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U.S. Motor Vehicle Industry Restructuring and Dealership Terminations

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Summary

As Chrysler and General Motors (GM) moved toward and into bankruptcy, they sought and received permission from the U.S. Bankruptcy Court to terminate about 2,000 contracts with auto dealers. Many of the dealers want their contracts reinstated and have sought relief from Congress to accomplish that goal. This report examines the changed economic landscape facing the auto sector, automaker arguments in favor of dealer reductions, and dealer counterpoints. It also highlights recent legislation introduced to address dealers' concerns.

Chrysler and GM have emerged from bankruptcy as significantly smaller companies, reflecting the end of a multiyear restructuring process for both companies. Chrysler is now controlled by the Italian carmaker, Fiat, while GM's current majority owner is the U.S. Government. GM, which in 2008 operated 47 assembly, powertrain, and stamping facilities, is to operate 34 plants by the end of 2010 and 33 by 2012. The number of hourly employees will have declined from 78,000 on December 31, 2007 to 62,200 at end-2008, to an estimated 40,000 in 2010. By way of contrast, GM had 304,000 hourly workers in 1991. GM also discontinued one brand (Pontiac) and is to sell Hummer, Saab, and Saturn, and some percentage of its GM Europe operations, Opel and Vauxhall. The new Chrysler reduced its number of production facilities from 25 to 17 as part of its restructuring. The company employed 45,000 hourly U.S. employees in January 2008 and 27,000 in February 2009. For the first time, GM and Chrysler are not owned by private investors; rather, the UAW's retiree health trust, the U.S. Treasury, and the Canadian government have taken ownership stakes in both companies.

The auto dealership network, a critical intermediary between automakers and final consumers, has not escaped this turmoil. Auto dealers are independent businesses with contracts with the automakers. Most of the approximately 20,000 U.S. auto dealers are family-owned and have been in business in their hometowns for decades. As with all stakeholders in GM and Chrysler, the dealer owners are faced with stark choices as the automakers downsize and seek a more competitive business model. As part of their restructuring, Chrysler cut 789 dealers immediately and GM is to eliminate more than 1,300 when the dealer's contracts expire in October 2010.

While dealer reductions of this magnitude would not have been possible in the normal course of business, the bankruptcy court approved both the Chrysler and GM requests to terminate dealerships as part of larger processes that have allowed a new GM and a new Chrysler to emerge from bankruptcy with many fewer assets and no liabilities. Of the roughly 2,000 dealers affected by these changes, many oppose the changes and have taken their battle against GM and Chrysler to Congress. Congressional hearings have been held and a number of bills to restore the dealer terminations have been introduced. On July 16, 2009, the House passed the Financial Services and General Government Appropriations Act, 2010 (H.R. 3170), which includes a committee-approved amendment offered by Representative LaTourette that would require automobile companies that receive federal funds and are partially owned by the federal government to reinstate agreements with franchise dealerships that had a valid dealer agreement prior to Chapter 11 proceedings. It would apply only to General Motors and Chrysler and would require them to reinstate the roughly 2,000 dealerships they have dropped or would like to drop as part of their cost cutting, downsizing, and overall restructuring. On July 17 the House Committee on Financial Services voted in support of H.Res. 591, requiring an Administration report on the work of the Auto Task Force, including decisions on dealerships. This report will be updated as necessary.

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Introduction

Automobile manufacturers rely on an extensive network of approximately 20,000 independently owned dealers for sales and service of their vehicles. Dealers provide the local connection between manufacturers and car buyers, and the dealership system is one of several linchpins in the complex web of relationships that make up the U.S. automobile industry. Automakers and dealers alike agree on the importance of this relationship. At a June 2009 congressional hearing, Fritz Henderson, president and CEO of General Motors Corporation (GM), said,

> Simply put, a strong dealer body is vital to GM's success. Indeed, for many customers, our dealers are the "face of GM"—so this effort [dealer network restructuring] is critically important to the successful reinvention of General Motors.[1]

At the same hearing, the chairman of the National Automobile Dealers Association (NADA) quoted from a commissioned report which states,

> ... the automobile dealers support the manufacturers' efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer.[2]

