

**Statement of Mr. James Wehrman  
Senior Vice President of Manufacturing  
Honda of America Manufacturing, Inc.  
before the  
Subcommittee on Commerce, Manufacturing, and Trade  
April 10, 2013**

## **Executive Summary**

Honda has an evolving and growing presence in the U.S. Its three decades of manufacturing in this country have been a real success story for our company, and we believe we have made a significant contribution to the U.S. economy as well. Early on, our founder, Mr. Soichiro Honda, determined that to be successful, we needed to build our products close to our customers.

We began by importing from Japan 100% of the cars we sold in the U.S. Last year, more than 90 percent of the vehicles we sold in the U.S. were built in North America. And in two years, we expect to become a net exporter – we will export to Japan more vehicles than we import. As our local presence grew, we added many functions associated with building cars, including new R&D facilities, design centers, testing and certification laboratories and parts manufacturing facilities. Today the associates in our U.S. factories build millions of Honda and Acura vehicles, engines, transmissions and components, as well as power equipment products and All-Terrain Vehicles. We are supported by an extensive network of 500 parts and materials suppliers in 34 states, with \$22 billion purchased from U.S. suppliers in 2012.

But the process does not end here – it continues to evolve. In the last two years alone, Honda invested \$1.2 billion to expand our manufacturing capabilities to position our company to export vehicles from the U.S. to 49 countries and U.S. territories worldwide. We also recently announced a new role for our North American operations – the U.S. will serve as a center for developing our manufacturing processes for some of Honda’s highest selling vehicles and will train associates from Honda factories throughout the world on these new techniques.

Honda’s next frontier in the U.S. is HondaJet, an advanced light jet aircraft that delivers class-leading performance, fuel efficiency, comfort and quality. The world headquarters of Honda Aircraft is Greensboro, North Carolina.

One challenge we face is the gap between the skills workers need in today’s manufacturing environment, and the skills workers have while they are looking for jobs. Industry and government should work together to assure that our workers are trained for the sophisticated manufacturing processes they will find to assure U.S. competitiveness.

A second challenge for our country and the auto industry is assuring that the infrastructure exists for the new alternative fuel technology vehicles we are required to build. Ten states currently require manufacturers to sell a total of five million advanced technology vehicles between now and 2025. At the moment the infrastructure does not exist to support these vehicles. This places automakers in an untenable position – we are required to sell these vehicles, but there is no assurance that the infrastructure will be there to support them.

Good morning, and thank you to Subcommittee Chairman Terry and Ranking Member Schakowsky for inviting me here to testify today. My name is Jim Wehrman, and I am senior vice president of Honda of America Manufacturing (HAM) in Marysville, Ohio. I joined Honda in 1988, and my areas of focus include supply chain management, production engineering strategy, and manufacturing.

### **Overview**

Honda's three decades of manufacturing in this country have been a real success story for our company, and through that success, we believe we have made a significant contribution to the U.S. economy as well. Our presence in the U.S. began in 1959, with a motorcycle sales subsidiary. A decade later, in 1969, our automobile presence began by exporting to this country from Japan every vehicle that we sold here. But early on, our founder, Mr. Soichiro Honda, determined that to be successful, we needed to build our products close to the customer. So, in 1977, we announced our plan to establish our first manufacturing facility in Marysville, Ohio. That facility opened in 1979 to produce motorcycles. Three years later, we became the first Asian manufacturer to build automobiles in America as well. Honda has the distinction of being the international automaker with the longest continuous manufacturing presence in the U.S.

And we haven't looked back. Last year, more than 90 percent of the vehicles we sold in the U.S. were built in North America. As our local presence grew, we added many functions associated with building cars, including new R&D facilities, design centers,

testing and certification laboratories and parts manufacturing facilities to name a few. Many of the models we build here also are conceived, designed and engineered in the U.S.

But the process does not end here – it continues to evolve. In the last two years alone, despite the struggling economy, Honda invested \$1.2 billion to expand our manufacturing capabilities in America to position our company to export vehicles from the U.S. to 49 countries and U.S. territories worldwide. In fact, within two years, we expect to become a net exporter, meaning that we will export more cars built here in North America than we import from Japan.

