

Toyota Washington, DC

Yoshi Inaba

July 6, 2009



Washington Office

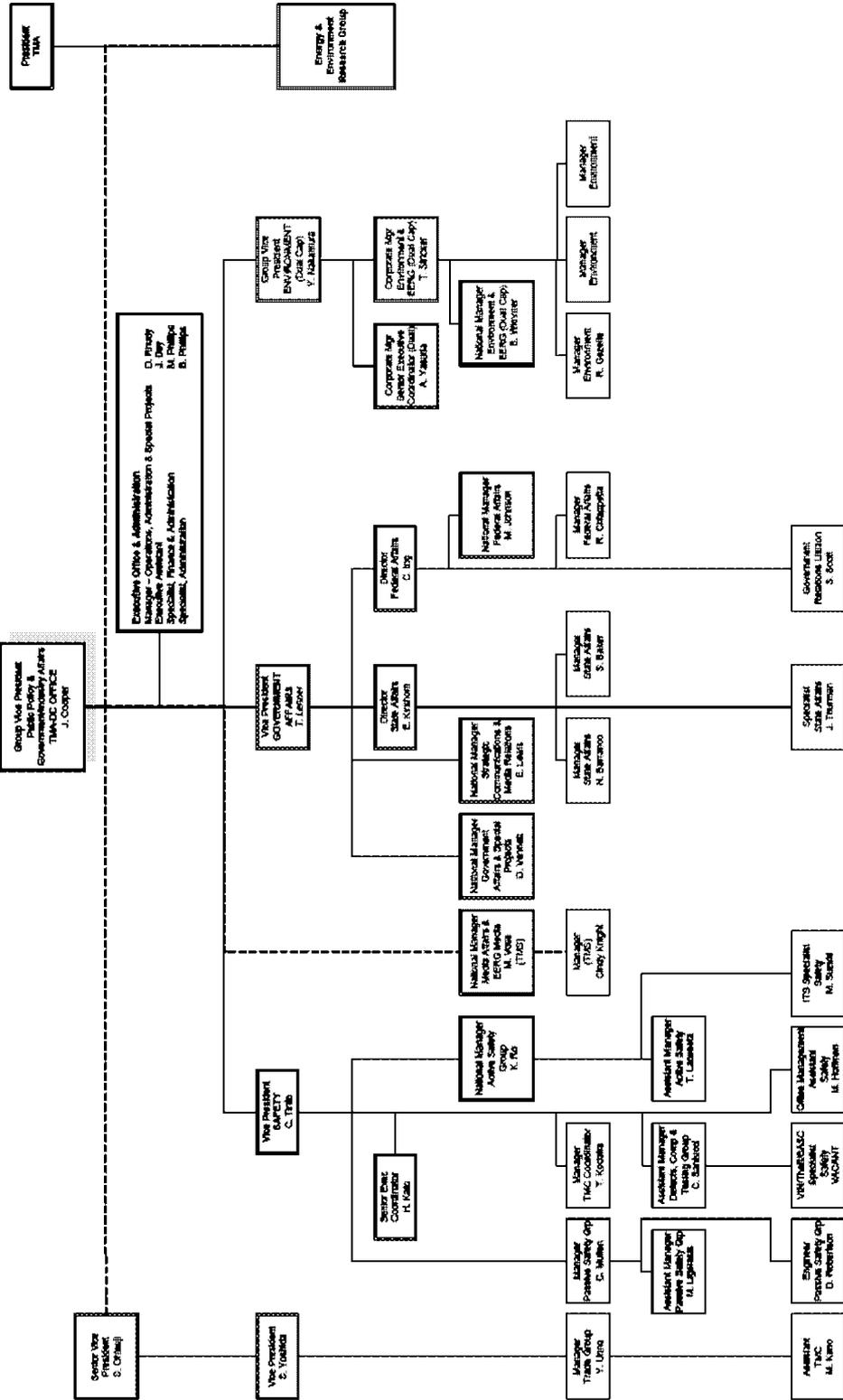
Agenda

- Overview
- Key Issues
- Discussion



Washington Office

TMA-DC Organization Chart
As of 07/01/03





Washington Office

Mission:

Support Toyota Business

Goal

- Promote Toyota's Agenda
- Protect our interests
- Maintain receptive environment to grow our business