While there is a consensus about the overall role and value of the dealer network, manufacturers and dealers have demonstrated that there is a wide gulf between them on the appropriate size of that network, the flexibility of the dealerships in running their business, and the GM and Chrysler visions of how the dealer network should perform going forward. In June 2009, Chrysler eliminated 25% of its dealer network—789 dealers. GM has announced it will reduce its dealer network from 6,000 to approximately 3,600, to take effect in October 2010 when its contracts with dealers around the country are up for renewal.[3] According to the NADA, the GM and Chrysler dealerships slated for elimination had more than 100,000 employees.[4]

Dealers are not alone in facing a tough realignment. The highest level of new-vehicle sales this decade, including domestically-produced and imported autos, was recorded in 2000, with new vehicle sales of 17.3 million,[5] while sales in 2009 are forecast to reach no more than 10 million units.[6] All parts of the auto supply chain have had to make what are seen as wrenching changes. In addition to closing multiple plants, cutting thousands of union and white-collar jobs, and curtailing many supplier relationships, both Chrysler and GM made reducing and reshaping dealerships a key component in their restructuring.

1 Testimony of Fritz Henderson before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations, June 12, 2009.

2 Testimony of John McEleney, NADA Chairman before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations, June 12, 2009, citing an NADA commissioned report, *The Franchised Automobile Dealer: The Automaker's Lifeline*, Casesa Shapiro Group, November 26, 2008.

3 GM News Release, "The New General Motors Company Launches Today," July 10, 2009. GM is eliminating more than 1,200 dealerships outright and expects another 1,200 to drop out by normal attrition.

4 Testimony of John McEleney, NADA Chairman, before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations, June 12, 2009.

5 *AutoExec Magazine*, "NADA Data," May 2008, p. 51.

6 Michael Purtill, a CRS intern, provided valuable assistance in gathering data for the tables in this report.

At issue for Congress are the decisions made by the Bush and Obama Administrations in aiding GM and Chrysler and the impact of these restructurings on dealers, retirees, bondholders, and other stakeholders in the restructurings. This report examines the size and scope of the U.S. automobile dealer network, its origins, and its economic contributions. It also examines the role of states in franchising, as well as federal legislation and actions in the development of the present auto dealership business model. It presents the arguments put forward by GM and Chrysler, on one hand, and dealers on the other, regarding the large scale termination of dealers as part of these two manufacturers' bankruptcy cases. The report concludes with a summary of recent Congressional interest and actions with regard to the U.S. auto dealer network. CRS Report R40736, *Mandating Dealership Agreements for Automakers Receiving Federal Funds: Constitutional Analysis*, by Carol A. Pettit, Kenneth R. Thomas, and Robert Meltz, examines several of these legislative proposals.

The Role of Auto Dealers in the Distribution of Motor Vehicles

In the early 1900s, automakers often sold their vehicles directly to consumers. However, that system did not work well because the manufacturers were often far away from their ultimate customers and they found the expense of setting up a nationwide network of company-owned stores to be prohibitive. In their book on the auto supplier industry, Thomas Klier and James Rubenstein describe Ford's early experience with selling cars:

> Ford did set up company-owned stores called branch houses during the first decade of the twentieth century. Located in major cities, branch houses were staffed by Ford employees who received a salary plus a bonus based on sales.
>
> By the 1910s, though, Ford had abandoned direct selling. Ford could not open branch houses fast enough to meet demand, nor could it find enough qualified people to staff the branches. More crucially, Ford officials concluded that salaried employees were not sufficiently motivated to sell cars. According to an industry analyst writing in the 1920s, "If a dealer has a financial interest in his own company, he is found to be much more satisfactory than a branch manager, who has practically no financial interest in the branch."[7]

As discussed in more detail later in this report, the dealer franchise system emerged as a way for the automakers to market, finance, and service motor vehicles. Dealers are independent businesses that enter into contracts with the manufacturers to represent those manufacturers, selling and servicing their cars locally.[8] Most of the investments and capital risk of providing these services are borne by the dealer.

Over time, state legislatures in every state passed franchise laws to govern the relationship between dealers and manufacturers. The goal of these laws, which are not uniform, is—in the eyes of the dealers—to equalize the relationship between small businesses (i.e., the dealers) and large companies (i.e., the manufacturers). According to James Surowiecki, the laws have had their desired effect:

[7] Thomas Klier and James Rubenstein, *Who Really Made Your Car? Restructuring and Geographic Change in the Auto Industry*, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, 2008, p. 33.

[8] *LansingStateJournal.com*, "Dispelling Dealership Myths," June 22, 2009.

