evolution of those trends and problems. It then addresses the economic and legal implications of the protectionist remedies advocated by the United Automobile Workers and by certain elements in the manufacturing sector.

Mr. Chairman, our position in summary form is that all requested measures for protection from the stiff winds of foreign competition should be denied by this Committee, for the following reasons:

They will not put American autoworkers back on the job;

They will devastate a major American industry, closing businesses and destroying thousands of U.S. jobs;

They will cost American consumers billions of dollars;

They will exacerbate inflation;

They will deny the consumer freedom of choice;

They will increase fuel consumption and dependence on foreign oil;
They will depress the long run prospects of the U.S. automobile industry; and
They will invite retaliation from our trading partners and could initiate a trade war and consequent world depression.

EVOLUTION OF THE CURRENT SITUATION

These hearings are being held at a time when a decade-old trend in the automobile industry has been accelerated into near-crisis by a confluence of circumstances. These include the vast increases in the cost of fuel, government mandates of increased fuel economy, rapid changes in marketplace demands, and worldwide competition between governments for capital investments by the automobile industry.

As a consequence of these outside pressures, the U.S. automobile industry today finds itself with 176,000 workers on indefinite layoff. Imported automobile sales reached a new high of 21.8 percent of the U.S. market during 1979 and are projected to reach even higher levels during the early quarters of 1980.

Faced with the immediate necessity of retooling in order to change its output to smaller, more modern, fuel-efficient vehicles, the domestic industry is, at long last, making the kind of capital investment in this country that it has so long avoided. General Motors and Ford are making this investment out of their substantial liquid assets and huge borrowing powers. The Chrysler Corporation, strapped for cash after selling off its foreign holdings in order to fund operations, has had to turn to the government for financial assistance, as well as to private lending sources and foreign manufacturers.

American Motors, smallest of all the domestic "Big Four," has also turned to foreign sourcing for its necessary capital, acquiring in the bargain the technology and designs necessary to modernize its output to competitive standards.

A. Longer run causes

The question this Committee must answer before it can consider what role, if any, the government can play in aiding modernization of the domestic industry is this: How did the American automobile industry get into this position? Thirty-five years ago, the U.S. automobile industry was the only functioning car industry in the world In 1946, we made 80 percent of all the automobiles produced in the world. At the start of the 1960's, we still produced half of all cars made.

From 1965 until the present, however, U.S. manufacturers have increased their production by only fifteen percent. In the same period of time, Canadian production has more than doubled, Japanese production has increased by 400 percent, French output has doubled, German production has increased by 35 percent, and Italian by 45 percent.

Total world automobile production has increased by 73 percent in the fifteen years since 1965. Obviously, the United States has not shared in that growth. United States *manufacturers* have, however. In fact, a very large portion of that growth has been accounted for by production increases on the part of the overseas affiliates of U.S. companies.

The picture of the United States as a mature if not a stagnant market, while the remainder of the world was offering booming opportunities for growth, has obviously influenced the investment decisions of U.S. manufacturers. There have been other influences. There has been a virtual worldwide auction of new automotive plants, with nations competing with each other in piling incentive on incentive to acquire the jobs and productive capacities such plants represented.

These incentives include direct cash grants, tax advantages, accelerated write-offs, and low-cost loans. The United States has not competed in these auctions. Instead, our tax laws, by allowing the deferral of U.S. taxation on foreign-source income as well as foreign tax credits, provide a powerful disincentive for the subsidiaries of automotive manufacturers to return their growing overseas profits to this country for investment here. For many years, foreign profits have been reinvested abroad, with the consequence of even greater profits abroad, and, therefore, more reinvestment.

Meanwhile, in the United States, several factors have combined to discourage investment. The prospects for a mature market, growing at a rate of not more than two percent per year, have not encouraged expansion of productive capacity. Investments necessary to meet Federal regulations and standards have consumed much of the funds otherwise available for investment. Finally, the economies of scale created by manufacturing millions of cars built on the same concept and design used year after year have made U.S. manufacturers reluctant to effect radical changes in their output and to lose profits in the short run.

Since 1949, when the first post-war designs were produced, U.S. cars have not been significantly altered. They are primarily front-engined, rear-wheel-drive vehicles, with a heavy, steel frame, to which is bolted a large, bulky body. The standard engine is a cast-iron block V–8, with push-rod operated overhead valves. The chassis features a rigid, "live" rear axle and independent front suspension.

The majority of U.S. cars made in 1979 still conformed to this pattern, despite the obvious direction of the world industry toward unitized-body cars, with small, transverse-mounted front engines, front wheel drive, four-wheel independent suspension, alloy engines, and fuel injection.

The U.S. manufacturers have produced many such modern cars, but, until the 1980 models, they made none in this country. General Motors' German subsidiary, Opel, makes highly competitive, modern automobiles. So does Isuzu of Japan, in which GM owns a 34 percent interest.

The Ford Fiesta is an extremely modern machine, made by Ford in several countries, including Germany, which is the source of Fiestas sold in this country through Ford dealers. Ford makes other modern, small, fuel-efficient automobiles in Great Britain, Spain, and elsewhere. Ford holds 25 percent of Toyo Kogyo, maker of the advanced Mazda automobiles.

While Chrysler has sold off its European holdings, the company still retains a 15 percent interest in Mitsubishi, which produces a number of state-of-the-art vehicles, many of them sold through the U.S. Chrysler dealer network.

This raises the obvious question: Since the domestic manufacturers have the know-how and the experience to build modern automobiles abroad, why have they been caught short by the switch in U.S. market tastes, with the majority of their domestic product unsuited to present demand?

B. The energy crisis

The answer lies in the traditional isolation of the U.S. automotive market from the rest of the world. Moreover, since the beginning of the auto industry, the United States has enjoyed relative self-sufficiency in petroleum. Our industry grew on the basis of cheap energy and expensive labor.

The other automotive-producing nations of the world—Japan, Germany, France, Italy, Sweden—have always been forced to import almost all of their petroleum requirements. To keep their balance of payments in reasonable order, these nations have always taxed gasoline very highly. Additionally, their tax structure on automobiles was designed to penalize conspicuous consumption of fuel. For these and other reasons, automobiles and trucks were always designed to provide the maximum fuel economy.

U.S.-make automobiles, therefore, have not been an exportable item for many decades. They are simply too large and wasteful of fuel for most drivers in most of the nations of the world. The low cost of imported and domestic fuel in this country also negated one of the principal virtues foreign cars had to offer—fuel economy—for the great majority of American buyers. The unique advantages of imports attracted only ten percent of the U.S. market until little more than a decade ago. Thereafter, the rising cost of fuel and the increasing technological obsolescence of domestic products caused a growing number of buyers to look to imports for what they wanted in automobiles.

In the early 70's, imports jumped to fifteen percent of the market and stayed there until the energy crisis and dollar-a-gallon gasoline drove the market share to 20 percent and beyond. Detroit's isolation from the world market was ended, and the domestic manufacturers have been running to catch up ever since.

The present U.S. auto market is not, as some witnesses would have you believe, a struggle between domestic and imported automobiles. It is, rather, a struggle between large cars and small cars, between modern cars and old-fashioned cars. Clearly, it is no contest.

The American public has been converted to the modern, fuel-efficient automobile. The domestic industry's problem is not eompetition from imports, but the fact that its own output is still largely old-fashioned, outsized, inefficient cars. Fault finding is not the function of this testimony or of these hearings. Some defense must be raised, however, against those who are trying to blame imported automobiles for ills that are directly traceable to the domestic companies' failure to modernize their product when the need to do so has been apparent for years.

Since 1973, the handwriting has been on the wall. The automobile market was changing. Fuel efficiency was the number one concern of imported automobile buyers in that year. The trend to smaller cars was clearly discernible. Yet Detroit was reluctant to yield the profit advantage that large cars and economies of scale provided, and refused to change its model mix.

