Auto Industry Working Group

Auto Industry Wk. Grp. : Ellen Seidman 2-6-93

NEC
OST
DOC
EPA
Energy
DOL
OSTP
OMB
CEA
OBP
VP
USTR

- Dialogue
- Common Knowledge base
- Auto Policy
- Transplants
- Parts Supplier

Auto Indust
Saftey
① lead time
② Saftey vs. CAFE

Emissions
① Don't push to get any more
Ecletric Car ② 2003 Emissions - CA
- crazy
- other states adopt w/o CA Fuel policy
- local variations
- Electric Car Alt. ?

Fuel Economy
④ Problem - while gas is cheap, who will buy Fuel-efficient cars

- 2 things
① Regulatory Interrelationships
  - (EPA vs. NHTSA (2007))

② Parts Industry
  - Transplants not using them
  - When they are + Demanding HP changes

  - Detect Blowing hot & cold on JIT / HP relationship w/ parts

  - Wages ↓

- Need to bring Pension Discussion -- underfunding Pensions

need to bring to table

- More early retirements = more problems w Pension Plans

Health Care
  ↘ possible demand for ↑ Pension Benefits
  ↘ Companies have already factored in "Health Care Savings"
  ↳ Escrow potential HC Savings

Next Meeting - 27th July
472

-EDF talk

~~Bob Kyle - Trade~~
Heather - NOAA
Peter - Minority & Dis. Bus
Tom - NIST

Doug Nelson
NAC
NF

Non Profit
Health
① Clara Miller

DJW -
FYI

THE WHITE HOUSE

NATIONAL ECONOMIC COUNCIL

4th on 5th oct.

FAX DISTRIBUTION TO THE FOLLOWING:

GENE SPERLING	NEC	456-2878
LAWRENCE KATZ	DOL	219-4315
BRUCE REED	DPC	456-7739
GREG SIMON	OVP	456-6231
ALICIA MUNNELL	TRS	622-1264
JONATHAN SALLET	DOC	482-4191
ALAN BLINDER	CEA	395-6947
ALICE RIVLIN	OMB	395-1005
RICH ROSENZWEIG	DOE	586-7644
SYLVIA MATHEWS	NEC	456-2878
MORTIMER DOWNEY	DOT	366-3937
CHARLENE BARSHEFSKY	USTR	395-4549
SKIP JOHNS	OSTP	395-4155
LILLIAN FERNANDEZ	WHO	456-2604

FROM: BO CUTTER
PHONE: 456-6630
FAX: 456-1605

Paul -
Do you do Transportation
or does M. Schmidt?
BR

PAGES TO FOLLOW: 7

THE WHITE HOUSE

WASHINGTON

September 21, 1993

MEMORANDUM FOR NEC DEPUTIES

FROM: **BO CUTTER** Bo

SUBJECT: **Clinton Administration Actions Concerning the Automobile Industry (and Particularly the Big 3)**

The purpose of this memo is to provide you with an overview of the integrated manner the administration has approached the auto industry. Since taking office, the Clinton Administration has focused substantial time and energy on concerns raised by the major American automobile manufacturers and related constituents. This effort has included several meetings among the President or Vice President and the Chief Executive Officers of GM, Ford and Chrysler; a Roosevelt Room meeting in April among virtually all members of the Michigan delegation and many Cabinet members and other senior officials; an April 26 meeting at the Commerce Department, again including many Cabinet members and other senior officials, at which the Big 3 CEOs presented the industry's outlook and concerns; participation by the President in the joint manufacturer/labor Quality Car event on the Mall; numerous individual meetings by Cabinet members with industry representatives in both Washington and Detroit; and other meetings and discussions. Auto industry spokesmen have responded: "This really is a new day, a new way for relations between Washington and Detroit. [Chrysler]" and "We have had a much more open dialogue with this Administration than with the previous ones. [GM]"

Moreover, our efforts go beyond just talk. The Administration has made, and is about to make, a number of major decisions that have an impact on the industry. **On balance, the decisions we are making are favorable to industry prospects and competitiveness.** At the same time, there are real and major social concerns that require the Administration to take actions that will result in some cost to and potential dislocation of at least parts of the industry. We believe it is important that all of us emphasize the entire package both publically and privately. Otherwise we risk having our positive efforts taken for granted by both the industry and its supporters while attention is focused on any less-than-complete victories or requirements for further action or expenditures.

This memo outlines both what we have done and are doing, briefly assesses the impact of these actions on the industry, and suggests several ways to link them.

Positive actions underway

Health care

The Administration's health care reform program has the potential to produce savings estimated at over $1 billion per year to the Big 3. These are long-term and continuing savings. The program will also increase the companies' (particularly GM's) flexibility in restructuring through early retirements. Since health care costs, and particularly retiree health care costs, are higher at the Big 3 than at the Japanese transplants, the reductions and added flexibility should increase the cost-competitiveness of the Big 3. This effect may be amplified because GM, Ford and Chrysler, unlike the transplants, are diversified companies with major subsidiaries with different (and likely lower) risk profiles, potentially further lowering overall corporate health care costs.