> These laws do things like restrict G.M.'s freedom to open a new Cadillac dealership a few miles away from an old one. More important, they also make it nearly impossible for an auto manufacturer to simply shut down a dealership. If G.M. decided to get rid of Pontiac and Buick, it couldn't just go to those dealers and say, "Nice doing business with you." It would have to get them to agree to close up shop, which in practice would mean buying them out. When, a few years ago, G.M. actually did eliminate one of its brands, Oldsmobile, it had to shell out around a billion dollars to pay dealers off—and it still ended up defending itself in court against myriad lawsuits. As a result, dropping a brand may very well cost more than it saves, since it's the dealers who end up with a hefty chunk of the intended savings.[9]

Under the franchise system, the manufacturers and dealers have found different ways to make money. All dealers are not the same; some have one or more large stores selling one or more brands in one or more metropolitan areas,[10] while others operate smaller dealerships in towns or rural areas. Some dealers focus more on selling new cars and others put more attention on service and selling used cars.

> ... G.M. makes money (when it does) on new cars and on the financing of loans. Dealers, by contrast, make most of their money on servicing old cars and selling used ones. So dealers can thrive even when the automaker languishes. And at the state level they often have more political influence than automakers do. In the late nineties, for instance, local dealers were challenged by companies that wanted to sell cars over the Internet. In response, some states, including Texas, actually passed laws making it illegal to have a business selling cars online (unless you already owned a local dealership), and regulators told Internet companies to cease and desist. When Ford itself started experimenting with online sales, dealers' vigorous objections (along with legal challenges) caused the manufacturers to quickly retreat.[11]

More than 57% of dealer sales stemmed from new vehicles, nearly 29% from used-car sales, and more than 14% from service and parts sales in 2008. New-vehicle sales, however, are becoming an increasingly less profitable segment of the dealer business. Dealer profits in new-car sales have evaporated and, since 2005, dealers have not made a profit on their new-car departments, "slipping below breakeven."[12] Used-car sales and service work result in greater profits. Dealers make an average of more than $100,000 on used-car sales and as much as $350,000 through their service and parts departments.[13]

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[9] James Surowiecki, "Dealer's Choice," *The New Yorker*, September 4, 2006.

[10] The largest auto dealer network in the country is AutoNation Inc., based in Ft. Lauderdale, Florida. In 2007, it owned 232 dealerships, selling over 545,000 vehicles, and earning revenue of over $14 billion. At the other end of the dealer spectrum are small dealers, who may sell a few dozen new cars in a year. *Automotive News*, "Top 125 Dealership Groups," March 23, 2009.

[11] James Surowiecki, "Dealer's Choice," *The New Yorker*, September 4, 2006.

[12] *AutoExec Magazine*, "NADA Data," May 2008, p. 63.

[13] 2008 NADA data cited in *Automotive News 2009 Market Data, North American Sales*, June 29, 2009.

Changing Profile: Domestic and Foreign Auto Dealership Strength, Size, and Economic Impact

In 2007, U.S. new-car auto dealers sold more than $758 billion in motor vehicles,[14] directly employed over 1 million men and women, and supported an annual payroll of over $54 billion.[15] New-car dealerships have a substantial presence in their communities, with an average of 54 employees, receiving wages of $48,339 a year per employee, for an average dealer payroll of $2.6 million.[16] There is a wide variance in dealer size and performance in different states. For example, the average sales per new-car dealership range from $71 million in Arizona to less than $16 million in Vermont. California has nearly 1,500 new-car dealers, and Alaska has 35.[17]

Auto industry sales have been on a downward trajectory for nearly a decade; in 2007 there were over 16 million cars and light trucks sold in the United States, but only 13.2 million units were sold in 2008 and a projected 9.5 million to 10 million units will be sold in 2009.[18] According to some analysts, U.S. auto sales may not return to more than 12 million units per year until 2012 or later.[19] U.S. auto dealers, automotive manufacturers, suppliers, and workers have all been directly affected by the national recession, credit crisis, and the deteriorating economic situation in the United States. The result has been the worst consumer-spending slump since the 1940s[20] and the worst market for automobile sales since 1970.

One University of Michigan economist notes that from 1970 to 2001, there were 0.76 vehicles sold per driver in the United States and that the figure has now dropped to 0.4 vehicles per driver—with little prospect for a rebound in coming years.[21] The decline in auto sales is attributable to a range of factors that affect the number and size of cars sold, including volatile gasoline prices, tight credit markets for auto dealers and customers, declining consumer confidence, concerns over personal discretionary spending, and high unemployment rates. The finance arms of the manufacturers have faced higher than normal capital costs reflecting the credit risk posed by the Detroit 3.

