

Summary of Testimony of Rick Schostek Honda North America, Inc.

I want to begin by expressing our deepest and heartfelt sympathies to those individuals and families who have been affected by these tragic incidents. We offer our sincere apologies to the families of those who have died, to those who have been injured and to those who have been in any way inconvenienced due to the defects in Takata airbags in our vehicles.

We understand the urgency of the current situation, and are taking proactive steps to encourage Honda and Acura owners to get their vehicles repaired at an authorized dealership.

We have taken, and continue to take action to address the needs and concerns of our customers related to the series of recalls in our vehicles with Takata airbag inflators, including working aggressively to notify and encourage owners to have their vehicles repaired and providing loaner or leased vehicles where needed.

We provided our performance requirements and Takata designed the airbag components to those criteria. Beginning with the 2001 model year, Takata began to supply Honda with a new generation of airbag components. From November 2008 through June 2014, Honda conducted seven recalls – all national in scope – for driver and passenger airbag inflators. The cause of the defects in each of these cases was connected to Takata manufacturing issues.

On June 19 of this year, this issue took on an additional dimension. Honda informed NHTSA that we were supporting their request that several automakers conduct regional safety improvement campaigns, or SICs, to collect parts from vehicles for the purpose of engineering analysis in four high absolute humidity states and territories. Honda expanded its focus to vehicles in more states than those requested by NHTSA. On November 3, in consultation with Takata and NHTSA, Honda transitioned from the SIC to a formal recall of the passenger airbag inflators, in those states and territories that experience consistently high absolute humidity. To date, Takata has not identified a cause for the ruptures in these states.

Unlike the passenger airbag inflators in the SIC, the testing of driver airbag inflators that have been collected to date through the SIC have not shown any ruptures. Nonetheless, Honda is seriously considering a nationwide action on those driver airbag inflators.

Should there be an expansion to a nationwide action, we believe that a parts shortage may occur despite Takata's efforts to increase the supply of inflators. We believe it is best to prioritize the repair of vehicles in what are considered to be the highest risk areas of the country, based on the information from NHTSA and Takata.

**Statement of Rick Schostek, Executive Vice President,
Honda North America, Inc.
before the
U.S. House of Representatives Energy and Commerce Committee
Subcommittee on Commerce, Manufacturing and Trade
December 3, 2014**

Thank you, Mr. Chairman, Ranking Member Schakowsky and members of the subcommittee. My name is Rick Schostek. I'm an executive vice president with Honda North America – a company that works in support of all Honda companies in North America – and I'm based in Ohio. On behalf of the more than 28,000 associates working for Honda in the United States, thank you for this opportunity to share our perspectives on this very serious automotive safety issue.

I want to begin by expressing our deepest and heartfelt sympathies to those individuals and families who have been affected by these tragic incidents. It is truly heartbreaking to all of us at Honda. We offer our sincere apologies to the families of those who have died, to those who have been injured and to those who have been in any way inconvenienced due to the defects in Takata airbags in our vehicles.

Airbags save thousands of lives each year. But we recognize that even one customer who is injured or loses their life when an airbag does not perform as intended, is one too many, and is completely unacceptable.

Regarding the multiple recalls we have conducted, let me first say that Honda is a company built upon a commitment to providing satisfaction to our customers. We take great pride in the quality of our products, the vast majority of which are built here in North America. And we stand behind the safety of these products.

We understand the urgency of the current situation, and are taking proactive steps to encourage Honda and Acura owners to get their vehicles repaired at an authorized dealership.

We have a well-respected service division dedicated to supporting our dealers in meeting the needs of each customer throughout the lifetime of vehicle ownership. And I want to update you on what we are experiencing at our dealerships. In general, owners of affected vehicles are coming in, they are getting their cars fixed, and our customers have been very understanding and we sincerely appreciate that. If our dealers can't perform the repair immediately and the customer needs a vehicle, they are providing loaner vehicles and rental cars free of charge.

In order to meet the needs of our customers related to the airbag recalls, we are doing the following:

- It has been our longstanding policy for dealers to check each vehicle coming to the dealership for service for an open recall campaign and then to

complete the campaign before returning the vehicle to the customer. We have reinforced this through dealer communications and through our field staff working directly with dealers.

- We have posted written messages prominently on our websites to reassure our customers that we have procedures in place to address their individual needs.
- And we are working within our own service parts division and with our dealer network to ensure that our existing inventory of replacement airbag inflators is available when and where they are needed.

So, we have taken, and continue to take action to address the needs and concerns of our customers related to the series of recalls in our vehicles with Takata airbag inflators.

Like many automakers, Honda partnered with Takata for the supply of airbag components because Takata was an internationally-recognized safety systems supplier. As the manufacturer of the complete vehicle, we relied on Takata for its expertise in this specific area of technology. We provided our performance requirements and Takata designed the airbag components to those criteria.