In 1977, Detroit companies produced 60 percent intermediate and large cars and 40 percent compact and sub-compact models. Two years later, despite all the. warning signals, the same companies produced 60 percent intermediate and large cars and 39 percent compact and sub-compact. Now, they are rushing to make up for their mistake—and are proposing that the Federal Government make their task easier by restricting the availability of imported cars.

There is a runaway market for small cars, domestic and imported. Sales of U.S built compact and sub-compact cars have increased by 11 percent so far this year over last. The new General Motors X-body cars have waiting lists for purchasers and are bringing premium prices. From 1977 until 1979, domestic small cars actually increased their share of the total U.S. small car market. During that two-year period, imported cars, although increasing in total sales by 257,000 units, lost half of one percent of the small car market to domestic manufacturers.

Obviously, the domestic industry has no problem in selling small cars, even in the face of competition from imports. What it cannot sell today are its larger cars, a market segment in which imports are not a competitive factor.

C. Trade restraints illogical

Once the market shift toward small cars is recognized, the logic of the domestic industry's request for restraints on imported automobiles becomes unclear. Making small cars even less available than they are today will not enable the domestic manufacturers to sell many more of their large, inefficient automobiles. Does anyone in the industry really accept the proposition that telling the prospective buyer of a Toyota, Datsun, or Honda that none are available, since that year's quota has been sold, will persuade him to buy a full-sized Buick, Lincoln, or Chrysler?

If the objective of trade restrictions on imported automobiles is to put some UAW members—of the 176,000 of them now on indefinite layoff—back on the job, it must be apparent that the plan simply will not work. These workers will be re-employed when the U.S. manufacturers finish their conversion to smaller, modern vehicles and not before, regardless of what happens to imported automobile sales.

If restrictions on automobile imports are not going to solve unemployment problems in Detroit, Cleveland, Flint, and other automotive cities and will not aid the manufacturers in moving their slow-selling models, why are such restraints so eagerly sought? What does Detroit really hope to gain from such a venture into protectionism?

For Mr. Fraser and the United Auto Workers, the answers are clear. They want jobs. There are 176,000 workers on layoff. They want to put them back to work. The establishment of U.S. factories by the Japanese manufacturers, on the Volkswagen model, will help create a certain number of new jobs. If both Toyota and Nissan were to establish factories in the U.S. similar in size and output to the Volkswagen plants in Pennsylvania and West Virginia, it would create an additional 10,000 jobs, enough for about five percent of those workers currently on layoff.

If the decision to build such factories were made immediately, these jobs would probably be realized in about three years.

For the manufacturers, however, the objectives are less clear. The expressed desires of the management of GM, Ford, Chrysler, and even American Motors, to have the Japanese build modern, automated factories in this country to turn out state-of-the-art, fuel-efficient automobiles in direct competition with some of the antiquated products now offered by domestic companies are not convincing. The domestic companies may hope that a foreign-owned company, producing 200,000 cars annually, cannot compete in terms of economies of scale with a domestic firm producing millions of the same models. They may hope that, by forcing their overseas competition into such a venture, they would be creating a competitive advantage for themselves. But more modern production methods might well obviate these differences, as has occurred at the Volkswagen plant.

It would appear, then, that the domestic manufacturers' primary motivation is to obtain short-term import reductions, and is not some altruistic desire to have overseas manufacturers create new job opportunities and fresh competition in the United States. In short, they wish to reduce competition and increase prices. If we reduce the annual supply of imports to 1.5 million cars, as one domestic manufacturer has proposed, the shortage will be so extreme that dealers will be able virtually to name their own price. This will make it possible for domestic manufacturers to realize the same profits on their new small cars that they had formerly attained on the larger models.

A second objective of the U.S. manufacturers may be to prevent imports from achieving a larger share of market before Detroit comes on-stream with its own small cars. Car buyers are inclined to purchase a new car from the same manufacturer as their previous one. Historically, about six out of every ten new car buyers purchase the same make as they currently own.

These, then, would appear to be the domestic companies' goals in asking for protection—a lessening of price competition and the retention of certain levels of consumption among their customers.

These may be acceptable commercial goals. They should not be the basis for government actions that would violate trade agreements and treaties. As we show in Section II, trade restraints would be expensive, inflationary, and ineffective.

D. A constructive solution

As for the need for Japanese investment in U.S. production and U.S. sourcing, this Association has advocated such actions since 1976. Mr. Chairman, on two occasions, we have sent missions to Tokyo to discuss U.S. investment and to press for greater sourcing of parts and components in the United States. We are gratified by the decision of Honda to manufacture in this country, and we understand that Nissan is close to a decision on a truck factory here.

It must be understood, however, that the influences forcing these decisions are vastly different from those that influenced Volkswagen to build factories in the U.S. The Volkswagen decision was precipitated by a meteoric rise in the value of the Deutschmark, which very nearly priced their product out of the U.S. market. VW's decision was whether to build factories here or virtually to abandon the U.S. market, except as a specialty-car producer. The strong Deutschmark of course made investment in the U.S. additionally attractive.

For the Japanese manufacturers, the situation is reversed. Because of the recent strength of the dollar against the yen, Japanese automobile exports remain competitively priced in the U.S. market and yen investments in the U.S. are expensive. The two major Japanese producers have adequate production capacity in their home factories.

Only Honda, of the Japanese manufacturers, suffers from a lack of production capacity in the home country. Since the U.S. is the primary market for Honda automobiles, it makes economic sense for Honda to plan to manufacture automobiles in the U.S., as it has announced that it will do.

In fairness, it must be recognized that there may be limited economic justification, at this time, for either Nissan or Toyota to contemplate the three-to-four hundred million dollar investment required to establish full assembly or production facilities in the United States. There may be the further risk that these U.S. factories, with their projected 200,000-unit annual production, would come on-stream at the same time as the major U.S. manufacturers get into full production (meaning millions of units) of their new, small, fuel-efficient cars.

AIADA feels strongly, however, that there are considerations that outweigh the potential financial risks in this instance, and we shall continue to press the Japanese manufacturers to expedite plans for U.S. production operations. Our membership has endorsed a resolution calling for increased Japanese investment in the United States, and especially in U.S. automobile manufacturing.

It is possible that there are more practical and less risky approaches to greater Japanese investment in the U.S. than the establishment of factories, and these too should be fully explored. In 1977, working in cooperation with the Department of Commerce, AIADA carried out a mission to Japan to encourage greater U.S. sourcing of components and materials by the Japanese auto manufacturers. Both Toyota and Nissan have established procurement offices in Detroit and are actively seeking to expand their purchases here.

We believe that these purchases could be greatly increased over the next several years. We are actively working with the manufacturers to encourage such actions. We believe it is possible to expand U.S. component purchases to the level of $200 million annually.

We also intend to explore and encourage joint ventures between U.S. and Japanese manufacturers to produce in this country major components that can be shared between the U.S. and Japanese auto makers. Shortages of four-cylinder, modern engines and front-wheel drive transaxles are delaying the production of more small cars in the United States. Crysler is dependent on Volkswagen for its supply of four-cylinder engines; Ford has turned to Toyo Kogyo for transaxles and engines. Ford also has indicated that it will provide engines and transaxles for a certain portion of its U.S.-made Erika models from overseas factories.

We will propose that Japanese manufacturers, who have the tools, the dies, and the designs for these desperately-needed components, join with U.S. companies to build factories in the U.S. for the production of both small engines and transaxles. Some of the end products of these factories could be shipped to Japan for use in assemblies there. The greater portion would be used by domestic manufacturers to expedite their changeover to small cars.

Such joint ventures would be virtually risk-proof, since there would be sure markets for the products both here and abroad. They would create new American jobs and they would help make the U.S. industry more competitive in the small car field at an earlier date. AIDA calls upon the U.S. manufacturers with large holdings in Japanese automotive firms to initiate meetings with their affiliates in Japan on this subject.