Role

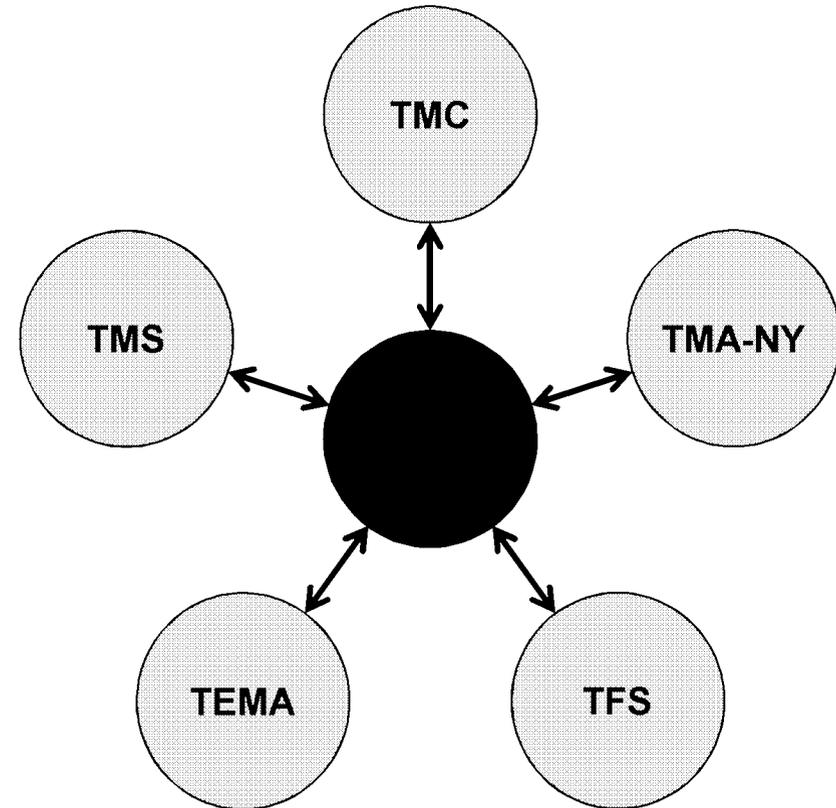
Provide Information & analysis
Make recommendations
Shape policies & regulations for
One voice decisions



Washington Office

Work with TMC and affiliates

- Promote Toyota's interests
- Inform, Advise, Coordinate
- Formulate one voice policy positions





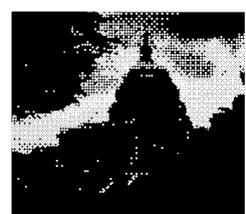
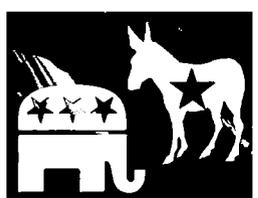
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External Resources

- trade associations
- think tanks
- political organizations
- consultants & lawyers



AUTO ALLIANCE
 DRIVING INNOVATION®





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Toyota Challenges

- **Changing political environment**

 - Continuing Economic difficulty

 - Activist Administration & Congress – increasing laws & regulation

 - Massive government support for Detroit automakers

- **Greater expectations for Toyota**

 - Higher profile – industry, government, media

 - Expertise / Opinion sought

 - Expectation to be a leader



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Wins for Toyota & Industry

- One National Program
- “Card Check” - legislation delayed
- Scrappage bill passed
- No FFV Mandate (yet)
- Vehicles not in Climate legislation
- Favorable recall outcomes
- Secured safety rulemaking favorable to Toyota



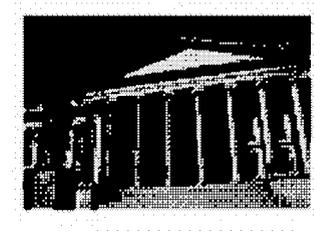
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Government Affairs Key Issues

- **Fuel Economy/GHG regulations**
 - One National program
 - Certainty for compliance and product development
 - Increase cost for vehicle production and prices

- **Government \$ for GM/Chrysler**
 - Not a level playing field
 - \$ 85 billion to date
 - DOE loans \$ 7 billion to Ford, Nissan, Tesla

- **Labor issues: “Card Check”**
 - Easier union organizing
 - Increased labor costs
 - Mandated contracts





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Government Affairs Key Issues

- **Financial reform**

- Potential elimination of Toyota Bank
 - Restrictions on interest rates
 - New consumer protection agency