Japanese trade negotiations

Autos and auto parts constitute, in effect, the largest single "basket" devoted to a specific industrial sector. The negotiation's major goal -- market access -- is designed to lead to substantially increased penetration by the Big 3 in Japan. The "results oriented" approach the Administration has insisted on is consistent with industry desires for specific goals. In addition, by making automobiles a major part of the negotiations, failure to reach agreement would enhance the likelihood of the industry's success in pressing for retaliatory actions.

NAFTA

The auto manufacturers see NAFTA as important to expanding sales in Mexico and rationalizing production. Because the Big 3 have a greater presence in Mexico today than do the Japanese, they will obtain an additional competitive benefit from the manner in which existing Mexican restrictions will be phased out. Parts manufacturers also support the agreement. However, labor is strongly opposed.

Clean car

Since March, the Administration has been negotiating with the Big 3 an agreement to rationalize and refocus federal research affecting the industry on a joint research agenda leading to both near-term fuel efficiency improvements and development of a totally different vehicle that makes a major breakthrough in fuel efficiency and greenhouse gas emissions. This agreement should substantially increase the productivity of both company and federal research in this area, important in an era in which all parties have limited resources.

Climate change

The Big 3 are very concerned that the National Action Plan relating to global climate change will require major improvements in new vehicle fuel efficiency prior to the year 2000. All current options relating to the plan would, to the contrary, recognize the difficulty of using this technique to accomplish near-term (pre-2000) significant reductions in greenhouse gas emissions. Therefore, the National Action Plan will not contain a recommendation to increase automobile Corporate Average Fuel Economy (CAFE) for model years before 2000. Recognition of the difficulty the manufacturers would have in reengineering cars to be built in this time period was part of the basis for this conclusion.

Tax law changes

Two tax items in the reconciliation act -- speedup of the Alternative Minimum Tax depreciation schedule for short-lived assets, and indexation of the luxury tax -- should help the Big 3. The AMT change should increase incentives for business purchases of automobiles. Indexation of the luxury tax benefits the Big 3 because even their luxury cars are relatively low priced compared to the [increasing] threshold.

Research and development

The auto companies are beneficiaries of up to $700 million annually of federal research expenditures, primarily through the DOD and DOE labs. The auto companies are also members of a number of consortia that have applied for defense conversion Technology Research Program grants. Grant recipients will be announced in October.

Administration coordination

Since April, the NEC has chaired a staff-level interagency working group on the motor vehicle industry. This has served as a forum for bringing together representatives of all the departments and EOP offices with major interests in the industry, helped build common understandings and personal networks, and enabled all interested agencies to become familiar with what other agencies are doing. This is unprecedented in any Administration.

<u>Actions underway that are less favorable</u>

Pensions

General Motors accounts for over 30% of current underfunding in the nationwide private defined benefit pension system, and Chrysler accounts for approximately another 10%. Underfunding in the pension system puts both pension beneficiaries and the government's Pension Benefit Guaranty System at risk. The Labor Department will recommend that the Administration support a bill to shorten the period over which underfunded plans must become fully funded. GM and, potentially, Chrysler, will be required to make contributions faster than required under current law. In contrast to the health care savings, this is a timing issue, not a long-term liability increase.

Light truck CAFE

As required by statute, the Department of Transportation must, by next March, establish CAFE standards for light trucks for model year 1996. Light truck sales are approaching 40% of new light vehicle sales. Last April, the Department increased the standard for model year 1995 by one-tenth of a mile per gallon over the model year 1994 standard, the first increase above the standard set for model year 1989. Some further increase is likely.

Climate change

While the global action plan on climate change is unlikely to include increased fuel economy standards for the pre-2000 period, it will include a proposal to initiate a yearlong process to develop and begin to implement a system to stabilize greenhouse gas emissions from personal motor vehicles in the post-2000 period. In the years after 2000, because of the growth in vehicle miles travelled and the lack of increase in individual vehicle fuel efficiency over the past several years, personal motor vehicles will account for a large and growing proportion of greenhouse gas emissions. If such emissions are to be maintained at 1990 levels after 2000, major reductions in projected growth of car and light truck emissions will be needed.

Safety regulations

In the next year, the Department of Transportation will establish several new safety regulations, most required under the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). The regulations will require some retooling, and will otherwise add to the expense of cars, in addition to adding weight, which generally has a negative impact on fuel economy. However, many safety features are also being demanded by the marketplace and are likely to enhance the marketability of the product. For example, the most expensive of the new requirements, passenger side airbags, have been included in many models in advance of any regulatory requirement.

On-board fuel recovery regulations

Pursuant to court order, by January EPA must issue regulations requiring on-board fuel recovery systems. Although the industry vigorously opposed the systems on both a cost and safety basis, recent negotiations between EPA and the industry have resulted in a solution that is simpler, safer and more economic, and in which EPA believes the industry will acquiesce.