Chrysler Corporation holds fifteen percent of Mitsubishi. The very modern and very efficient four-cylinder Mitsubishi engine could well be produced in the United States and would end Chrysler's four-cylinder drought. Ford is the owner of 25 percent of Toyo Kogyo and will purchase engines and transaxles from their Japanese partner. Instead of importing these products from Japan, why does Ford not contract with Toyo Kogyo for a U.S. engine and transaxles plant, as a joint venture?

General Motors has sufficient capital to build any size factory it needs in the United States. If it is truly sincere in its call for Japanese investment in the United States, why does it not vote its 34 percent share in Isuzu in favor of a U.S. engine, transaxle, or other major component factory?

Such ventures might have a greater chance of success, and would represent an equal number of U.S. jobs, when compared to the U.S. factories for Nissan and Toyota that are being proposed.

In fact, the connection between export restraint and foreign investment in the U.S. has some puzzling aspects. If Toyota and Nissan were both to construct factories in the U.S., the investment necessary would represent less than five percent of the amount Ford and General Motors have earmarked for investment outside the United States between now and 1985.

GM has announced investments in new plants and equipment outside this country totalling $18 billion in the coming decade. Ford has stated it will invest $8 billion in new plants and equipment in foreign countries including Great Britain, Germany, South Africa, Taiwan, Spain, Argentina, Brazil, and Mexico in the coming five years.

GM will complete five new factories in Europe by 1982, at a total cost of $2.4 billion. These new facilities are expected to create 16,000 new jobs. Ford is expected to source some of the engines for its new front-wheel drive "Erika" line in new factories outside the United States, in Mexico, Wales, and Spain.

A stronger case can be made for locating at least some of these new facilities in the United States, than can be made for the Japanese firms to manufacture complete automobiles here.

It is difficult to pay much heed to the demands that the Japanese manufacturers exercise "restraint" in their shipments to the U.S. when one examines the the import figures for January, 1980. In that month, the same month in which the Ford Motor Company warned the Japanese to restrain their automobile exports, Ford increased its shipments of Fiesta models by sixty percent. In the month that the Chairman of the Chrysler Corporation also demanded restraint by the Japanese, Chrysler increased its importation of Mitsubishi models by 113 percent.

It would seem that such restraints should be applied not upon all imports, but only on our domestic companies' competition.

THE ECONOMIC IMPLICATIONS OF PROPOSALS TO LIMIT AUTOMOBILE IMPORTS

Imports are *not* the cause of the difficulties in the U.S. industry. The cause is a rapid shift in demand toward small, fuel-efficient cars. Import restrictions of the types proposed would *not* solve the U.S. industry's problems, and would be inflationary, inefficient, and wasteful of our scarce energy resources.

We believe that in the long run, the U.S. will be competitive in the domestic automobile market, and will participate fully in the coming "world car" production and marketing system. For this positive development to occur, however, it is vital to maintain the open trade and investment channels in automobiles that have been carefully built up since World War II. A short-term protectionist and and nationalistic response could jeopardize prospects for U.S. auto producers and consumers, and for the economy as a whole.

A. Market shift toward small fuel-efficient cars

The current difficulties of the U.S. auto industry result from a shift in consumer demand toward smaller cars, and not from imports. This fact is critical in understanding why trade barriers would not be effective. The evidence is clear. Although new car registrations declined 5.6 percent in 1979 as compared to 1978, new car registrations of U.S.-made subcompacts increased in sales (up 230,000 units) and in market share (11.32 percent, up 2.73 percent). Registration of intermediate size cars of domestic manufacture slid 14.7 percent, and registration of U.S.-made standard size slipped 21.5 percent.[1]

Between 1978 and 1979, imported cars sales in the United States increased by 329,385 units. The increase is almost totally accounted for by the four major Japanese exporters of compacts and subcompacts, Datsun, Toyota, Honda, and Mazda, which together increased sales in the U.S. market by about 309,000 units.[2] The pattern, then, is clearly a shift in consumer buying toward smaller cars, *both foreign and domestic*. The industry's "distress" is concentrated in its larger models.

The same pattern emerges when one considers production data. The small car segment of the domestic industry benefited from the shift in consumer demand while the larger models lost ground. U.S. subcompacts increased their share of the market for U.S.-built cars from 13.0 percent in 1978 to 21.2 percent in 1979, with compacts virtually stable at 23.9 percent versus 23.3 percent. At the same time, intermediate sized U.S. built cars went from 32.3 percent of U.S. production in 1978 to 28.0 percent in 1979, full sized declined from 23.0 percent to 20.5 percent, and luxury cars slid from 6.2 percent to 5.8 percent.[3]

Individual small cars did well. The Dodge Omni increased sales by 44 percent in 1979 over 1978, and the Chevrolet Chevette was up 50 percent. Volkswagen of America increased sales to 166,839 units in 1979.

The evidence, from sales, registrations, and production, confirms the conclusion that the small car market has expanded at the expense of larger cars. But within the small car market domestic producers have done well, with market shares virtually unchanged between 1977 and 1979.

U.S. SMALL CAR MARKET [1]

	1979	1978	1977
Domestic producers' share	61.4	63.3	61
Imports' share	38.6	36.7	39

[1] Ward's "Automotive Reports."

The market shift to small cars is not surprising. Between January 1979, and January 1980, the price of imported crude oil increased from $13.64 per barrel to $27.00 per barrel, and average gasoline prices rose from $.68 to $1.20 per gallon. There were serious supply interruptions during the summer. In view of the increasing price and limited availability of fuel, consumers moved toward smaller, fuel-efficient cars, both foreign and domestic. The same shift toward smaller fuel-efficient cars occurred in 1974 following the first oil price increase. At that time, the share of imports in domestic consumption reached 18.9 percent before drifting downwards.

The U.S. auto industry was given clear warning in 1973–1974 that consumers were demanding smaller fuel-efficient cars. As demonstrated above, it chose to ignore the warinng, and continued concentrating on larger (and more profitable) models. When the energy crisis returned in 1979, the cause of the domestic auto industry's distress was its lack of response to demand for smaller cars. If the cause of the current problem is failure to respond to market changes, that problem cannot be solved by import barriers.

[1] Automotive News, Feb. 25, 1980, p. 48.
[2] Automotive News, Feb. 11, 1980, p. 64. The economic analysis proposed herein is explained in the Appendix.
[3] Ward's Auto World, February 1980, p. 49.

B. Proposed import restraints

There are two current proposals designed to restrain importation of automobiles. The first, made by UAW President Douglas Fraser, would use the threat of stiff trade barriers to encourage foreign manufacturers selling over 200,000 units to set up manufacturing, parts, and assembly plants in the U.S. At current sales levels, it would apply to Toyota, Datsun, and Honda (which already plans U.S. production). Although the details are not clear, the proposal would apparently require that, within three years, 80 percent of the content of every imported automobile be manufactured in the United States.

The second proposal is H.R. 6492, the Mottl bill. This bill would limit, by quota, imports of automobiles and trucks to 10 percent of domestic consumption. The quota would run for five years, and would be allocated by supplying country on the basis of previous market shares.

Neither proposal would be effective in addressing the basic cause of the U.S. industry's problems—failure to anticipate a change in market demand. It is not clear how Datsun and Toyota would respond to the Fraser plan. As discussed previously, they have already indicated a reluctance to establish plants in the U.S., considering the long lead time and the planned increase in U.S. output of smaller fuel-efficient cars. In that event, the Fraser plan would simply provide protection against these imports, and would be similar to the quota legislation. It would do little to solve the short-run unemployment problem. In the meantime, trade restrictions would raise costs to consumers, and would reduce the availability of smaller, more efficient cars.