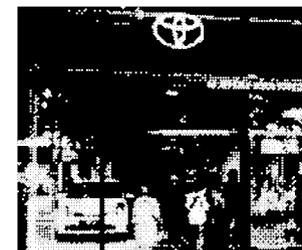
- **Protectionism**

- “Buy American” on the rise
 - Stimulus, supplier \$, import taxes, border tariff



- **Scrappage**

- government program – est. 250k sales; \$ 1bn.
 - voucher \$ to replace older vehicles with new ones
 - “conquest” bill for Toyota





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Government Affairs Key Issues

- **Climate Change legislation**

“Cap and Trade” – emission credits, excludes vehicles

Increased costs for electricity, fuels, raw materials

Annual R&D grants - \$ 5bn – North American companies



- **Healthcare reform**

New fees on employees and companies

Early cost estimates exceed \$ 1 trillion

Major effort by US Chamber / trade groups



- **State Franchise Laws**

28 state proposals

Strengthen dealers at expense of manufacturers;

Response to GM/Chrysler dealer terminations





TRA Safety - Responsibilities

1. **Monitor and Affect Regulation & Legislation**
2. **Vehicle Defect/Compliance and 3rd Party Crash Testing**
3. **Manage/Coordinate/Expand TMC Safety Research w/Outside Entities**
4. **ITS/VII activities (Regulatory/legislative implications)**
5. **Support PR Activity to Enhance Toyota's Image w/ Government/Public**
6. **Monitor Market Trends Related to Safety**



Key Safety Issues



- U.S. DOT/NHTSA under Obama Administration not industry-friendly



OEMs anticipate a more challenging regulatory and enforcement environment, with potential for revisiting key regulatory proposals

- NHTSA's new, more aggressive management includes more attorneys at the agency, even in the leadership of Rulemaking and Enforcement



The new team has less understanding of engineering issues and are primarily focused on legal issues



Key Safety Issues

Impact on “Quality”

- Number of UIO (units in operation) increasing
- NHTSA is testing more vehicles under NCAP
- Nov 2000 “TREAD Act” requires new, more intensive, and regular reporting
 - A 5-day notification is required when recall determinations are made
 - New strong civil and criminal penalties were implemented
 - e.g. Ford/Firestone/rollover issue
- NHTSA is more sensitive to public/congressional criticism

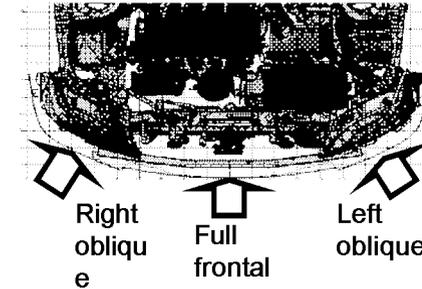


Resulting in more Investigations, and more forced recalls



Key Safety Issues

- FMVSS 305 Compliance/Hybrid Sales
- New NCAP Test Protocol



- “Sudden Acceleration” on ES/Camry, Tacoma, LS, etc.

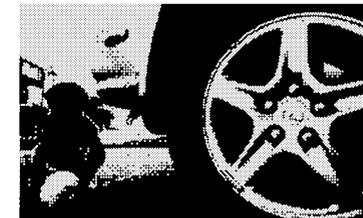
- Cargo Carrying Capacity/FMVSS 110 Compliance

- Prius Headlamps Investigation - Class Action



- “Quiet Cars” (Hybrids, EVs, FCHVs)