CFC phaseout - impact on motor vehicle air conditioner units

The industry will be able to meet without difficulty international standards for total phaseout of CFCs in air conditioners before January 1, 1996 (eliminating CFC-using units in many 1994 models). However, they are very concerned that owners of older cars will not be able to replace CFCs lost in driving and will therefore be forced into costly air conditioning unit replacements, and will blame the industry for the problem.

<u>Actions that are uncertain, either as to occurrence or impact</u>

Tariff on multipurpose vehicles (MPVs)

The Big 3, labor and the Michigan delegation have pressed the Administration to reclassify certain sport utility vehicles and four-door minivans as trucks, subject to a 25% duty, rather than as cars, which are subject to a 2.5% duty. In June, Judge Ristani of the International Trade Commission determined that the two-door Nissan Pathfinder sport utility vehicle is a car, rather than a truck. Arguably, the Pathfinder is more like a truck than the other MPVs at issue. The United States has appealed Judge Ristani's decision, and has deferred a decision on the larger MPV reclassification pending the outcome of the appeal.

GM truck recall

Early this fall, NHTSA will make a final decision whether to force GM to recall trucks that NHTSA initially determined had an excessive propensity to catch on fire in a crash because of the location of the gas tank. GM has vigorously resisted, citing the cost of the recall in addition to legal and engineering factors.

Domestic content labeling regulations

Later this year, NHTSA will publish regulations under the American Automobile Labeling Act requiring manufacturers to label cars with their domestic content. The act was passed at the behest of the industry, and the underlying data that must be gathered to do the labeling will be useful in trade negotiations and monitoring. However, the data gathering and labeling themselves will be something of a burden to the industry.

California and Tier II air quality standards

California has enacted emissions standards that are stricter than the current federal standards, and a number of other states have adopted or are in the process of adopting them, as permitted by the Clean Air Act Amendments (CAAA). In addition, by 1998, EPA must determine whether to impose federal Tier II standards that are similar to the California standards. The industry has been opposed to both the California and Tier II federal standards, as excessively costly for the benefit obtained and inconsistent with improved fuel economy under current and projected technology. However, they probably would prefer uniform federal standards to a proliferation of apparently identical but effectively different state standards.

Issues relating to highway construction and funding

Under the CAAA, if states fail to submit or implement air quality plans, highway funding can be cut off. Moreover, budget pressures may not allow full funding of highways under ISTEA. Finally, the deficit reduction bill has continued the use of a portion of gasoline taxes for deficit reduction, rather than for transportation (primarily highways). All these actions may reduce demand for automobiles.

Conclusions and potential strategies

Although there are some difficult issues ahead for the auto industry, on the whole the Administration has not only listened to the industry's concerns, but acted favorably on them. Even in the pension and climate change areas, the decisions were tempered by an understanding of the current state of the industry. The clean car initiative is, moreover, an affirmative reaching out by the government to the Big 3, which it is hoped will be the beginning of an unprecedented cooperative working relationship between government and industry.

For a number of reasons, including comparison with other sectors, excessive public reiteration of this point would not be useful. However, it is important in talking to the industry and related constituents to emphasize the full panoply of what we have done and, in some cases, not done. There would appear to be at least three useful ways to accomplish this:

- In individual discussions with the CEOs, particularly on issues such as health care;
- By inviting the Michigan delegation in soon (rather than waiting for them to ask for another meeting) and presenting our case affirmatively; and
- In speeches by relevant Cabinet members to industry, auto labor and similar groups. For example, Secretary Pena has the opportunity to speak to the Detroit Economic Club in late October, and a "taking stock" speech might be useful.

UAW views on HP changes
sweeping bad

Economy ↑
need ↑
workers ↓

UAW – Auto Industry Mtg 11-2-93
NEC WG on Motor Vehicle Industry

- Serious reorg of industry going on Globally
- Big changes in parts industry

- 1979 – 80 UAW lost 250,000 members
- Depression of wages

Globally, industry is oligopoly

- domestic Purchases by Japanese companies here in US have been minimal

Health Care
- 8 yr phase in for large companies too long
- As companies get older, ratio retirees/workers gets bigger, costs ↑, become less competitive

- PBGC Reform Package -- no UAW position yet
  -- agree with opening statement of PBGC Chair
  -- agree with tightening funding rules

- Pensions have been maintained as flat % of wages -- no real increase
- oppose Pickle Amendments on ↓ of Benefits
- take special look at Plant-Closing rules

= US going down path of keeping out ? contingen workers to keep costs ↓

- Govt Incentives
  - Local sourcing requirements
  - Investment in training
  - technology centers
  - Labor Law Reform (striker replacement)
    - smaller companies have easier time discouraging unionization / strikes

OSHA Reform Bill ?

CAFE → increase idea good, numbers unrealistic

Clean Car Initiative ⇒ more union involvement

Safety
- what's a car vs what's a truck
- Minivans & other producers moving to more safety requirements