Even if the threat of protection does result in establishing plants in the U.S., the employment effect will be several years away. And the use of domestic content to compel investment will have a long run negative effect on the U.S. industry's palns to participate in the "world car" program.

Nor would the quota system in the Mottl bill be effective. Quotas would not increase U.S. production capacity in small cars, and would not solve the U.S. employment problem, which is tied to continued production of large cars. As spelled out below, quotas would increase costs, inflation, and gasoline use.

C. Economic effects of the proposals

1. Increased costs for consumers.—The economic effects of the Fraser plan cannot be precisely estimated because the plan remains vague, and because foreign supplier response is uncertain. From time to time developing countries using an import substitution strategy have attempted to require specified levels of domestic content. The result is increased costs and inefficient production. Certainly domestic content is inappropriate for an advanced industrial country such as the United States with a long tradition of auto production.

If foreign producers do not meet domestic content requirements, and quotas are imposed, the effects would be similar to the Mottl quota scheme. We therefore concentrate on the effects of limiting imports by quota.

We have made preliminary calculations of the economic effects of restricting auto imports to 10 percent of domestic consumption. The assumptions and method are spelled out in a brief appendix to this testimony. We have not included the effects of restrictions on imported trucks, which would further increase costs.

To examine the economic impact, we use actual data for 1979, and ask the question: What would have been the result in 1979 if a quota similar to that set by the Mottl bill had been in effect?

We estimate the total annual cost of a quota to consumers who purchase small cars would have been $4.1 billion in 1979. This represents a 19 percent ($760) increase in the average price of small cars sold in the U.S. market.

This assumes that most of the import reduction would be in the lower-priced small car range, and recognizes that the U.S. capacity to produce additional small cars is very limited in the short run.

Because of the price increase, some potential customers would drop out of the market entirely and some would switch to larger models. The switch to larger models might create additional upward pressure on the prices of bigger cars. If the U.S. industry responded by oligopolistic pricing, the upward price pressure could be substantial, although it could be limited by an increase in larger car output. The potential increase in price of intermediate and full sized cars would be an additional cost to consumers beyond the $4.1 billion, but we are unable to estimate this amount at this time.

These estimated costs refer to 1979. The effect of quotas in 1980 would be similar. Although U.S. production capacity in small cars is larger, the demand for small cars will also be larger as the market shift continues.

The impact of import restraints on inflation is also important. The weight of new cars in the Consumer Price index is .0373. If the average price of all new cars (imports and domestic, small and large) increases by a weighted average of 10 percent, the CPI rises by almost 4/10 of one percent. The indirect impact on inflation, working through normal dealer markup margins, cost of living escalator clauses, and higher gasoline consumption and prices, would also be substantial. This could double the direct inflationary impact, an entirely unacceptable result.

The country is currently suffering the worst inflation in many decades. Imports provide some relief. It would be extremely unfortunate if new trade barriers increased our inflation without reducing unemployment.

From the consumer's standpoint, restrictions in the availability of imported, fuel-efficient automobiles would impose an unfair burden of considerable magnitude. The government would be telling the consumer, in effect: "We will not permit you to buy what you want and need, so please make do with something that's not quite what you want. It will be larger than you require and will consume more gasoline than you wish, but never mind, you will be helping the U.S. manufacturer."

In essence, this was Mr. Fraser's response to a newspaperman's query as to what American consumers should do if imports were restricted. Mr. Fraser's reply: "There are all sorts of six cylinders out there until we can make the transition."

The consumer should not be asked to pay for the mistakes the U.S. industry has made in the past, or for the industry's failure to keep its product modern and competitive.

2. Employment effects.—The employment effect of the quota would be very modest. The small car segment of the domestic industry has been operating at full capacity, and very little, if any, additional employment could be expected. The artificial scarcity of small cars and the resulting price increase could switch some demand back to intermediate and larger models, but we expect the extent of such a shift would be small. Consumers are now purchasing on the basis of lifetime operating costs as well as initial selling price, and additional fuel costs associated with intermediate and full-sized models would discourage consumers from switching back to larger cars.[4]

Restrictions on imports would cause significant job losses among the 140,000 employees in the U.S. imported automobile industry.[5] Thus, whatever the job gains in the U.S. auto industry resulting from quotas would simply cause job losses elsewhere.

A study by the distinguished Boston research firm of Harbridge House established that an arbitrary reduction of imports by 400,000 units would cause loss of 26,340 jobs in the United States.

Additionally, such restrictions would force the closing of 400 U.S. businesses in the first year, and an additional 300 in subsequent years.

3. Energy impact.—Imported automobiles are fuel-efficient. Average EPA mileage for 1979 imports was 31 miles per gallon. This compares to an average fuel efficiency for the existing stock of domestically produced U.S. autos of 14 mpg in the same year. An increase in this figure of even one mpg would save 400,000 barrels of oil every day.

New U.S.-produced small cars are also fuel-efficient, but quotas would not substantially increase their output. Rather, quotas would lead to prolonged use of the existing inefficient stock of cars, and would switch buyers on the margin toward larger, less fuel-efficient models. If quotas had been in place in 1979, a rough estimate of the additional gasoline consumption last year is 378 million gallons.[6]

This fuel cost increase, would, of course, be paid by consumers. At current prices, it implies additional costs of about $453 million for only one year. There would also be cost in future years as additional large models enter the U.S. car stock. The effect of the additional imported oil would be to increase our balance of payments

[4] Charles River Associates found that a 10 percent tariff on imported autos would increase employment by 11,640 workers. Impact of Trade Policies on the U.S. Automobile Market, October, 1976, for the U.S. Department of Labor, p. 361.

[5] Harbridge House Inc., "The Imported Automobile Industry," December, 1976, for the American Imported Automobile Dealers Association. See also, "Does Detroit Need Import Aid?" New York Times, March 17, 1980.

[6] This assumes that demand reduction for small cars is equally divided between purchase of larger models and delayed purchases, average miles driven per year is 10,000, and average fuel efficiency of new intermediate and full-sized cars is 22 mpg.

deficit by about $216 million. Indeed, earlier studies have shown that if the entire U.S. auto fleet were imports, the U.S. would not have to import any oil! In a real sense then the U.S. faces the choice of importing cars or oil. That choice should be clear.

4. *International economic impact.*—Both quotas and trade restrictions imposed in order to enforce a domestic content requirement would have adverse effects on the international economic position of the U.S. Both would cause additional employment losses within the U.S. economy. And both would undermine the long-term global interest of American automobile firms.

If quotas or other trade restrictions are imposed, exporting countries must be offered compensation in the form of equivalent tariff reductions in other sectors. Not to offer compensation would be to allow exporting countries to retaliate by raising their own trade barriers. In the one case, output and employment in U.S. import-sensitive industries suffer. In the other case, output and employment in U.S. export industries suffer. It may be possible to re-employ a small number of U.S. auto workers (at large public expense), but this would still result in job losses elsewhere, in other sectors of the economy.

It is doubtful that automobile import quotas would improve the U.S. balance of trade. Our sales to Japan would decline and our purchase of oil from OPEC would increase. And Japanese firms, viewing the inflated small car prices in the U.S., would simply raise their prices correspondingly.

Even if quotas could improve the U.S. trade balance and strengthen the dollar, they would nonetheless erode the competitive position of *all* U.S. export and import-sensitive firms. In the short run, additional U.S. employment losses could also occur in sectors completely unrelated to the United States automobile industry.

THE LEGAL IMPLICATIONS OF PROPOSALS TO LIMIT AUTOMOBILE IMPORTS

Import restrictions would be counter-productive. In addition, quantitative restraints and domestic content requirements would violate international obligations of the United States. They do not come within any of the generally recognized exceptions allowing unilateral restrictions of this kind.