As a result of these factors, the average dealership profile indicates total sales of over $33 million in 2004 dropped to just under $29 million in 2008. In the same years, the net profit before taxes for the average dealer was $559,000 and $280,000, respectively.[22] Auto dealer industry analysts predict that if prevailing unfavorable economic conditions continue, and, in particular, if the

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14 U.S. Census Bureau, *Estimated Annual Sales of U.S. Retail and Food Services Firms by Kind of Business: 1992 Through 2007*. The 2007 statistics are the most recent available data from the U.S. Census Bureau. They were released on March 31, 2009.

15 *AutoExec Magazine*, "NADA Data," May 2008, p. 56.

16 *Ibid* and *Automobile*, "Dealer Closings, The Numbers," August 2009, p. 14.

17 NADA Industry Analysis Division. See **Appendix A** of this report.

18 *Wall Street Journal*, "Car-Sales Rebound Seen for June," June 30, 2009.

19 *TheDetroitBureau.com*, "Global Auto Sales Will Continue Decline in 2009," May 14, 2009, citing an R.L. Polk and Company projection.

20 *StreetInsider.com*, "Goldman Sachs Slashes Forecast For Auto Sales, Cuts Price Targets In Auto Group," November 26, 2008.

21 Maynard, Micheline, "Industry Fears Americans May Quit New Car Habit," *New York Times*, May 30, 2009.

22 *Automotive News*, "2009 Market Data: Dealer Data," May 25, 2009, based on NADA data.

availability of automotive loans remains limited to those customers with higher credit ratings, this could affect the ability of some consumers to purchase cars. Thus, vehicle sales and margins of the auto dealers could continue to be adversely affected.[23] The recession has resulted in reduced sales and profits for all auto dealers and accelerating consolidations. Market share has also shifted away from GM and Chrysler to foreign-owned automakers as concerns about their possible bankruptcies cut into their sales.

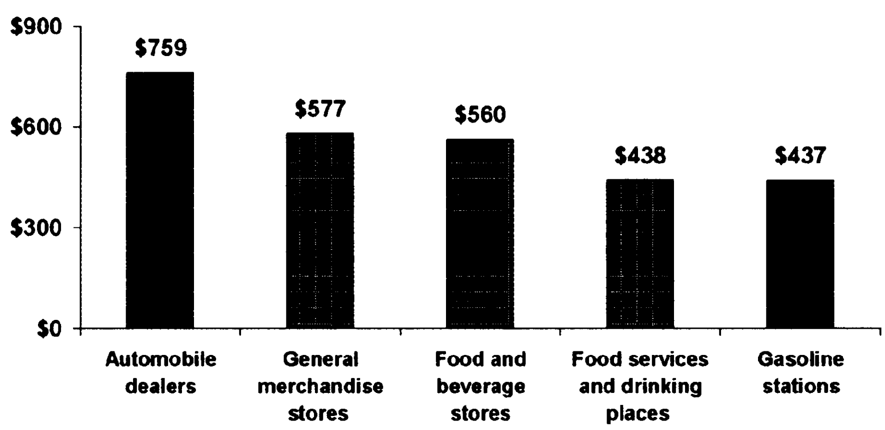
Auto Dealers as an Economic Force

The nation's auto dealers are a significant economic force in the U.S. economy. Their $758 billion in revenue in 2007 makes the auto dealer retail industry one of the largest retail sectors in the United States, comprising 19% of the $4 trillion in retail sales that year.[24] Retail sales by the nation's auto dealer industry exceeded the retail sales of other large retail industry sectors, including general merchandise stores, food and beverage stores, and gasoline stations (see **Figure 1**). Combined U.S. auto dealers (new- and used-car dealerships) accounted for 7.9% of total retail employment, directly providing jobs for an estimated 1.2 million American workers in 2008, based on preliminary employment statistics from the U.S. Department of Labor.[25]

Figure 1. U.S. Retail Sales by Sector

2007

(in billions of dollars)



Source: U.S. Census Bureau, Annual Retail Trade Survey, March 31, 2009. http://www.census.gov/retail/.

Notes: 2007 statistics are the most recently available data from the U.S. Census Bureau.

[23] AutoNation, 10K Filing of February 17, 2009 for December 31, 2008, p. 11-12.

