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future product pipeline

SECOND IN A 9-PART SERIES | JAPAN

> Japan's big three automakers have set their sights in different directions as they craft their product plans over the next few years. Toyota will pursue excitement, Honda will emphasize efficiency and Nissan will push for sales volume.

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Sources: FCA found sales were inflated

Pressure to keep streak alive cited

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DETROIT — An internal review ordered in mid-2015 by top Fiat Chrysler executives uncovered thousands of vehicle sales reported by FCA brands for which there were no actual buyers, according to two company sources.

The insiders told *Automotive News* that following the inquiry, U.S. sales head Reid Bigland put a stop to the practice, which had resulted in FCA US reporting more sales than it actually made.

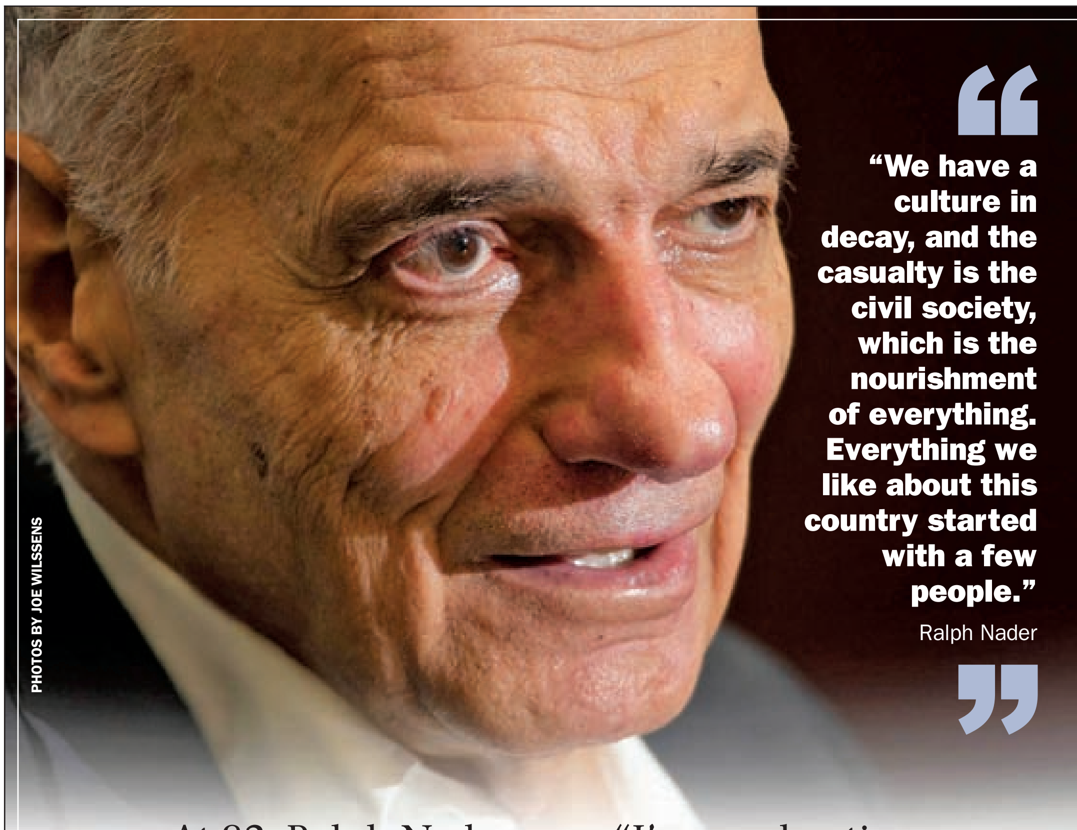
Bigland: Tried to stop it, insiders say.

The sources did not specify the precise time period covered by the review but said it revealed that 5,000 to 6,000 vehicles had been reported as sold by dealers and then "unwound."

They said the sales numbers were inflated in part under pressure to preserve FCA's streak of U.S. monthly year-over-year sales increases, which now stands at 75 months. One source cited dealer complaints about the practice that reached CEO Sergio Marchionne before Bigland sought to end it. But he added that overstating of sales has crept back into play this year as competitive pressures on FCA's field staff have increased.