A. Quantitative restraints

The Mottl bill imposes a quantitative restraint—a quota—on imported cars and trucks. Yet the United States, as a party to the General Agreement on Tariffs and Trade (GATT), is bound by its agreement in Article 11, paragraph 1, of the GATT, not to institute "prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures." [7] Moreover, it is clear that the Mottl bill would result in a nullification and impairment of prior U.S. trade concessions in the automobile sector. As a result, our trading partners would be justified under Article XXIII of the GATT in seeking to suspend substantially equivalent concessions made to the United States.[8]

In other words, the Mottl bill would legally entitle our trading partners to retaliate against us in kind. It would, therefore, be the first shot in a trade war of unpredictable ultimate dimensions.

The Mottl bill is inconsistent with our GATT obligations. It is simply not acceptable for the United States to commit a flagrant violation of the GATT in order to help the domestic industry to improve its market share.

B. Domestic content requirements

Domestic content requirements would also violate the GATT. The principle underlying that Agreement is the principle of "national treatment." This means that we and our trading partners agree not to use our legal systems to protect domestic production at the expense of imports.

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[7] Article XI, paragraph 1, states that: "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party."

[8] Article XXIII (2) provides that "If the CONTRACTING PARTIES consider that the circumstances are serious enough to justify such action, they may authorize a contracting party or parties to suspend the application to any other contracting party or parties of such concessions or other obligations under this Agreement as they determine to be appropriate in the circumstances. If the application to any contracting party of any concession or other obligations is in fact suspended, that contracting party shall then be free, not later than sixty days after such action is taken, to give written notice to the Executive Secretary to the Contracting Parties of its intention to withdraw from this Agreement and such withdrawal shall take effect upon the sixtieth day following the day on which such notice is received by him."

Article III, paragraph 5, of the GATT reads as follows: "No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources." Requiring certain quantities of domestic components is, therefore, illegal under Article III, paragraph 5 of the GATT.

GATT obligations are taken seriously. We expect such a commitment from our trading partners, and we owe them no less. There is no doubt that restrictions on the importation of cars and trucks, whether by quota or by requiring a minimum content of domestic manufacture, are inconsistent with those obligations.

Mr. Chairman, automobiles and trucks imported into the U.S. are not subsidized by the Governments of Japan, Germany, and the other manufacturing nations. They are not being dumped onto the market at prices lower than the cost of production. They are not the beneficiaries of lax standards that allow unfair competitive advantages to be enjoyed. Instead, Mr. Chairman, imported cars are under attack from protectionist elements in our country because they are what the consumer wants for the price he wants to pay. The manufacturers, importers, and dealers of these cars are not violating the rules of international trade. We do not deserve to have the rules broken to punish us for our success. The long-term losers of such a policy will be American industry, against which we can expect retaliation, and the American people generally, who will suffer additional inflation

C. Availability of other legal remedies

Mr. Chairman, the statute book already provides relief for industries in distress. Title II of the Trade Act of 1974 offers a procedure for use by any interested party—labor as well as management—claiming injury from import competition. specific needs of the affected industry. We do not concede that the criteria under Section 201 have been met in this case—quite the contrary. Nevertheless, we submit that the Section 201 procedure is the proper means for the presentation of this claim.

The Trade Act of 1974 permits the domestic automobile industry to submit its arguments for relief. We note that the industry has also applied for adjustment assistance under Title II of the Trade Act of 1974 for 200,000 workers. If its petition is successful, the U.S. automobile industry will be aided substantially in its efforts to adjust to the current situation. It follows that requests for additional remedies at this point are premature and outside of the forum which has been created by the Congress. High tariffs, quotas, or domestic manufacture requirements an entirely inappropriate at this time.

Mr. Chairman, the American Imported Automobile Dealers Association urges this Subcommittee to resist the temptations of protectionism, which have time and again proved only to worsen inflation, to destroy trade relations, and to work against the best interests of our country.

Thank you.

Appendix

The purpose of this appendix is to explain our estimates of the consumer cost of a quota on imported autos, to show why quantitative restrictions (quotas) or domestic content requirements are inappropriate types of trade barriers, and to elaborate on the energy costs of restricting imports.

Cost of quotas

The U.S. demand for autos can be divided into three market segments: domestic small cars, imports (mainly small cars), and intermediate and full-size models. Imports and U.S.-produced small cars are close substitutes, competing on the basis of price and availability. The new generation of U.S.-produced small cars is similar to imports in terms of fuel efficiency, as well as design and engineering features.

Full-size domestic cars are not substitutes for either domestic or imported small cars. They are larger and heavier, and consume significantly more fuel. These features and performance characteristics are of critical importance to consumers at the time of purchase.

Consumers must consider not only initial price, but also lifetime operating costs. For example, the lifetime difference between a domestic large car attaining 18 mpg and an import attaining 30 mpg is over 2200 gallons of gasoline (assuming 100,000 mile life). At current gasoline prices of $1.20 per gallon, this difference amounts to $2667, or 57% of the average landed value of the imported car. At $2.00 per gallon, a price we may see within a year, the additional lifetime costs of the large car would be over $4400.

What this means is that it would require very large price increases of small cars to shift consumers back to larger models. The relevant comparison is not between the sales prices of small and large cars, but between the full costs of owning those cars. The responsiveness of small car demand to price changes of small cars is low, because there are no good substitutes. The responsiveness of demand for large cars to price increases in small cars is also low. It follows that quotas on the importation of small cars would lead to large price increases, but would cause only a minimal increase in demand for larger models. Quotas would therefore not significantly relieve unemployment in the large car segment of the U.S. auto manufacturing industry.

Our analysis of the cost of quotas to consumers is as follows. Short-run domestic supply elasticity of small cars is assumed to be .2. This reflects the current high levels of capacity utilization and the difficulty of expanding production quickly. Foreign supply elasticity is assumed to be infinite, based on similar long-run assumptions in the Charles River study, and the demonstrated capacity to expand foreign production during 1979. Domestic demand elasticity for small cars is assumed to be −1.[1] The demand elasticity for one segment of the market, small cars, could be higher on *a priori* grounds. Taking account of lifetime fuel costs, which are not directly reflected in initial sales price, however, reduces the elasticity estimate.

Average landed value of imported cars in 1979 as calculated by the Bureau of the Census for customs purposes was $4,717. This includes high-priced European models (Mercedes, Volvo, etc.). Average landed value of imports from Japan in 1979 was $3,794. We use $4,000 per imported car in the calculations. The total small car market in 1979 was 6.019 million units of which 3.698 million (41.4 percent) were domestically produced. From this we calculate the consumer cost and price impact of a quota that limited imports to 10 percent of total actual auto consumption in the United States. The average price increase for all small cars is 19 percent ($760), and the total annual cost to consumers who purchase small cars would be $4.6 billion.

TYPES OF TRADE BARRIERS

Quantitative restrictions on imports of automobiles are especially undesirable. The domestic industry is a classic oligopoly, with three firms (General Motors, Ford, Chrysler) holding 95.8 percent of domestic production.

When domestic producers have oligopolistic market power, as the U.S. domestic manufacturers do, quotas would eliminate the competitive pressure that imports provide. As opposed to a tariff, quantitative restrictions increase the incentive for domestic producers having market power to raise prices and restrict output. This is, of course, the opposite of the effect proponents of these import barriers are seeking.

It is exceptionally difficult to analyze the domestic content requirements suggested by Mr. Fraser and others.[2] One reason is the uncertainties surrounding the plan: how the Japanese producers will respond, the nature of the penalities relative production costs. A second reason is the complicated structure of an automobile "industry" that includes assembly operations, major component production often by captive firms, and "minor" components. At some points, economies of scale are important. Finally, the price and output behavior of the oligopolistic domestic industry is uncertain.