[24] U.S. Census Bureau, *Estimated Annual Sales of U.S. Retail and Food Services Firms by Kind of Business: 1992 Through 2007*. The 2007 statistics are the most recent available data from the U.S. Census Bureau. They were released on March 31, 2009.

[25] The employment statistics are based on preliminary annual data for 2008 reported by the U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW) program. It includes all employees who work at automobile dealer establishments, included in North American Industry Classification System (NAICS) category 4411 (this category covers new- and used-car dealers). Unless otherwise noted, this categorization is the basis for statements in this report regarding auto dealer employment.

The auto dealer industry consists of two segments, new and used vehicles, with some overlap. New-car dealers, with revenues of $677.2 billion in 2007,[26] are the larger segment, often called franchise dealers, who primarily sell new cars, sport utility vehicles (SUVs), pickup trucks, and passenger and cargo vans. They retail these new vehicles in combination with other activities, including warranty and non-warranty repair services, and selling used cars, replacement parts, and accessories. Virtually all new automobiles, light trucks, and vans bought in the United States are sold through franchise dealers. They sell and lease vehicles manufactured by one or more auto companies (e.g., Ford, Chrysler, GM, Toyota, Honda).[27] New-car dealers also sell additional automobile-related services to potential buyers, including extended warranties, insurance, and financing. New-car dealers are selling proportionally more *used* cars than ever before. According to an estimate by the NADA, employment of salespersons alone apportioned to used cars at new-car dealerships is over 70,000 employees, with new-car dealers selling about 12 million used cars to retail customers in a strong year and 10.5 million in a slower one.[28]

The other segment of the industry comprises car dealers who sell *only* used cars and trucks. With sales of $82 billion in 2007,[29] they are often referred to as independent dealers because they do not have a franchise agreement with a manufacturer. Independent dealers sell a variety of vehicles that have been previously owned or formerly rented and leased. Used-car dealerships are a viable business today due to improvements in technology which have increased the durability and longevity of new cars and have raised the number of high-quality used cars that are available for sale.

Auto Dealerships and Related Employment

There was steady growth in employment among dealerships for over a decade. However, employment began to drop in 2005, caused in part by dealership consolidation.[30] As shown in **Figure 2**, there were 24,825 new-car dealers in 1990, dropping to just over 20,000 in early 2009. NADA estimates that by the end of 2009, the number of dealers will fall below 17,000.[31]

The number of dealerships tends to fall during recessions, much like employment in the rest of the auto industry, and tracks national employment trends. (For a table showing the number of new-car dealerships by state, see **Appendix A**).

U.S. government statistics indicate that new-car dealers employed more than 1 million workers in 2008, accounting for 89% of total auto dealer employment. Used-car dealers employed 126,300

[26] U.S. Census Bureau, *Estimated Annual Sales of U.S. Retail and Food Services Firms by Kind of Business: 1992 Through 2007*. The 2007 statistics are the most recent available data from the U.S. Census Bureau. They were released on March 31, 2009.

[27] A trend among larger, urban dealerships in recent years has been to have dual franchises, representing more than one manufacturer. It is not uncommon to find dealers selling Chevy and Honda or Jeep and Nissan.

[28] NADA chief economist Paul Taylor provided this information to CRS by email on June 30, 2009.

[29] Ibid.

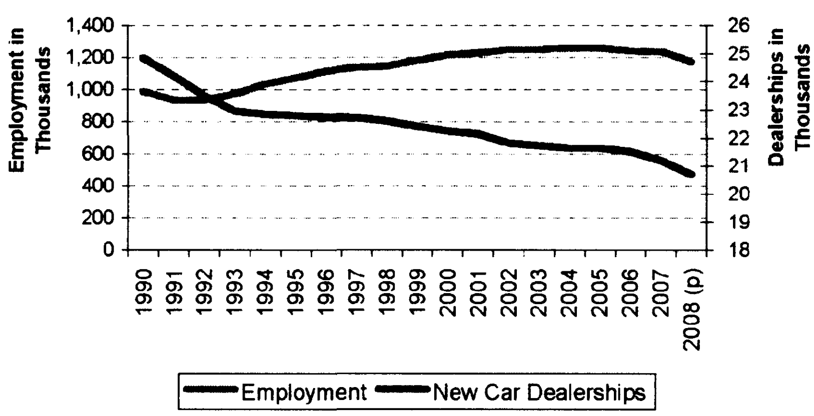
[30] According NADA chief economist Paul Taylor, dealer consolidations may lead to more employment among the remaining dealerships, for several reasons. Many dealers who are closing are in rural areas and sell only one vehicle brand. Remaining dealers are in more urban areas with growing populations; many of them sell two brands. In these markets, dealers often add new services such as valet parking and other new services, which may add employment.