Beginning with the 2001 model year, Takata began to supply Honda with a new generation of airbag components. Our first recall was in 2008 based on a safety investigation of Takata airbag inflators, which began in 2007. Honda expanded that recall several times through 2011. Each of those recalls involved driver's airbag inflator ruptures due to root causes identified by Takata as manufacturing issues. Similarly, in 2013, Honda recalled passenger side airbags, also due to Takata manufacturing defects. That recall was expanded in 2014. To summarize, from November 2008 through June 2014, Honda conducted seven recalls – all national in scope – for driver and passenger airbag inflators. The cause of the defects in each of these cases was connected to Takata manufacturing issues.

The next chapter began on June 19 of this year, when Honda informed NHTSA that we were supporting their request that several automakers conduct regional safety improvement campaigns, or SICs, to collect parts from vehicles for the purpose of engineering analysis in four high absolute humidity states and territories. Honda took the additional step of voluntarily adding vehicles that had been sold in or ever registered in those locations, as well as additional states. We took the initiative to expand the scope of the SIC in an effort to capture other potential areas that may have conditions of high absolute humidity over extended periods of time.

On November 3, in consultation with Takata and NHTSA, we transitioned from the SIC to a formal recall of the passenger airbag inflators, again, in those states and territories that experience consistently high absolute humidity. This was based on the results of testing passenger airbag inflators that were returned

through the safety improvement campaign. While the investigation continues, Takata has not yet determined why these inflators are susceptible to rupture. However, in recognition of the elevated risk in areas with high absolute humidity, we are concentrating our efforts on replacing inflators in these markets at this time. We are not aware of any claimed injuries or fatalities that have been confirmed in the identified population of our vehicles related to this recall.

The replacement of the passenger front airbag inflator for vehicles in this recall will be conducted just as in the prior SIC, free of charge. Vehicles that already received a replacement passenger airbag inflator under the prior SIC do not need to be repaired a second time.

Unlike the passenger airbag inflators in the SIC, the testing of driver airbag inflators that have been collected to date through the SIC have not shown any ruptures. Nonetheless, Honda is seriously considering nationwide action on those driver airbag inflators.

Should there be an expansion to a nationwide action, we believe that a parts shortage may occur despite Takata's efforts to increase the supply of inflators. To further increase parts supply, we are in discussion with Takata about the use of substitute inflators manufactured by other inflator suppliers as replacement parts for this market action. In the meantime, we are discussing with Takata how to best manage the supply issue. We believe it is best to prioritize the repair of vehicles in what are considered to be the highest risk areas of the country, based on the information from NHTSA and Takata.

Regarding our effort to reach out to these customers, it is our practice to actively communicate with our customers who own an affected vehicle in order to get them to take immediate action to have their vehicle repaired. Over and above the required first class mail notification, we provide multiple notices in English and Spanish, as well as other means of reaching customers, both directly and indirectly. We will continue these activities for all recalls.

We also have employed other communications techniques in an effort to increase the completion rate for our recalls. We consulted with the U.S. Postal Service to try new methods to get people to open their recall mailings. We also have used overnight delivery. We learned that recall rates are improved if the recall letter is supported by a telephone call to the customer advising them that the notice is being sent. We have called more than 700,000 hard-to-reach customers by phone, using our customer relations staff, our dealers, and automated calls.

Based on our efforts, we have experienced completion rates that are considered high for the recall of older model vehicles. Still, we are concerned when multiple recall notices go unheeded by some registered owners. We want our customers to complete each and every recall.

Honda will continue to work to alert owners about recalls and to encourage owners with an affected vehicle to take immediate action to have their vehicle serviced at their authorized dealership. Toward this goal, we would like to offer a suggestion for consideration that we believe would greatly improve the response rate to recall notices.

Many states require owners to obtain a tailpipe emissions test before a vehicle can be registered, and certain states decline vehicle registration renewals until outstanding emissions recall repairs have been completed. In a similar way, as the Department of Transportation's Inspector General commented in October 2011, if each state required that open recalls related to safety issues be addressed, if parts are available, before allowing the vehicle to be registered, this simple step would greatly reduce the risk of injuries related to unrepaired older model vehicles. Further, all dealerships and independent repair facilities could be required to check for, and notify the customer of, any open recalls before returning a vehicle to the customer. This is something we already require all of our dealers to do.

Before closing, I want to briefly address our response last week to the Special Order issued by NHTSA regarding our TREAD Act reporting. You may know that Honda commissioned a third party audit in September of this year, and that we provided the results of this audit to NHTSA last week. I know it is difficult to comprehend how over a 10-year period we could have 1,729 errors in our Early Warning Reporting. Honestly, it is difficult for me to understand as well.

I also appreciate skepticism about attributing these issues to data entry and computer coding errors. But I can tell you that we have studied the third party audit and verified these issues to be true. It is unfortunate and, yes, inexcusable. But we view this as a management responsibility, and we are taking actions to ensure that it doesn't happen again.

Importantly, the audit did not identify any cases of Takata inflator ruptures that NHTSA was not already fully aware of.

At Honda, the founding principle of our company places the highest priority on the quality of our products and the satisfaction of our customers. Now, our entire company is operating with the greatest energy and focus to quickly address our customers' needs and concerns. With every action of our company, we are dedicating ourselves to honor the relationship we have with our customers.

Again, I very much appreciate the opportunity to appear before the committee today, and now I will be happy to address your questions. Thank you.