

U.S. Lags in Auto Industry Support

Other major industrialized countries routinely help their domestic auto makers, suppliers.

BY TOM MURPHY

FROM DETROIT'S PERSPECTIVE, THE 2008 presidential election is a referendum on the efficacy of government support for the auto industry, financed by taxpayers.

Against the backdrop of an election year, Washington is aiming to help in the form of low-interest loans worth \$25 billion to OEMs and suppliers to finance the development of advanced, fuel-efficient vehicles, and retooling of plants to produce them.

Detroit contends the money is necessary to help it achieve the corporate average fuel economy of 35 mpg (6.7 L/100 km) by 2020, as mandated by the federal energy act signed into law last December. The low-cost loans were promised – but not allocated – as part of the legislation.

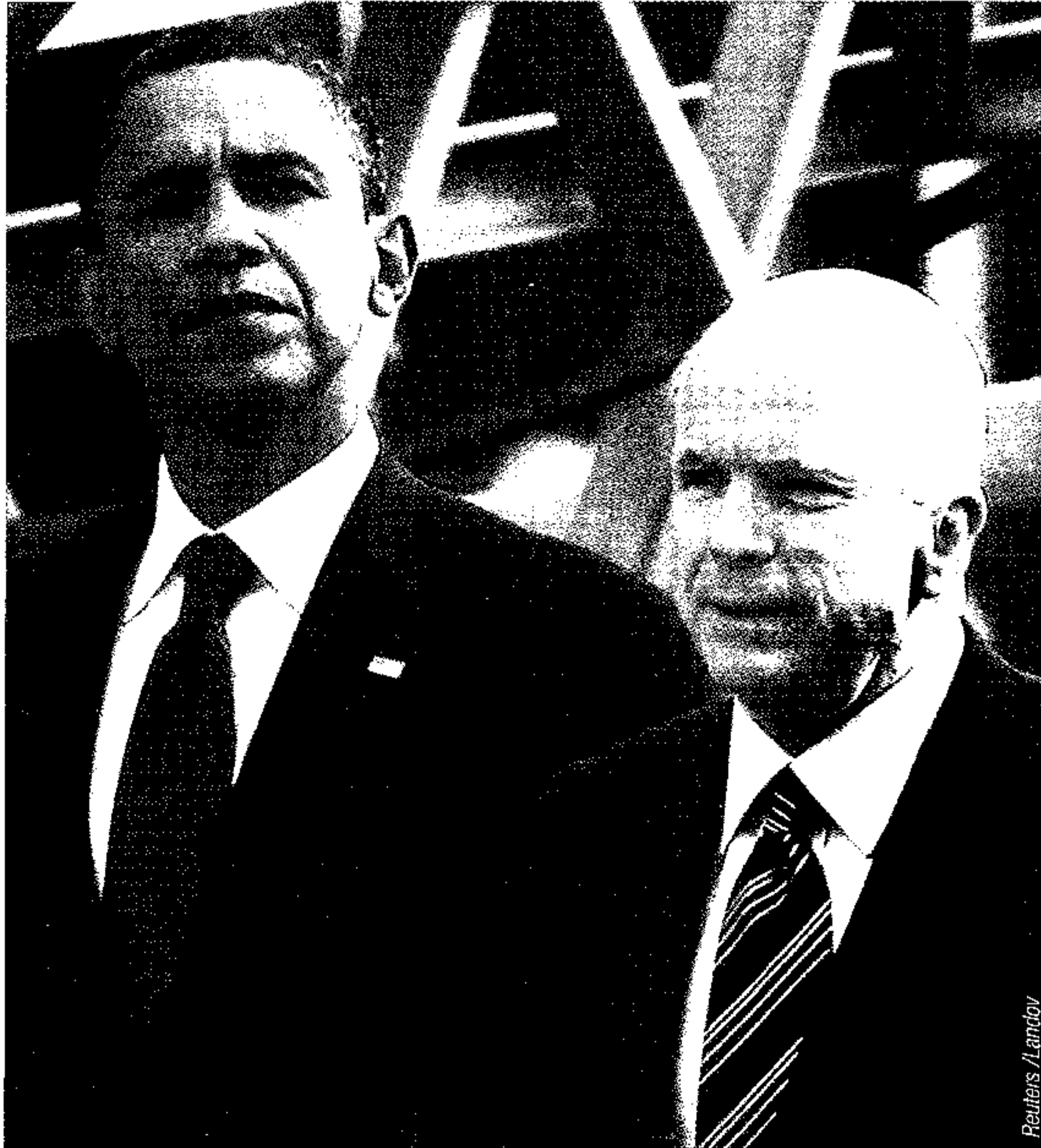
Presidential candidates Democrat Barack Obama and Republican John McCain backed the loans after it became clear the automotive-centric states of Michigan and Ohio would be key in swinging the election. Earlier, McCain opposed the loans, and they were not even a blip on the Obama campaign's radar.

In other parts of the world, governments routinely help their domestic auto industries with tax breaks, reimbursement for research and development, worker training funds and – perhaps most significantly – state-sponsored health care.

"It would be hard to find a country that has less of a broad infrastructure to support the auto industry than the U.S.," says manufacturing expert Harley Shaiken, a professor at the University of California-Berkeley.

"I think many of the countries we compete with in automotive have a more significant investment in worker training, in broader forms of technical training.