- Kids in Cars



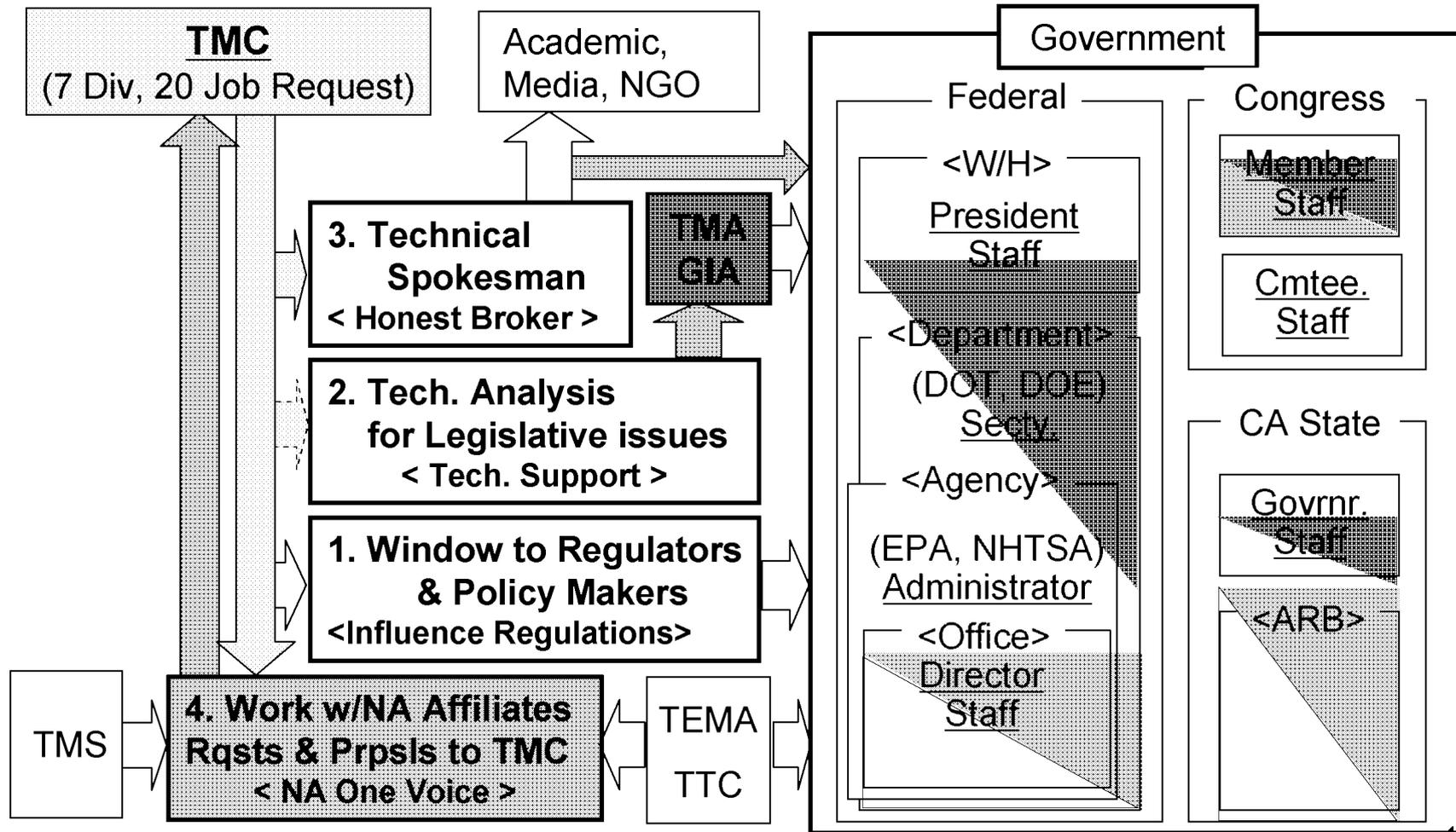


Wins for Toyota – Safety Group

- Rulemaking
 - FMVSS 216 Roof Crush Rule – reduced PL and design burdens
 - FMVSS 305 Electric Shock Rule – delayed final rule
 - FMVSS 214 Side Impact Rule - Added lead time and phase in; Saved ~\$124M/50,000 man hours
 - FMVSS 206 door locks – delayed rule; saved ~\$11M for Sienna
- Defects
 - Sienna Rear Hatch w/ no "defect"; Closed Tacoma DP issue; Avoided Investigation on Tacoma Rust
 - FMVSS 110 NCIR labeling recall – No civil penalties, Saved \$20M+ in buybacks
 - Negotiated “equipment” recall on Camry/ES re: SA, saved \$100M+, w/ no defect found
- Other
 - Secured Tacoma, Scion XB, Corolla, '10 Prius ‘Top Safety Picks’ at IIHS
 - Delay of New NCAP program - 1000s of man hours in redesign for 2010 MY