Moreover, we recently announced our intention to focus new responsibilities here in the U.S. for Honda's global operations. As I will describe, we will now serve as a center for developing our manufacturing processes for some of Honda's highest selling vehicles and will train manufacturing associates from Honda factories throughout the world on these new techniques. These are functions that, until now, were done in Japan and reflect the growing role of Honda's U.S. capabilities, resources, responsibility and know-how. To facilitate these new responsibilities, we recently announced a reorganization that will strengthen the leadership function of our North American Regional Operations.

### **Honda's Evolution in the United States**

American Honda began operating in the United States in 1959 as the first overseas sales subsidiary of Honda Motor Company. By 1979, Honda of America Manufacturing, Inc.

(HAM) was producing motorcycles; three years later, the first Honda Accord rolled off the assembly line at our Marysville Auto Plant.

### Honda's U.S. Investment

Today, Honda operates nine manufacturing facilities across the United States, four of which have the capacity to produce more than 1.3 million Honda and Acura vehicles. We also have the capacity to build at our U.S. facilities 1.5 million auto engines, 1.3 million transmissions, 2 million general purpose engines, more than 400,000 power equipment products such as lawnmowers and tillers, and more than 575,000 All-Terrain Vehicles (ATVs) and ATV engines. Our 14 research and development facilities perform all aspects of new vehicle creation from initial market research and concept creation to styling, design, and complete platform engineering. Honda employs over 28,000 American associates in manufacturing, R&D, sales, finance, and other operations nationwide. Honda also supports American businesses by purchasing parts and materials from more than 500 U.S. suppliers across 34 states, with \$22 billion in purchases in 2012.

Over the past 50 years, Honda has invested more than \$14 billion in the U.S. economy. \$1.2 billion of that has been in the last two years alone, resulting in more than 2,000 new jobs. In 2012, through a steady increase in Honda's North American production capacity, more than 90 percent of Honda and Acura vehicles sold in the U.S. were manufactured in North America. Considered Honda's North American sourcing rate, Honda has maintained this level above 75 percent for more than a decade.

### Collaboration with Suppliers

We are supported by an extensive network of 500 parts suppliers in 34 states, with the highest concentration in the Midwest and Southeast regions. Companies that supply OEM (original equipment manufacturer) parts to Honda include a mix of traditional, long-standing automotive suppliers, small operations and international companies that have established new operations in the U.S.

Honda's Ohio-based North American Purchasing division works closely with Honda's suppliers to make parts purchases for vehicles built at all of Honda's North American manufacturing facilities. As I noted earlier, Honda purchased \$22 billion in parts from U.S. suppliers in 2012 alone. Since 2006, Honda has purchased \$114 billion in parts and materials from U.S. suppliers.

In addition to the OEM parts suppliers, Honda's U.S. operations utilize more than 13,500 suppliers for its Maintenance, Repair and Operational (MRO) business needs. Honda's MRO suppliers represent local, regional and national businesses that provide a wide range of goods and services that support product manufacturing. Many have grown with Honda's expanding manufacturing in the United States, and some local suppliers have opened additional operations near new Honda plants.

Honda suppliers are our long-term collaborators, and we want them to grow and succeed. In fact, many years ago, Honda established a North American Technical group within our Purchasing Division to specifically work with suppliers who might be struggling or

looking for ways to enhance their operational characteristics. Sometimes that involves a Honda associate or team of associates spending a period of time working on operational issues with a supplier. Other times, our North American Technical group works to link suppliers with resources that they may not have previously known about, such as the Manufacturing Extension Partnership (MEP) program, which is funded through the National Institute of Standards and Technology (NIST) at the U.S. Department of Commerce.

### Looking Forward

Honda's 30 years of continuous improvement has led to the production of more than 19 million vehicles in the U.S.—and the capability to design and develop vehicles from scratch. Since 1991, 24 Honda and Acura auto and light truck models have been researched, designed, and developed in the U.S. At the 2012 North American International Auto Show, it was announced that Honda's U.S. R&D and manufacturing teams would lead the development of the next-generation Acura NSX “super car” and build it in Ohio.