Meanwhile, the other company insider said the employee turnover rate among sales staff in the company's nine business centers around

see **FCA**, Page **41**



PHOTOS BY JOE WILSSENS

"We have a culture in decay, and the casualty is the civil society, which is the nourishment of everything. Everything we like about this country started with a few people."

Ralph Nader

At 82, Ralph Nader says, "I'm accelerating, because I see … how easy it is to turn things around."

AT FULL SPEED

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DETROIT — It takes a surprisingly small number of people to change the world — and that's one thing consumer advocate Ralph Nader wishes more people realized.

"It's easier than you think," Nader told *Automotive News*. "Historically, a handful of people, again and again, supported by public opinion, turned the country around."

Nader should know, considering he set in motion tremendous safety reforms after the publication of his 1965 book, *Unsafe at Any Speed*, which accused the auto industry of prioritizing profits and styling over safety.

Nader, who was inducted into the Automotive Hall of Fame last week, stopped in to talk with *Automotive News* on Thursday, July 21, with his good friend and fellow activist Joan Claybrook, 79, who was head of the National Highway Traffic Safety Administration under President Jimmy Carter.

Claybrook: Longtime ally

The trip to Detroit was a bit of a retrospective for Nader, 82, a look back on a world that has, in may ways, changed in the half century since he began shaking up the auto industry. Nader still is engaged and on top of the current issues facing the industry, such as autonomous driving, airbag recalls and distracted driving.

And he says he's not slowing down: "I'm accelerating, because I see what's happening, and I see how easy it is to turn things around."

see **NADER**, Page **41**

The coming clash over MPG rules

Regulators' report sets stage for debate

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WASHINGTON — It has officially begun: The process that will shape the powertrains and fuel efficiency of U.S. autos through 2025 kicked off last week with the release of an exhaustive technical study by U.S. and California environmental regulators.

NEWS ANALYSIS

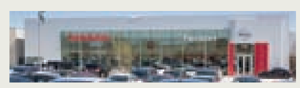
Opinion: Report shows just what the industry can do | PAGE 12 |

With the launch of the legally required midterm evaluation, environmentalists, regulators and the industry began battling over whether to keep the standards the same and accept a lower fleet average or to adjust them to reflect market and technology changes since the rules were written.

Agencies hailed the findings of the 1,217-page draft "Technical Assessment Report" as evidence that the industry is ahead of schedule in complying with the Obama administration's ambitious National Program of harmonized greenhouse gas and fuel economy regulations.

see **MPG**, Page **40**

INSIDE TODAY



Nissan and Toyota eye Lone Star State

Toyota is moving to Dallas, but its Japanese rival also sees Texas as a key growth opportunity. | PAGE 3 |

NEWSPAPER

FORD

‘There is no magic formula for success’

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strong, a former COO of Volvo Cars and Ford’s Germany-based joint venture with Getrag Transmissions, will find a much healthier balance sheet. In the first quarter, Ford of Europe earned $434 million, already beating its $259 million profit for all of 2015.

Armstrong, 52, who started his career in 1987 with Jaguar, will be charged with most of the daily operations in Europe, including manufacturing, quality, product development, purchasing and vehicle safety. Among his achievements are leading a restructuring of Volvo’s global purchasing operation and overseeing Ford’s $1.3 billion sale of Volvo to Geely Automotive Holdings of China.

“There is no magic formula for success,” Armstrong said at an SAE World Congress panel in 2005, when he was selected as an *Automotive News Europe* Eurostar for improving supplier relations. “Success requires establishing relationships with suppliers. And trust is a big element.”

Armstrong, whose move to Europe is effective Sept. 1 to allow for a monthlong transition, will be replaced as president of Ford South America on Aug. 1 by Lyle Watters, 51. Watters is Ford of Europe’s CFO and vice president for finance and strategic planning.