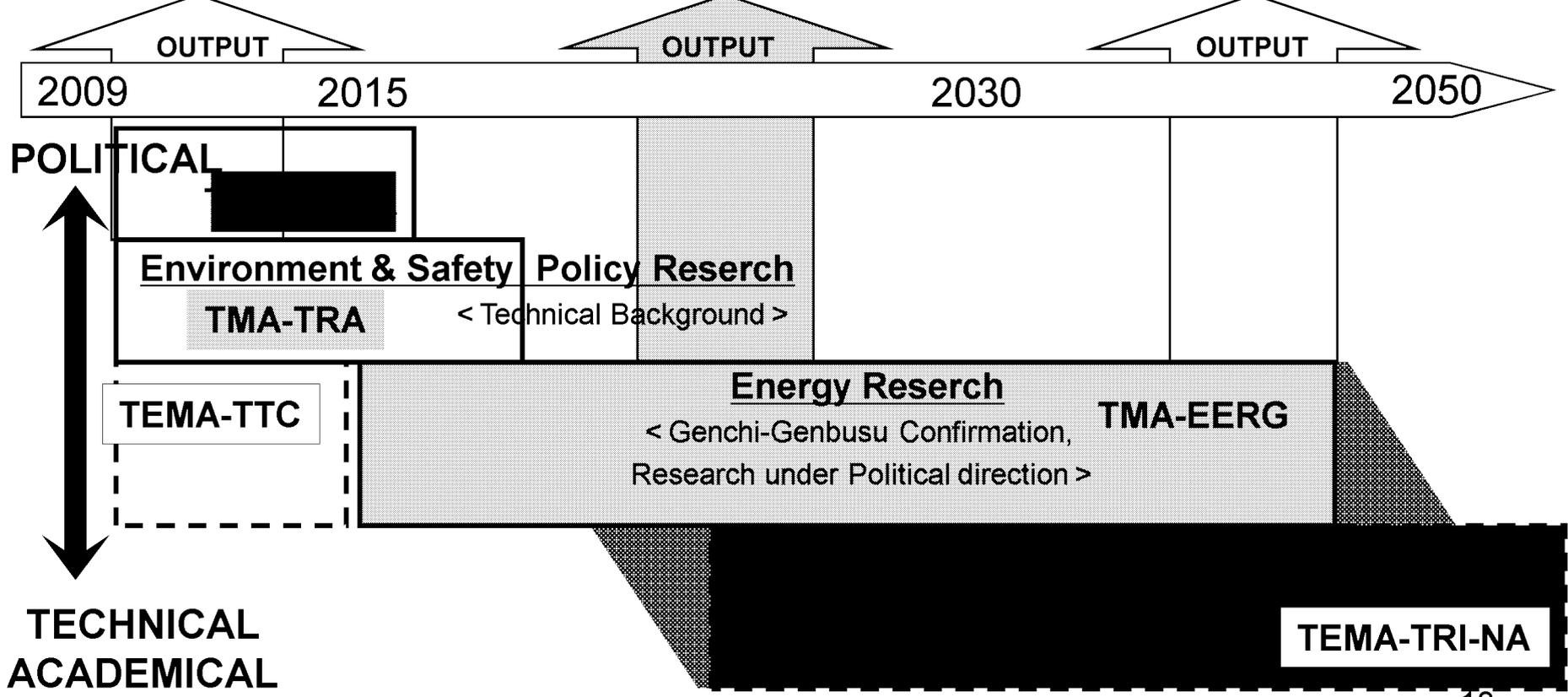
TRA – Environment: Primary Roles





TRA, EERG Job Scope, Responsibility Map

<p>Short-t: Ext.Affairs</p> <ul style="list-style-type: none"> •<u>Reg.</u> & Compliance •<u>Tec. Affairs</u> (Gov., Med., Acad.) 	<p>Mid-term: Strategy for Development</p> <ul style="list-style-type: none"> •<u>Advance Technology Vehicle</u> (HV, PHV, New Bio, FC, ITS, Safety tech, auto-drive, etc) 	<p>Long-term: Sustainability</p> <ul style="list-style-type: none"> •Clean & Sustainable Energy •Transportation & Traffic Sys. •Future Business Model
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TRA-Env Issues: One National Fuel Economy/GHG Program

- The Issue:** Toyota facing 14 state-by-state GHG regulations (AB1493) and two overlapping federal programs (EPA and NHTSA).



- Status:** Reached agreement with Administration, states, NGOs and labor to drop litigation and implement a single national program.

ONP Announcement with President Obama

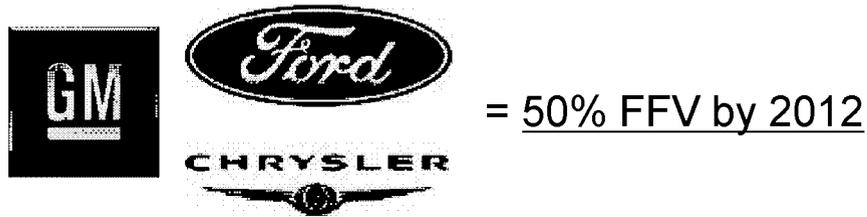


- Impact:** \$1,300/vehicle (Administration est.)