Under these circumstances the impact of a domestic content requirement cannot be precisely estimated. If 80 percent domestic content is required, and the requirement is backed by quotas, the Japanese must decide whether to establish facilities here or not. If they do not, the effect of requiring 80 percent domestic content may be similar to the quota analyzed above. Expected profits from U.S. production may be less than profits from quota-restricted foreign production.

If they do choose to establish production facilities in the U.S., costs will be higher here. It follows that with higher production costs, there will be some effi-

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[1] Charles River Associates report: "These studies have generally estimated the price elasticities (of demand for new cars) to be in the neighborhood of −1."

[2] Harry Johnson, "The Theory of Content Protection" in H. Johnson, Aspects of the Theory of Tariffs (Cambridge, Mass.: Harvard University Press, 1972).

ciency losses and additional costs to U.S. consumers. Another result would be an artificial stimulus to imports of small cars that meet the domestic content requirement.

Finally, any positive employment impact of a domestic content requirement would not materialize for several years, until the new facilities came on stream. The requirement would be ineffective in relieving current unemployment.

ENERGY COST

A rough estimate of additional energy costs of a quota can be made. We have calculated that in the first year 1.1436 million small car sales would be displaced by the quota. Assuming that half would shift to larger cars at an average 20 mpg and half would be deferred, and on the basis of the existing stock at an average 14 mpg, the first year cost of a quota would be about 340 million gallons of gasoline. The lifetime additional fuel use of the larger cars produced and sold is estimated to be 1.225 billion gallons, giving a total additional fuel cost of 1.565 billion gallons for a one year quota. If quotas were in effect for three years, the total additional fuel use might approach 4.7 billion gallons. At current price of gasoline of $1.20 this is $5.6 billion. This calculation may overstate the cost somewhat, however, should the price of gasoline become prohibitive for some drivers.

TEXT OF A SPEECH PRESENTED BY LEE A. IACCOCA, CHAIRMAN OF THE BOARD, CHRYSLER CORP., BEFORE THE AUTOMOTIVE SERVICE INDUSTRY ASSOCIATION, CHICAGO, ILL., MARCH 11, 1980

Good afternoon, ladies and gentlemen. Thank you for the honor of being invited here today to give the closing address. ASIA and its directors invited me to do this, by the way, many months ago, but there were times in the past couple of months when it appeared that Charlie might have to introduce me as the former Chairman of the late Chrysler Corporation or even worse, the late Chairman of the former Chrysler Corporation. But believe me, either way, this is much better.

Nothing quite like the Chrysler Crisis of 1970 ever happened in America before. Never has there been such spirited debate, both enlightened and unenlightened, daily front-page analysis, editorial overkill but finally, a tremendous outpouring of support by the American people for an industrial company. And never have the country's problems been dramatized so clearly, and the weaknesses of our economy made so obvious for everybody to see.

Now, you might well ask how we were so lucky to get in that unique position?

Well, it wasn't easy. But I believe that Chrysler's problems were a reflection of all that was wrong in the country last year—sort of a microcosm of everything that went wrong. No other industry in the world is being knocked around any harder than the automobile industry by every social and economic change.

If you'll pardon a phrase from our industry's past: What's bad for Chrysler is bad for the country, and vice versa. Chrysler, because it is the smallest and weakest link in the Big 3 Chain, got hit first, just as our industry whose very lifeblood is oil—we often forget that—got hit first in the economic recession of 1979.

We're on the cutting edge of change in America, and it's only a matter of time before other companies and then other industries are going to feel the same impact.

The question that is now beginning to surface is will there be another Chrysler, and who is it likely to be; and most important, have we learned anything from the Chrysler experience?

Well, I'd like to suggest today that the country can learn from our painful experience of last year. History does not have to repeat itself. The problems created by men and their institutions can be solved by men if they're willing to face them squarely.

But time is running out. But I believe there's still time for the country to deal with the problems that almost brought the tenth largest company in this country to its knees, that almost cost America at least 600,000 jobs, that jeopardized tens of thousands of small businesses—problems that could well erode the strength of our whole economy, I think, within a couple of years.

Now, you people in this room read about these problems every day. You certainly talk about them. I'm sure you feel confused about some of them, and helpless about most of them.

Let's look at these major problems one by one and then try to decide what we might do about them. In my order of priority, they are:

1. An energy policy, or I should say, a lack of one;
2. Excessive regulation and red tape;
3. Double-digit inflation as a way of life;
4. The demise of invention in this country and the decline of productivity;
5. Tax policies that do not respond to capital investment needs;
6. The runaway and unfair impact of imports;
7. Jobs and the required training that must go with creating new ones; and
8. The general malaise that comes from (1) through (7), that is: The attitude we all begin to develop that we are all losers. And all of these problems are intertwined and interrelated.

So far, what passes for an energy policy in this country is really a massive, confiscatory tax on oil company profits. Those tax dollars should be directed right back into the ground where they came from.

In January, the National Academy of Sciences released an exhaustive study on energy—by the way, this study was one year late and half a million dollars over budget. And after spending all that time and money examining our energy options in this country, the Academy said in no uncertain terms that America has enough energy to meet all of its needs for centuries to come. Now, that's not too reassuring if you're waiting in a gas line today.

We could get more oil from abandoned wells in this country, but with the price of oil fixed now for so many years, no one could afford the new technology to get the oil from the old wells.

We could have had a lot more gasoline, except we have made it all but impossible to build refineries in this country for the last 10 to 20 years. I think the last one built in California was 20 years ago and in another state, about 11 years ago.

The auto market was in chaos for most of last year because of hysteria about gasoline shortages that did not have to exist, and allocation systems that sent the gasoline we did have to the wrong places.

The point is: If free market pricing and free market allocation had prevailed at the time of the first Iranian crisis of last March—not to be confused with the crises that followed the second and third—Chrysler and this whole industry would not have suffered through the hell of last Spring and Summer's gas lines.

America does have the potential for enough oil, or coal, shale, nuclear and solar power to satisfy all of its energy needs, and avoid the kind of disruptions we had in our market last year. But instead of encouraging the technology to develop these sources, instead of letting the market decide the price of energy, we hem and haw about decontrol, and we spin our wheels with talk about gas rationing and windfall profit taxes. So, I come out very clearly on the side of absolute and unequivocal decontrol right away.

Problem Number Two—Charlie just referred to it—Government Regulation. The country simply has been on a regulatory binge. We've created more than 50 regulatory programs since 1960. Since 1970, we have established now more than 20 major agencies including the EPA, and OSHA, and the Council on Wage and Price Stability and the whole Department of Energy, for that matter.

It's now costing taxpayers five billion bucks a year just to keep those regulatory agencies in business. But beyond the administrative costs, the total cost to business—and that ultimately means the consumer—is estimated by the Chase Manhattan Bank's study, at over, just over $100 billion per year.

The experience of the automobile industry shows that regulations always start out as good things, well-meaning efforts to improve safety, and protect the environment, and conserve energy, or improve fuel economy, or what have you. But the process is almost irreversible once it starts. We have today 44 safety standards, emissions standards and procedures, and fuel economy standards. These regulations already in place have added just a little over $600 to the price of a new car, and they have created car-for-car fuel economy penalties of between 10 and 20 percent. And the convergence of all these standards in the late '70s almost put Chrysler under and helped destroy competition in our industry.

Now, I think most of you in this audience already know some of the facts. But in 1981, that's just a few months away, this fall, we have to improve by law fuel economy by an average of two miles per gallon, not one; we have to go from 90 percent to 95 percent clean in tailpipe emissions, and we have to get ready to start phasing in passive restraints or air bags.

Because of the absolute requirements of the law, the industry has had to increase capital expenditures to over double the size they would normally be

What that means to us is that regardless of record interest rates, regardless of an economic recession, and regardless of staggering losses, Chrysler must continue to spend $160 million each and every month, or we are in violation of some law. A prudent businessman would cut back—we can't.