Ford CEO Mark Fields, in a statement, praised Samardzich’s leadership and skill as “critical to the transformation of our Ford of Europe business into a vibrant and profitable organization.” The 2015 profit was Ford’s first in Europe since 2011.

She said that recovery should allow Armstrong, who will report to Ford of Europe President Jim Farley, to focus more on the emerging mobility trends that Fields has made a cornerstone of his tenure. Though Europe’s financial contributions to Ford pale in comparison to the record, multibillion-dollar profits being generated in North America, she’s confident the region is again on solid footing and will continue improving.

“We took the same kind of formula we used in North America and applied it here, and so far, so good,” she said. “Hopefully we’ve got the machine running really well now.” AN

MPG

A common set of data to inform midterm review

continued from Page **1**

The EPA, National Highway Traffic Safety Administration and California Air Resources Board, the groups that issued the report, said the industry has ample technology available to achieve the challenging targets without relying too heavily on full hybrid and electric vehicles.

But they also noted that if the 2025 model year standards remain unchanged, the industry won’t reach the 54.5-mpg fleet target trumpeted when the rules were announced in 2011. Consumers are buying too many light trucks to make that happen.

“Getting the midterm review analysis right is crucial for everyone,” the Alliance of Automobile Manufacturers said in a statement. “It will be a daunting challenge to meet the very aggressive requirements of the 2022-2025 federal fuel economy regulations and greenhouse gas rule.”

But environmental groups argue that the report shows the original goals are firmly within the industry’s grasp:

“Continuing to strengthen clean vehicle standards is good for America’s consumers — and it’s absolutely critical to bringing about cleaner, healthier air and a more stable climate,” said Luke Tonachel, director of the Clean Vehicles and Fuels Project at the Natural Resources Defense Council.

Checking assumptions

The draft “Technical Assessment Report” provides automakers and regulators with a common set of data on technology, cost and efficiency to inform the midterm review.

Robert Bienenfeld, assistant vice president for U.S. environmental strategy at Honda, says automakers will scrutinize whether the report’s findings on technologies such as stop-start, 48-volt mild hybrids and many others line up with their own.

“From that we can move on to the policy implications,” he said, noting that Honda supports reducing greenhouse gas emissions. “We think it’s very important, and we think directionally, the goals are right. It’s a matter of how much cost and time.”

Already, a key selling point in the 2025 rules has been revised — the 54.5-mpg target itself.

That target was a projection based on the assumption that 67 percent of production in 2025 would consist of cars, and 33 percent would be pickups, SUVs and crossovers. Low fuel prices have kept demand for pickups, SUVs and crossovers at around 50 percent of the market, prompting regulators to update their outlook. The technical report said the current regulations and projected market mix mean the 2025 fleet average will be closer to 51 mpg.

Stephanie Brinley, a senior analyst with IHS Automotive, said that revision is an example of the kinds of assumptions that are designed to be adjusted as time goes on.

Brinley said the midterm evaluation is a “transparent system and process” that is “more collaborative” than past auto regulatory pushes. But that doesn’t mean there won’t be friction, she said.

How many hybrids?

One key point to work out likely will be the extent to which automakers must develop and sell electric cars to meet the 2025 standards.

The “Technical Assessment Report” echoed previous projections by the EPA that automakers could meet the 2025 standards primarily by improving gasoline engines and only modestly deploying plug-in hybrids and EVs.

The EPA expects electric cars to account for less than 3 percent of the 2025 U.S. fleet, factoring in sales required by California’s Zero Emission Vehicle mandate. NHTSA expects a less than 2 percent electric car mix to meet its corporate average fuel economy targets, a projection that does not factor in the ZEV mandate.

Brinley said those assumptions underestimate how much the industry will need to rely on electrification and weight reduction to meet the target.

“There does seem to be an element of the regulators saying, ‘We think this can be done,’” Brinley said. “The industry is a little more concerned about its ability to meet those targets with internal combustion engines and under the conditions that the agencies assume.”