TRA-Env Issues: Flexible Fuel Vehicle Mandate

- The Issue: Potential congressional mandate to produce flexible-fuel vehicles (FFVs) that can run on ethanol blends up to 85%.



“Barack Obama and Joe Biden will work with Congress and auto companies to ensure that all new vehicles have FFV capability...”

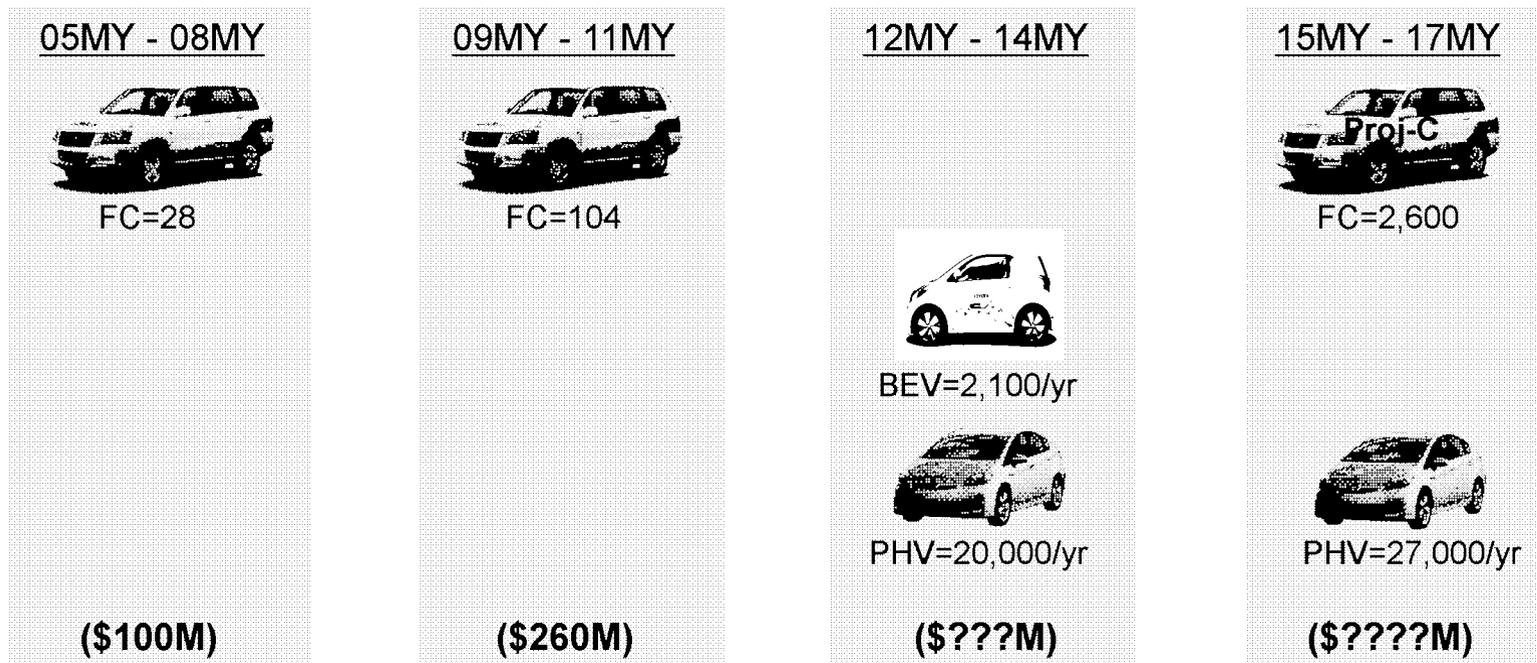
(from Obama's campaign energy plan)

- Impact: \$200-\$300 per vehicle (\$400M-\$600M per year). Higher in the future (LEVIII, DI, P-system).
- Status: Avoided a mandate thus far. Waxman-Markey climate bill “allows” DOE to mandate FFVs but does not require it.



TRA-Env Issues: CA Zero Emission Vehicle Program

- The Issue: CA mandating OEMs to produce zero-emission emission vehicles in mandated volumes.