But inside Honda, the real news had come a few months earlier at a global management meeting. There, our CEO Mr. Takano Ito told us that Honda was “at a crossroads.” He said it was time for our North American operations to step up and play an even larger role within global Honda.

After 30 years of auto production in the U.S., our associates have great experience and skills in both R&D and manufacturing, and it was time for us to take on the next level of responsibility. In the coming years, our associates will play an unprecedented role for an international automaker. We in the U.S. will have the lead role in taking production know-how for key global models and transitioning it to other Honda plants throughout the world.

In the past, our team has been responsible for the launch of numerous products that are developed and built exclusively in America, including the Honda Odyssey minivan, Ridgeline truck and Pilot SUV. But this new responsibility calls on Honda associates in our U.S. operations to develop and define production processes for key global models that also are made in other regions—and then to share their knowledge and expertise with those Honda plants all around the globe.

To give you an understanding of what this means: historically, our production associates from the U.S. went to our New Model Center in Japan to learn how to launch new models. Along with associates from other Honda plants, they would gain the know-how and refine the processes used to build those global models, and bring that knowledge back to the U.S. Now, much of this activity will occur in North America, specifically in the United States. This will require our U.S. associates to deeply understand and then share production expertise that is needed to build these global platforms with Honda associates from around the world.



Additionally, Honda will be further increasing automobile and parts exports from the U.S. to 49 countries and U.S. territories around the world, including Japan, South Korea, China, and markets in Latin America, Europe, and the Middle East. Within the next two years, Honda will become a net exporter, meaning that we will export more vehicles from North America than we import from Japan. In addition to finished vehicles, we are also exporting a rapidly growing volume of auto parts from our component plants and US suppliers to Honda plants around the world.

But this is simply the next step in the evolution of our U.S. operations. In 1987, Honda became the first Japanese automaker to export U.S.-built automobiles to overseas markets. In 2012, Honda exported more than 90,000 vehicles, a number that is expected to double in the coming years. Last December, we celebrated the production of our one-millionth vehicle for export, an Ohio-made Accord that was shipped to Seoul, South Korea. Our export operations to South Korea were greatly facilitated by the Korean – U.S. Free Trade Agreement.

As a further step, we announced recently that, effective April 1, 2013, Honda will strengthen the leadership function of its North American Regional Operations in Ohio, creating more efficient management and quicker decision making with the goal to enhance the ability to deliver high quality products to the customer more quickly and efficiently.

The continued expansion of our U.S. operations, combined with the new leadership role we will play, speaks volumes about our confident outlook for the future. One of our new products we are most excited about is HondaJet, an advanced light jet aircraft that delivers class-leading performance, fuel efficiency, comfort and quality. The Honda Aircraft Company was founded in 2006 after more than 20 years of research. Our confidence in the U.S. as a manufacturing base is reflected by the company's decision to locate the world headquarters of Honda Aircraft in Greensboro, North Carolina. It is here where our associates are working to develop, produce, market and service HondaJet. And it is here in Burlington, North Carolina where we also are developing and building the Honda-developed jet engine in joint venture with General Electric.

### **Fostering Workforce Development and Addressing the “Skills Gap”**

We hear so much today about the gap between the skills workers need in today's manufacturing environment, and the skills workers have while they are looking for jobs. Jobs in manufacturing represent 76 percent of Honda's direct employment in the U.S. We rely on an educated and skilled workforce to produce the high-quality products that bring joy to our customers.

One area in particular where we face a critical challenge is hiring and training skilled maintenance technicians. This is a position that involves making sure that the highly-complex manufacturing equipment is running smoothly, and quickly trouble-shooting any incidents when it is not. If a manufacturer cannot maintain equipment and predict and prevent failure, that manufacturer cannot meet the production demands of its customers.

Our suppliers face similar challenges. While technical needs may vary from supplier to supplier, the most common types of technical needs arise in the areas of robotics and controls, welding, machining, stamping, and plastic injection.