You know, the sad part about the regulatory crunch is that we're getting so little for all this extra regulation. Let me give you a quick example. We took out the first 58 grams of pollution—or about half of it—for about 25 bucks in new car cost.

By contrast, to go from '80, right now, to '81 standards, we will reduce emissions by another five grams per mile, but it will add $238 to the price of a new car. In other words, those last five grams are going to cost the public nearly ten times as much as the first 58 grams. And I could go on, but there are so many in the area of regulation and red tape, so many rules; but the one that always fractures me a little bit is the same, EPA, and certifying our engines and cars in 1972 required 14,000 pages of certification. Last year, that 14,000 has grown to 280,000 pages of regulation, which I call prime overkill.

Problem Number Three: Inflation. Well, we all know about this one, or think we do, but we're learning every day. The Consumer Price Index increased at the rate of 13 percent last year. At that rate, the country was bleeding to death, literally. But that 13 percent is beginning to look like a bargain now when you think about what happened in the last 60 days. Inflation is now running at a neat 19 percent.

Just look at the prices of commodities, and that's what the auto manufacturers, by the way, face. We build a product with more than 15,000 separate pieces, and hundreds of pounds of raw materials, including steel and copper and glass and plastic. Last year, steel was up what the inflation rate was up, about 13 percent; plastics related to oil, of course, were up 20 percent. Lead was up 47 percent, don't ask me why. Copper was up 50 percent. Thank God we don't use any silver and gold in making our cars.

Remember the old yardstick that the cost of a car to the customer was about a buck a pound? No more—we're headed this fall for three bucks a pound, thereby keeping us well ahead of a good steak and on our way to caviar pricing.

To bank the inflation fires, the Federal Reserve has put the screws to the money supply. I don't know what other choice they have, but I sure know about the havoc that can play with a credit intensive business like the auto industry and certainly the housing industry.

Problem Number Four: Everyone talks about this one like the weather but nobody does anything about it, and that's Productivity. Part of the reason for that inflation is the country's dismal record for productivity. For the 1970's, America had an overall growth rate of about 1.5 percent a year. That was the average over the decade. We got worse every year as the decade wore on; so that in 1970, productivity actually declined in the absolute.

The reason is pretty obvious. In the 1970s, America spent less of her GNP, Gross National Product, on Research and Development than it spent in the decade of the 1960's. And we now spend less in capital investment—aided by silly tax policies, by the way—but we spend less in capital investment as a percentage of GNP than every major industrial nation in the world. That's less than Japan, Italy, West Germany, France, and would you believe and even Great Britain?

The automobile industry has been an exception to the general rule. And that's because in the last couple of years our capital investment has been increasing by more than 250 percent. But here does all the money go? Most of it continues to go to meet government regulations and of course the compressed changeover of every product and plant in our system by no later than the Fall of 1984.

Problem Number Six. I was going to go up and give my whole speech on this subject but I changed my mind because at times I get emotional about it. That's Imports. America is simply losing her markets to foreign competition. First radios, then TV, textiles, steel, it's beginning to be a long list. And now, even the auto industry is under pressure.

Last year the imports took almost 24 percent of our market. But last month, it went to 30 percent and is holding. Last year I might say parenthetically we also had an $8.5 billion automotive trade imbalance with one country, mostly Japan. And we're headed for a big collision. I don't know when it'll happen, but we're headed for one, because over the years, we in the auto industry have been able to hold our markets. Now people wonder, especially the editorial writers, if we're out of touch. Hell, we're not out of touch—we're out of money.

The imports are having a field day because our market changed faster than anyone could anticipate. 13 months ago, gas was $.67 a gallon, this morning it's a buck twenty-eight. But that's the non-energy policy coming back to bite us. The Europeans and especially the Japanese do have the small cars, always have had. We helped set them up that way after World War II. Their gas price has always been a buck a gallon and is now closer to three bucks a gallon.

They've already got the reputation in the market, but they're also exporting their unemployment, and that does not sit well here when there are about 200,000 Americans out of work in our plants alone, in the auto industry.

Meanwhile, as we talk, the imports keep coming at us, ship loads every day. Up until now, auto competition has always been tough from overseas, but we've been able to hold our market for the last decade at a 17, 18 percent level, and I might say, against all comers. No other industry has been able to do the same—not textiles, not electronics, not television, and not steel.

And we've held our markets for the most part without the benefit of any tariffs, any quotas, any taxes, or other restrictions, except for those of you with good memories a brief period in 1973 when Nixon and Connally threw a shock into Japan and put a 10 percent surcharge in order to get them the message on the valuation of the yen at that time, and it did work.

But our record in this industry is clean. We have not tried ever to keep out or force out any competition from any quarter or any corner of the world, and that's more than you can say for some of the people who are cleaning up in our market right now.

So let's consider the Japanese. The Japanese government adopted policies to encourage the development and growth of its automotive industry. Just after World War II, ironically. But the way they supported their industry makes for an interesting contrast with the United States.

The Japanese government made direct financial grants to its fledgling auto industry. The Japanese government allows quick depreciation of assets even today. The Japanese government levies hefty commodity taxes on all cars. But the bigger the car, the bigger the tax, and that gives the price advantage to the Japanese right off the bat because our cars were always larger.

The Japaese government freed up capital for its industries by simply not spending anything for defense. Why get mad about that, we saw to that.

They spend much less than one percent of their GNP for defense. The United States spends over five percent of its total GNP and it's a big one for defense and that includes keeping the 7th Fleet in the South Pacific to protect Japan. So Japan had plenty of capital and they used it to buy automotive technology for most of the U.S. and also Europe at bargain rates after the war. That meant no big R & D costs and more funds available from the start for plants and tooling and facilities.

Japan also did something else to help its industry. The government put up a big wall around its own market while it encouraged automotive exports. It did not allow foreigners to build plants in Japan, at least the Europeans let us invest in Europe.

In the final analysis, the development of Japan's auto industry is a classic example of government protection, government assistance, and government encouragement conspicuously given to make companies internationally competitive.

Given all these considerations, it's easy to understand how the Japanese auto industry arrived at the point it is today.

The Japanese now boast the second largest economy in the whole free world. They are now the leading auto export nation in the entire world.

They have the small cars our market suddenly demands. They have the reputation for fuel economy and they most of all, have the capacity, working over a million units on full overtime right now. And therefore, they are in a perfect position to exploit any weakness in the U.S.

And that's just what happened in 1979. Chrysler's the perfect example. All of a sudden we became part of the little 2, that's Ford and Chrysler. The big 2 were GM and the Japanese. They almost sunk us. So, it's easy to understand the protectionist sentiment building in the country.

Now, I'm not going to tell you that we need to retaliate in kind. I think that's counterproductive. I'm still a free trader, I think. But it's hard to argue against some kind of action when you're locked out of the other guy's market and he's having a field day in yours.

Maybe we should require that they build some portion of their cars here. That helps keep the competition at least fair. But then we draw from the same labor pool, we pay the same taxes, we meet the same regulations, and we contribute to the health of the economy that we all compete in. That sort of makes sense to me.

Problem Number Seven is jobs. We need to create two million new jobs a year, and boy, are we falling short. But what else can you expect when you've got double-digit inflation, wasteful regulation, a regressive tax policy, declining productivity, and then aggressive foreign competitors who have the advantages in their countries of improving productivity, supportive tax structures and the cooperation, the full cooperation, of their governments.

Problem Number Eight—maybe the most serious of all today—is the pessimism rampant in America. Sure, we took a beating in the 1970s: Vietnam, Watergate, energy, inflation, Proposition 13, you name it. One recent poll shows that public confidence is at its lowest point since World War II. But why all this national uncertainty, stop to think a minute. Where are all the tigers of yesterday, did they go into hiding? What happened?

Well, what happened is that we discovered the limits of our power, the limits of our natural resources, and the limits of our ability to solve all of our problems at one time. That realization was painful and I think we're still in shock from it.