"Certainly Germany and Japan do,"



Presidential candidates Barack Obama and John McCain threw their weight behind government loans after it became clear the automotive-centric states of Michigan and Ohio would be crucial in the election.

Shaiken tells Ward's. "Beyond that, I think there is a broader understanding of the importance of a manufacturing base to the health of an economy."

Australia has pumped billions into its auto industry. Local and state governments have come up with millions more in the name of saving jobs.

For example, former Victorian state Labor Premier Steve Bracks recommended Australia spend A\$2.5 billion (\$2 billion) in assistance to promote vehicle

manufacturing.

The proposal calls for new aid starting in 2010 to replace the existing taxpayer-funded Automotive Competitiveness and Investment Scheme (ACIS), with the money provided over 10 years. Bracks also suggests the government's A\$500 million (\$416 million) green-car fund be doubled to promote development of fuel-efficient vehicles.

In France, automotive enjoys the maximum level of state support allowed under

European rules. The European Union limits government investment to regions with high unemployment, which makes entire countries in Eastern and Central Europe eligible.

But France, as with Germany and the U.K., has areas of high unemployment where up to 15% of a major investment can come from a mix of federal, regional and local governments and can include exoneration from certain taxes. For small companies, government support can represent up to 35% of revenues.

The French government solidly supports automotive research through a new tax-credit system that reimburses 50% of R&D costs in the first year. Philippe Favre, president of the Invest in France agency, calls it "the best R&D tax-credit system in Europe."

In specific industries such as automotive, France organized three years ago what it calls "competitiveness clusters" to group companies, universities and research centers in a geographical area, encouraging them to collaborate on research projects that then get funding from the minister of the interior.

Since then, the Moveo transportation cluster has created 45 funded projects representing €160 million (\$234 million) of research investment that involve 140 companies.

In Brazil, the government-owned National Development Bank finances several biodiesel and flex-fuel research projects at favorable interest rates.

And the government-owned Petrobras, a semi-public energy company, subsidizes ethanol and biodiesel production in various forms, including a \$600 million ethanol pipeline to the port of Santos.

In the U.S., perhaps no other country has drawn more scrutiny about government support for its auto industry than Japan.

Although the Japanese government's role in funding R&D remains small, several government agencies support research in such fields as safety, sensors, clean diesels and recycling.

Their efforts receive support from organizations such as the New Energy and Industrial Technology Development Organizations or the Japan Petroleum Energy Center, both focused on alterna-

tive fuels.

Although Japanese OEMs collaborate with these organizations in research, the companies themselves conduct most automotive R&D.

Michael Flynn studied Japan in the 1980s during his 18 years at the University of Michigan's Office for the Study of Automotive Transportation. He retired in 2005.

Flynn says the Japanese auto industry now outshines the rest of the world on the R&D front, which he attributes to the cultural view that, when it comes to research, many heads are better than one.

"Cooperative research is much more characteristic of the Japanese economy, in general," he says. "The government is more tolerant of things that, for us, would verge on antitrust issues. In Japan, they are seen as reasonable, rational cooperative efforts."

This year, Jim Press, a former senior

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executive with Toyota and now vice chairman at Chrysler LLC, told *BusinessWeek* the Japanese government funded development of the Prius hybrid-electric drivetrain. Toyota insists it developed the Prius on its own.

Perhaps in response to joint research efforts in other parts of the world, the U.S. industry appears to be following suit with organizations such as the U.S. Council for Automotive Research.

USCAR is an umbrella organization for collaborative research by General Motors Corp., Ford Motor Co. and Chrysler. Its U.S. Advanced Battery Consortium facilitates lithium-ion research in cooperation with the DOE.

GM's chief economist, G. Mustafa Mohatarem, says USCAR is a good organization but it lags Japan's multi-faceted funding. "There has been some funding for battery research, but it's nowhere near where the Japanese are," Mohatarem tells *Ward's*.

Elsewhere, governments reimburse auto makers and suppliers for R&D work. That's true also in the U.S. through tax write-offs. But Mohatarem says U.S. tax

credits for R&D are not "nearly as liberal as what France and other European countries offer."

In addition, only profitable auto makers can take advantage of those U.S. research credits. "Having an R&D credit program does not help right now for GM, Ford or Chrysler," Mohatarem says.

The loans under consideration are intended for retooling OEM and supplier plants that are at least 20 years old. Although some Japanese plants in the U.S. meet the criteria, observers speculate the transplants will stay out of the "bread line" with their American counterparts.

Overall, in comparison with other parts of the world, Flynn says the U.S. auto industry gets "significantly less support."

He cites the governments of Brazil, Mexico and China for helping develop export markets as a leading engine for growth. And he says national health care

in much of the world, particularly in Canada, puts the U.S. at a competitive disadvantage.

"In a variety of ways, we simply have an auto industry that in a real sense is left to fend for itself, with occasional hand-outs and hand-ups," Flynn says. "And not with the kind of enduring plan-able support that other industries tend to get."

UC Berkeley's Shaiken calls it "remarkably shortsighted" that much of America seems willing to allow "rustbelt" industries to die. He cites China as an economy that has balanced well its manufacturing and high-tech sectors.

"Manufacturing is like the foundation of an economy. It would be like looking at a new skyscraper and saying, 'What we put in that foundation isn't that important anymore,'" Shaiken says.

"It may be less visible, but it's more important than ever." **WAW**

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