One of the ways in which we foster workforce development is through partnerships with local high schools, community colleges, and four-year institutions. For example, Honda Manufacturing of Indiana (HMIN) has had a relationship with Ivy Tech Community College since it began operations in 2008. Ivy Tech is the state's largest public postsecondary institution. It has 23 campuses and serves nearly 200,000 students annually. It is the largest single accredited community college system in the nation.

HMIN has worked with Ivy Tech to develop technical and manufacturing training for Honda's equipment service and die service associates, as well as basic leadership skills training. The training conducted on Ivy Tech's campus focuses on mechanical and electrical operations, troubleshooting, and fluids. The training conducted at HMIN focuses on leadership development and awareness in the areas of communications, diversity, team-building and computer classes. HMIN also recently supported Ivy Tech's new Advanced Manufacturing Center of Excellence (AMCE) with funding for scholarships.

In North Carolina, there were plenty of skilled workers but not necessarily in the areas Honda Aircraft was looking for. Honda Aircraft partnered with Guilford Technical

Community College (GTCC) to design a curriculum for advanced aeronautical engineering creating a pool of qualified candidates for positions at HondaJet in research and development and manufacturing. GTCC recently broke ground on their new aviation facility. The \$10 million project will open in spring 2014 and expand GTCC's existing aviation programs. Honda Aircraft, along with other aviation companies based in Greensboro, collaborated with the school on developing the capabilities we will need in the future.

Looking forward, we anticipate a challenge in maintaining a steady pipeline of new graduates from high school, community college, and four-year institutions who have an interest in and aptitude for working in the modern, high-tech manufacturing environment. For this we have looked at ways to raise awareness of career opportunities in manufacturing through initiatives of groups like the National Association of Manufacturers (NAM) and programs like "Project Lead the Way," a national, school-based, pre-engineering program.

### **Regulatory Challenges**

Within Honda, our overarching goal is to be "a company that society wants to exist." Part of that commitment leads us to strive to work in partnership with government to address societal objectives, particularly those that are affected by the products we produce and which our customers enjoy. These include, among others, environment, energy sustainability and safety goals that Congress and regulatory agencies have defined in law or which we undertake as a matter of corporate citizenship.

In this regard, Honda has long been a leader in, and advocate for, reducing the consumption of gasoline and greenhouse gas emissions. As such, we were proud to participate in the Administration's efforts to achieve the single national fuel economy and vehicle greenhouse gas program through 2025. We also appreciated the State of California's decision to harmonize its regulations with the federal initiatives. Although meeting the standards will be a challenge, particularly in the later years, we are confident that we will be able to achieve the program's ambitious goals.

These initiatives were win-wins because not only do they move us closer to meeting key environmental and petroleum reduction goals, but they do so in a way that harmonizes federal and state requirements that might otherwise have been inconsistent and inefficient. Indeed, the "One National Program" approach should serve as a model for certain other regulatory objectives. One example is the increasingly fractured chemicals regulatory system. States are moving ahead with ambitious plans that go beyond the federal Toxic Substances Control Act (TSCA) in their obligations for chemical users. While Honda supports environmental control measures, the resulting patchwork of regulations makes it difficult for us not only from a compliance perspective, but from a materials management and product planning viewpoint as well.

### **Infrastructure Needs for Alternative Fuel Vehicles**

Most automakers today are developing alternative fuel vehicles, not only to reduce consumption of gasoline and greenhouse gas emissions, but also to meet regulatory

requirements. Honda is the only automaker currently producing six different drive-trains as we work to envision the vehicle of the future. They include an improved, more fuel efficient internal combustion engine, as well as hybrid-electric, plug-in hybrid-electric, battery electric, natural gas, and fuel cell electric vehicles. In the end, however, our success – and that of every other manufacturer – will depend on the decisions of the ultimate arbiter of the marketplace: the customer.

America's future vehicles will have to meet the needs and desires of customers in terms of utility, versatility, cost and ease of operation, safety, and, of course, initial cost. While all of these vehicle characteristics are – and should be – the province of vehicle manufacturers, there is one area that is out of our hands and where government help is needed: infrastructure. Without an infrastructure that guarantees our customers the ability to refuel their vehicles wherever they take them and at a price that is competitive with gasoline, the vehicle of the future will remain just that – the vehicle of the future.