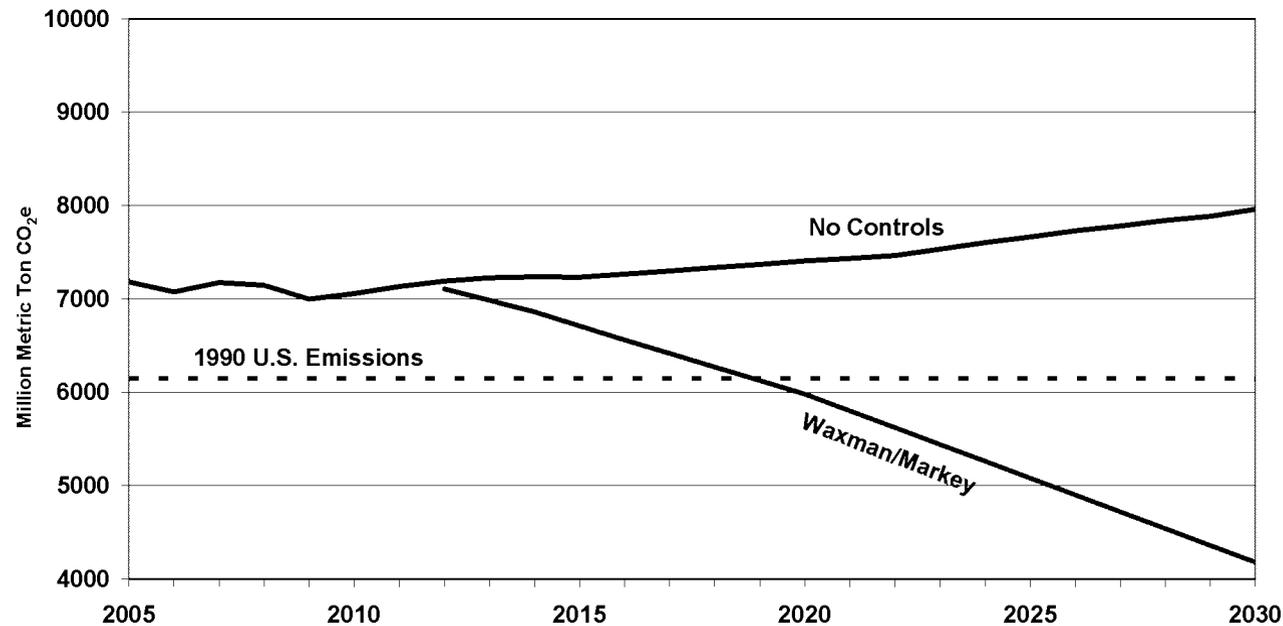


- Status: NA ZEV Team and TMC working on a plan to reduce required volumes and cost.



TRA-Env Issues: Climate Change Legislation

- **The Issue:** Cap-and-trade legislation aiming to reduce US GHGs 17% by 2020 and 83% by 2050 (2005 base). Does not include vehicle emissions.

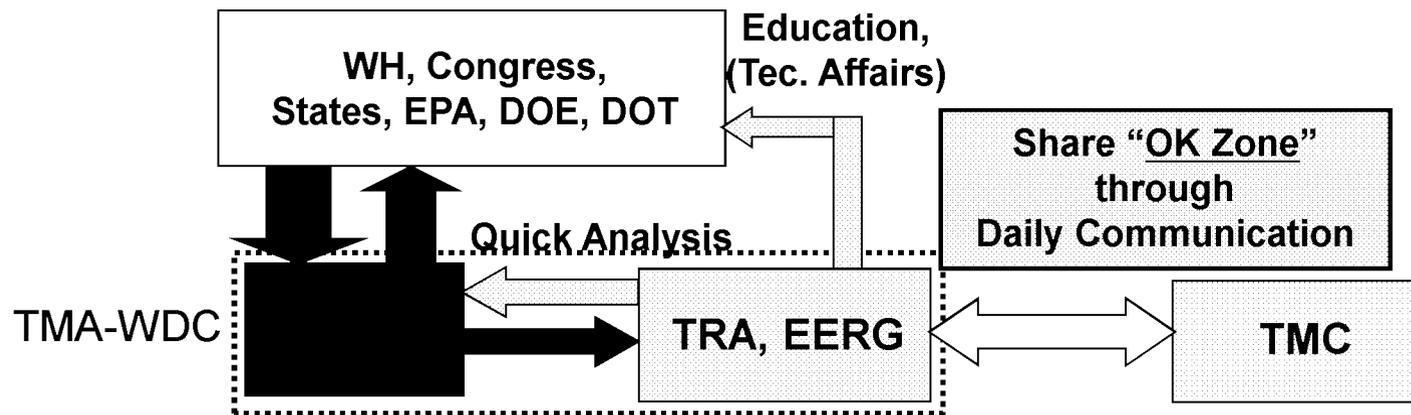


- **Impact on Toyota:** Increased commodity prices and energy prices in manufacturing. Up to \$14B in funds for green technology development, manufacturing and infrastructure (PHV, EV, etc.).



