May 14, 2009

Washington, DC -- Peter DeFazio (OR-04) objected today to the counter productive demands the Administration has put on the American auto industry. By requiring General Motors and Chrysler to close dealerships and enabling them to outsource manufacturing, the Administration is casting aside a vital part of our economy in favor of high paying executive level jobs. This action will cost the middle class thousands of family wage jobs at a time when unemployment is on the rise.

Earlier this week DeFazio sent a letter to Steve Rattner, the Obama Administration's car czar, asking him to reconsider the Administration's position to force thousands of dealerships to close. Chrysler has plans to close 789 dealerships around the country by June 9th, six of which are in Oregon and General Motors announced that they will not renew the franchise agreement on 1,100 dealerships when it expires at the end of September 2010.

The letter stated "The premise of cutting dealerships appears to be based on lowering the dealership overhead via the efficiencies of bigger dealers and passing those savings onto the auto manufactures. These projected savings are highly speculative …. Squeezing more out of the dealership profits from new car sales will do little for the auto manufactures."

In another example of how the domestic auto restructuring is counter productive to American workers, Chrysler announced that it will move engine production from the Kenosha Engine Plant in Wisconsin to Mexico. This outsourcing will export 800 American jobs to Mexico at a time when our unemployment is on the rise.

"I object to the very idea that transferring our manufacturing base to Mexico is the best solution to Chrysler's economic woes" said DeFazio. "We need a vibrant working class, not corporate shells with overpaid executives."

"I remain hopeful that the Obama Administration will step back and reconsider these disastrous actions that will drive up unemployment and add to the challenges of pulling the U.S out of a recession," said DeFazio. "The Administration should reverse course, stop bailing out Wall Street, and start investing in the American worker."

The full letter is below:

May 13, 2009

Steve Rattner

Counselor to the Secretary of the Treasury.

Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Rattner:

I applaud you for accepting the challenge of helping domestic auto manufactures return to a profitable business structure. I believe the survival of auto manufactures is critical to our nation because we cannot continue to lose domestic manufacturing capability. As you well know, domestic auto manufactures have many obstacles to overcome before they can regain market share and restore profitably.

One of the obstacles the Treasury Department has identified is the reduction of auto dealerships. Treasury has stated, "These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales." I do not believe the facts support this conclusion.

The premise of cutting dealerships appears to be based on lowering the dealership overhead via the efficiencies of bigger dealers and passing those savings onto the auto manufactures. These projected savings are highly speculative. Auto dealerships have already undergone a natural consolidation over many decades. Furthermore, dealership profits are primarily generated by servicing vehicles, and less so by new car sales. Squeezing more out of the dealership profits from new cars sales will do little for the auto manufactures.

The downside of forcing greater dealership reductions must be weighed against the speculative benefits. U.S. auto dealers have invested $233.5 billion in their 19,000 independent dealerships, and these dealerships employ over 1 million people earning decent wages. The National Association of Auto Dealers estimates that slashing these dealerships will lead to 150,000 job loses, thereby contributing to another significant increase in the unemployment rate.

Secondly, slashing dealerships may reduce car sales. Without a sales force pitching for the domestic auto industry, car sales will continue to slump. This sales force costs the auto manufactures nothing, but is their direct connection to the customer. Instead of forced reductions, the expanded dealership network should be allowed work the advantages it has.

The former White House chief of staff Mack McLarty said it best with:

"Remember, automotive dealers are automakers' only customers. Dealers buy cars and trucks from manufacturers; consumers buy from dealers, who spend billions annually advertising the vehicles they sell, plus more than $300 million to train sales personnel -- all at no cost to the automakers … without a strategic plan to ensure that the remaining dealerships can thrive, a rapid "rationalization" could wipe out dealers and further weaken manufacturers, with negative repercussions throughout the economy, especially in the Midwest."

I represent rural communities and small-sized cities. I am pleased that GM claims they are not targeting rural dealership and see them as an advantage. GM states "In small town markets, GM intends to preserve its historic and competitive strength." This is welcome news. I ask that you encourage Chrysler to also protect its rural dealerships. A broad network of auto dealerships for both GM and Chrysler are an asset and necessity, rather than a burden on the domestic auto manufacturers.

Sincerely,

Peter DeFazio

Member of Congress