Technology limitations

Other findings of the report show how the industry has rapidly adopted fuel-saving technologies. Some 45 percent of 2015 model year vehicles had gasoline direct injection, up from just 2 percent in the 2008 model year, the baseline used by agencies to track progress.

In the same period, six-speed transmissions jumped to 57 percent from 19 percent of the fleet while gearboxes with seven or more speeds grew to 17 percent from 2 percent. Continuously variable transmissions jumped to 20 percent from 8 percent.

Continuing to make such changes will get tougher in the future, Bienenfeld said.

“As the regulations become more and more stringent, there are fewer technologies that can help us achieve those more ambitious goals,” he said, “and more electrification will be required as we move into the future.” AN

An evolving outlook

Much has changed in the U.S. economy and auto market in the 5 years since the groundbreaking National Program of harmonized CAFE and greenhouse gas emissions regulations was hammered out.

The draft “Technical Assessment Report” is the first step in the midterm evaluation of whether the 2025 model year standards should be raised, lowered or remain the same. A decision is scheduled to be made in April 2018.

Based on updated market information, here’s how regulators expect the fleet to perform in 2025 under the current standards.

	ORIGINAL PROJECTION	NEW PROJECTION
Fleet mix	67% car/33% truck	48%-62% car/52%-38% truck
CAFE mpg	48.7	45.7-47.7
CO2 g/mi	163	169-178
MPG-e*	54.5	50-52.6

*MPG equivalent illustrates the corresponding fleet fuel economy value if the entire fleet were to meet the standards only through reductions in tailpipe carbon dioxide emissions. Automakers also can use credits to meet the standards.

Source: EPA, NHTSA

VOLKSWAGEN

Potential accord with dealers within a month?

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want to get scale. This is not something you do short term,” he said. “This brand needs some years to really recover and step up then from there to a further profitable growth.”

That will also require resolving unrest among VW’s dealers that has grown since the diesel scandal. Talks to address the scandal-related harm sustained by VW’s 652 U.S. dealers have been in the works since June. Woebcken said he hopes a “potential solution” can be reached within the next month or so, but declined to discuss specifics about a potential accord.

Woebcken came to VW from brake supplier Knorr Bremse AG, where he was CEO of its commercial-vehicle division. Before that, he spent 10 years at BMW in purchasing roles before rising to division manager of driving dynamics, where he oversaw purchasing, production and development for ride and handling for all BMW Group model lines. He was also heavily involved in BMW’s plant in Spartanburg, S.C., he said.

Woebcken, an industrial engineer by training, says he has a personal affinity for the U.S. after spending his senior year in high school as an exchange student in Rochester, N.Y. His family has moved to a home in suburban Washington from Germany.

“We have a short- and midterm view, and as we speak we are working on a strategy for where the brand wants to be in 2025,” Woebcken told reporters last week at VW’s engineering and planning center in Chattanooga. “We are pretty much done.”

He declined to discuss the plan in detail before its scheduled release this fall, but said VW would pivot near term to SUVs and all-wheel-drive offerings before an electric vehicle push to begin in 2020, which will include North American production of EVs, he said.

In general, he said VW would field vehicles in large mainstream segments with prices and content to compete for volume with larger mainstream brands. At the same time, its lineup will be complemented by high-performance and more European-style vehicles where it can seek more premium pricing, Woebcken said.

Near term, VW hopes to make a splash in key mainstream crossover segments with two models launching next year: the mid-size crossover built at VW’s plant here and the long-wheelbase Tiguan compact crossover, made in Mexico.

Those models, along with the Golf Alltrack, a more rugged Golf wagon with awd arriving stateside this fall, will give VW a short-term boost to aid its recovery from the scandal. A redesigned Jetta compact sedan will then arrive in 2018, he said.

“We will gain market share out of this,” Woebcken said.

While he declined to discuss sales goals, Woebcken made clear that growth in the U.S. is essential for VW. Through June, its U.S. market share stood at 1.7 percent, down from 2 percent last year.

“We want to build the brand story to a level that this brand is not seen as a niche player anymore,” Woebcken said. “It’s not a matter of surviving, it’s a matter of being relevant.” AN