And it's natural that people now begin to question our ability to solve any of our problems at all. We have drifted into what I say is a very, very dangerous position.

We had a failure of leadership in America in the 1970's. We had no goals or priorities. We had no policies everyone in the nation could agree to, at least a majority. Instead, we had equivocation on the basic issues of energy and inflation for a full ten years now, and in their stead we got regulations and tax policies that stifled our productivity.

But let me inject a word of hope. They are not problems that have come about because of some structural defect in our economic or political system, I don't think.

They can be corrected if we as a nation decide that we'd like to correct them. The real question for the 1980's is whether America has the will and the discipline to do that.

I recently read a chilling assessment of what's wrong with the American people today—and it was written by none other than Alfred Speer—Adolph Hitler's production genius, still alive—he was talking to Adolph Hitler years ago, but what he said bears on today. Hitler told him that Americans would never, never enter World War II because they didn't have the resolve or will to go to war. He said they are lazy and they worry too much about their material well-being. Alfred Speer suggests that today Americans lack that same will, and he used our approach to our energy problems as the prime example.

Those of you who are my age know that when World War II started, we were pretty confused and disorganized. It took Pearl Harbor to put everything clearly into focus for us.

I hate to think it's going to take hostages in Iran, or the invasion of Afghanistan, or a draft of our young people, men and women yet this time, to get an energy policy or get the country out of the doldrums, but who knows?

But I would like today to suggest something else.

I think that if we in this industry, that's all of us, were to pull ourselves up by the bootstraps and show that we could solve some of these problems as they impact on our business, then maybe, just maybe, we could bring the country along with us. We're just big enough and strong enough to do that. You know, we've got a pretty good track record for being winners.

What would that involve? Well, two big things, really. And this is what I want to ask of all of us today: Manufacturers, dealers, suppliers, service and repair people and others in the industry.

First, we need to find and follow new approaches to the markets of the '80s. We cannot afford to ignore the changes that have taken place in just the past 12 months. The consumer today demands more than what he was getting in the 1970s.

The problems I've outlined here briefly are headaches enough. The car buyer expects us to soften the impact and take away some of the worry, not add to it. It's as simple as that. And if you'll pardon the commercial, that's what our new Chrysler guarantees are all about.

They go far beyond the traditional sales promotions we are accustomed to in this industry.

We simply put everybody in our company on the hook with our guarantees. We're offering a 30-day money-back guarantee on our '80 cars and trucks. We guarantee that a customer will like his new Chrysler, Dodge, or Plymouth or we give him his money back.

He can drive it for up to 30 days or 1,000 miles, whichever comes first. If the customer is not completely satisfied, he gets his money back. So far I think nationally we've bought back eight cars. People are basically honest. They had their choice of turning them in. Of the eight cars that came back, believe it or not, they were all small cars where people had downsized too fast and wanted a slightly bigger car.

Second, we guarantee no-cost scheduled maintenance. We'll pay for all scheduled maintenance work for two years or 24,000 miles on our cars and trucks; for a year on the imports.

Third, we guarantee no-cost emergency road service and towing. We'll give the buyer a two-year ownership coverage that provides road service, towing fees, trip interruption insurance and more.

Now, this is the beginning of a whole new way of doing business in the automotive industry. For years, the consumer has demanded better protection on his car purchase and better protection against his service needs.

And boy, do we ever need to pay attention to service in the 1980's. Take it from me, the public will not sit still for the service we as an industry delivered in the 1970's.

Service has go to be on the mark, and that's where market shares are going to be won or lost in this decade.

Just think of it, as regulations increase—and they will—there will be less and less difference between cars here, Europe, all over the world. They're all going to get similar mileage in a few years. They're all, unfortunately, going to get similar in style. The difference will be in one area, and it's called service.

At Chrysler, we're committed fully to improving service. Half of these Chrysler Guarantees relate directly to service. And stop to think of it, there's simply a realization with the economy going the way it is, people are concerned when they pay 10,000 bucks for a car. They are concerned with whether it will be a lemon or not. They are concerned with whether they will get service. And they are concerned with whether they will have to wait six weeks or more to get a part if something goes wrong.

We'd like to temper those concerns. We'd like to give them some assurances.

I needn't say to this group, the automotive aftermarket, of course, is absolutely critical to the total industry's future.

And the secret, of course, as you well know, is quality, promptness and reliability in the delivery of parts and service to your customers.

Now, the second thing we need to do is to work to establish a new partnership with ourselves, in this case, I mean with the government, the federal government especially.

The Federal Government, I think, has now come to realize that the policy of holding the industry's feet to the fire of legislating technical solutions, of mandating that we must re-invent the car, is wasteful and is wrong.

We in the industry have a responsibility to nurture this new spirit and make it grow. It's time to build a new relationship. And you people in this room can play a key role in building that relationship.

In the tough months while I was rooming in Washington, when we were working with Congress to establish a loan guarantee bill that would serve everyone's interest. Many of you in this room, in this ASIA organization, independent businessmen called on your Senators and Representatives and you helped carry the day, and there's a very important lesson to be learned here. You do have a voice in Washington. When you speak, the government listens.

You need to keep on talking about what energy and inflation and tax policies means to you as an individual or as a small businessman.

No, it's not enough to just talk about these problems really. We have to do something. We need imagination. We need to encourage creative thinking in both business and government so we can get creative solutions to the problems at hand.

You know, the whole automotive industry—that's all of us—has long been a sleeping giant in political affairs. And perhaps much of our present predicament can be traced to that shortfall.

Just think of the potential influence we represent, the power of our voice if we raised it properly on issues of interest to us.

You've heard this many times, but it's still true, one out of every six people in this country depend in one way or the other on the automotive industry for their livelihood. That's in the neighborhood of 35 million people, and that's a pretty impressive neighborhood. In sheer numbers and significance to the economy, no other industry in the country is even in the ballpark with us.

That's muscle, that's real muscle, and we owe it to all Americans and to all business interests in America to use it, and use it with wisdom and good conscience.

We used it in these tough months in Washington when we were working with the Congress to establish a bill that would serve everyone's interests. It was people from all parts of the auto industry calling on Senators and Representatives who gave them the information they needed to discharge their responsibilities. After all, you elected them.

There is a desperate need for more of that kind of activity if free enterprise as we know it is going to survive in this country.

And the issues are broader than just the weight of restrictive controls that are hampering our industry. We must make our elected representatives at every level aware of our position on every issue affecting business and jobs. And for the best preventive maintenance of our system of government, we should learn where candidates for political office stand on pertinent issues, and support those whose philosophy squares with ours, and there is no better time to start than in a presidential year.

My recent experience in Washington has convinced me that our government welcomes our input, particularly on issues that affect business and jobs, and that includes just about everything: Inflation, energy, taxes, employment, and productivity.

I must say that I know they welcome our input, there were some days when I don't think Senator Proxmire or Congressman Kelly of Florida appreciated our input, but we even got by them.

I weary of hearing people say "What's the use, the politicians will do what they want anyway, and I'm sort of getting used to the way they operate."

That makes me recall the words of the social scientist who said: "You can even get used to slavery if you're a slave long enough."

We in our industry are big enough and visible enough to change the direction of the country for good or for ill. But for a long time now, we've been about as useful as a bull in a ditch. And this is the time to pull ourselves out, believe me.

Once upon a time, we revolutionized America by propping it up and putting wheels under it. We changed it more dramatically than any factor or event since the Declaration of Independence was signed.

For the 1980's, I say to you, let's do it again. Let's resolve to be in the forefront of everything that's once more right and forward looking in this great country of ours.

And in the process, we'll hold our markets against any imports, and we'll dramatize that the old-fashioned ingenuity that made America the Envy of the world is alive and well in the U.S. auto industry today.

As we say in our ads—we can do it! Thank you.

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