TRA-Env: The Benefit of Engineers in Washington

- Speed of response
 - Many issues require immediate (or near immediate) response
 - Provide quick response based on daily communication with TMC



- Educate lawmakers to have reasonable legislation and regulation
- Ability to “propose” strategy to TMC and lawmakers
 - Having engineers working directly with political/policy groups facilitates our ability to propose well-rounded strategies



Discussion: TMA Washington

Challenges

- Increased expectations on Toyota
- Activist legislative / regulatory initiatives
- Enhanced influence of labor / environmental groups
- Adverse implications of US support for GM/Chrysler
(bailouts, R&D for batteries, adv. tech. vehicles)
- Growing “Buy American” efforts in congress & administration
- One National Program implementation
- CA ZEV mandate



Discussion: TMA Washington

Recommendations

- “One Voice” decisions are essential
- Establish small senior exec. group in U.S. to make timely decisions
- Secure swift TMC agreement & support – enhance communications
- Initiate & lead on legislative and regulatory issues

Slide Notes

Slide 12:

Monitor and Affect Regulatory and Legislative Movement

NHTSA., OMB, Congress, etc.

Act Through Alliance, Toyota independently

Technical Meetings with Automakers

Comments, Private mtgs, Industry

Vehicle Defect/Non Compliance Issues

NCAP consumer information/IIHS/3rd party testing

Attend tests, Provide data and analysis

Negotiation with stakeholders/Gov't/test labs

Manage/Coordination TMC safety research w/ Outside entities

Universities/Labs, etc.

Monitor market trends related to safety

Competitors, media, NGOs

Support PR activity to enhance Toyota's image w/Gov't/public

Work with TMS PR

Improved understanding amongst affiliates/technical briefings

Media interviews/background

Slide 13:

U.S. DOT/NHTSA under Obama Administration

Not industry friendly

Aligned with the safety advocate community

Slide Notes

OEMs anticipate a more challenging regulatory and enforcement environment, with potential for revisiting key regulatory proposals

NHTSA's new, more aggressive management includes more attorneys at the agency, even in the leadership of Rulemaking and Enforcement

The new regime has less understanding of engineering issues and are primarily focused on legal issues

Slide 14:

On "Quality" (i.e. Defects, Compliance, NCAP testing)

Number of UIO (units in operation) is increasing rapidly (i.e. increased exposure for defects/quality issues)

NHTSA is testing more vehicles under NCAP

Nov 2000 "TREAD Act" requires new, more intensive, and regular reporting of warranty, field reports, customer complaints, death and injury claims, etc.

A 5 day notification is required when recall determinations are made

New strong civil and criminal penalties were implemented for knowingly hiding a defect/recall, or less-than-timely reporting

e.g. Ford/Firestone/rollover issue

NHTSA is more sensitive to public/congressional criticism (now that all the tools have been granted to them by Congress)

Resulting in more Investigations, and more forced Recalls - even those that historically were not deemed "safety" in nature

Slide 15:

Slide Notes

FMVSS 305 Compliance/Hybrid Sales

Serious Compliance Concerns

Potential Sales Impact

New NCAP Test Protocol

Lower Safety Ratings Potentially Affect Sales

Tundra Case

“Sudden Acceleration” on ES/Camry, Tacoma, LS, etc.

Recurring issue

PL implications/TMC design

Cargo Carrying Capacity/FMVSS 110 Compliance

Flaws in Toyota Regulatory and Defect Process

Prius Headlamps Investigation

Class Action Implications

“Quiet Cars” (Hybrids, EVs, FCHVs)

NFB/Congressional/NHTSA/SAE activity

Roof Crush

Phase-in costly and difficult, Longer model life

Kids in Cars

BTSS, Power Windows, Rear Visibility Standards (cameras)