Ten states currently require manufacturers to sell a progressively larger number of advanced technology vehicles between now and 2025. Together, manufacturers have to place five million of these vehicles – battery electric, plug-in hybrid-electric and fuel cell electric vehicles – on the road by 2025. At the moment, however, the infrastructure simply does not exist to support these vehicles. What is of greatest concern is that with the exception of California, states' plans to assure that the necessary infrastructure will be in place are in their infancy.

The Clean Air Act grants authority to California and other states adopting California's regulations to require these advanced technology vehicles. California sets the standards and other states are free to adopt them as their own. However, neither California nor the Environmental Protection Agency believes it has the authority to assure that the necessary infrastructure will exist. This places automakers in an untenable position – we are required to sell alternative fuel vehicles, but there is no assurance that the infrastructure will be there to meet the needs of customers who might be interested in purchasing one of these vehicles.

To its credit, California is prodding the other states to address the infrastructure concerns. But as of now, there is no path identified to assure that the fuels will be there in 2018 when the responsibility to sell these vehicles in significant numbers begins to kick in.

### **Ensuring the Tax Code Works for Manufacturers**

Tax policy plays a critical role in helping to shape investment strategies for manufacturers. While this hearing is not the appropriate venue to discuss Honda's entire tax agenda, I want to highlight our general principles and discuss two particular tax breaks that have proven useful to our U.S. operations.

Honda supports a tax policy that promotes a fair and level playing field for all companies, whether they are domestically-owned or U.S. subsidiaries of international companies. Simplicity and stability in the tax code allows for long-term planning and investment strategies that in turn lead to innovation and jobs.

For capital-intensive manufacturing industries, a strong capital cost recovery system is important to spur maximum investment. The depreciation deduction is useful in this regard. Additionally, the research and development tax credit complements our efforts to bring cutting-edge and value-added technologies to market. We appreciate that the R&D credit was extended through 2013, but it would help our long-term planning if it were made a permanent part of the tax code.

### **The Importance of Free and Open Trade**

Honda relies on customs processes that are rules-based and transparent to facilitate the flow of our products around the world. This will become even more important to us in the coming years as we look to substantially increase our exports from the U.S. to emerging markets. The federal government can support the trade systems of emerging markets by offering capacity-building and technical assistance when appropriate.

While Free Trade Agreements (FTAs) are useful for reducing hurdles to the flow of goods, such agreements must contain strong enforcement and dispute resolution mechanisms to be effective. The most difficult hurdles to overcome are often invisible, ineffective, and sometimes opaque procedures when crossing borders. Such inefficiencies may exist in documentation, data submission and processing, and physical inspection. This causes undue uncertainty for importers and exporters, who must account for a range of scenarios. Globally-equivalent, efficient and transparent customs procedures and standards would help reduce this uncertainty.



As Honda's U.S. operations assume greater global responsibility, we anticipate challenges related to ensuring the protection of our intellectual property rights, especially in terms of technology transfers and cross-border data flows. Strong intellectual property rights protections both here and abroad provide incentives for companies like Honda to continue to invest in cutting-edge safety and environmental technologies.

Somewhat unrelated to trade, but inextricably linked to our growing global role I described a moment ago, Honda expects to further utilize short-term visas to allow our associates from around the world to come and learn at our facilities in the U.S. To that end, Honda supports a streamlined, straightforward U.S. visa system.

### **Conclusion**

Mr. Chairman, I commend you for convening these hearings. They underscore all that America offers as a manufacturing base for global companies – and that first attracted Honda to build products here more than 30 years ago. And they allow companies to identify steps that can be taken to assure the future of U.S. manufacturing and that America remains a strong and attractive place for global manufacturers. As I said at the beginning, Honda's evolution from importer to fully-established manufacturer and exporter has been a success for us, our associates, the communities in which we work and the American consumer. We look forward to a bright future.