[31] Testimony of John McEleney, chairman of the National Automobile Dealers Association, before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations, June 12, 2009. Mr. McEleney also pointed out that there were 50,000 dealerships in 1950.

workers, comprising the remaining 11%. Together, new- and used-car dealers employed nearly 1.2 million workers last year. Employment levels at the nation's dealerships dropped by 5% between 2007 and 2008, based on preliminary 2008 statistics from the Bureau of Labor Statistics. This was the biggest decline recorded since 1991, when auto dealership employment contracted more than 5% over the previous year.[32] With accelerating dealer closings in 2009, NADA expects dealer layoffs to increase.

Figure 2. Trends in New-Car Dealership Population and Employment

1990-2008 (p)



Source: Employment data are from the U.S. Department of Labor's Quarterly Census of Employment and Wages (QCES) and are derived from NAICS 44111 (new-car dealers) and the dealership statistics are from the National Automobile Dealers Association.

The consolidation of dealerships parallels two other trends in the industry. First, the recession and the elimination of a large number of GM and Chrysler dealers are changing the balance of dealerships. In January 2008, the Detroit 3's U.S. dealerships totaled 14,199, but by January 2009 (even before the elimination of the Chrysler dealerships and the 2010 closing of GM dealerships), they had shrunk to 13,220. In contrast during the same time period, import-badged dealerships selling just one import brand (e.g., just Toyota or Honda, but not two or more brands) grew from 6,463 to 6,544 dealerships.[33] This trend is accelerating in 2009 with the closure of over 2,000 GM and Chrysler dealerships and the sale of GM's Hummer, Saab, and Saturn divisions and their corresponding dealerships. All three will now become dealerships for foreign-based automakers: Saab is being sold to a Swedish automaker, Hummer to a Chinese company, and Saturn's new management (one of the largest auto retail groups in the country) has announced it will market imported cars after its agreement with GM runs out.

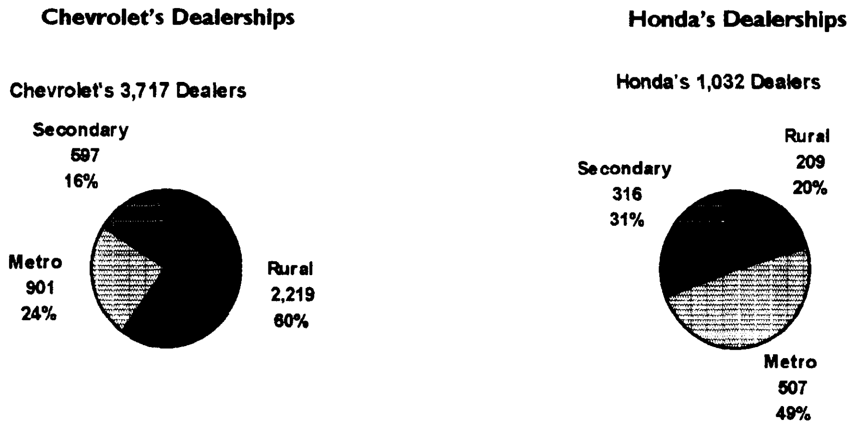
[32] Employment data are from the U.S. Department of Labor's Quarterly Census of Employment and Wages (QCES) and are derived from NAICS 4411 (includes new- and used-car dealers). 2008 statistics are preliminary and are subject to revision.

[33] U.S.-badged automobiles are cars and light trucks produced by the Detroit 3, regardless of whether they were produced in the United States or abroad. Similarly, import-badged automobiles may have been produced abroad or at the U.S. facilities of foreign manufacturers such as Toyota and BMW. Source: *Automotive News*, "Market Data/Dealer Data, 2009," May 25, 2009, p. 2.

The make up of the foreign-badged dealerships differs significantly from the Detroit 3 dealer networks. As shown in **Figure 3**, nearly half of Honda's dealers are in metro areas, whereas a quarter of Chevrolet dealers are in those markets. While GM, Ford, and Chrysler have far better representation in rural areas than the Asian automakers, urban areas are where population and incomes are generally growing faster.

Figure 3. Dealer Geography

U.S. auto dealers



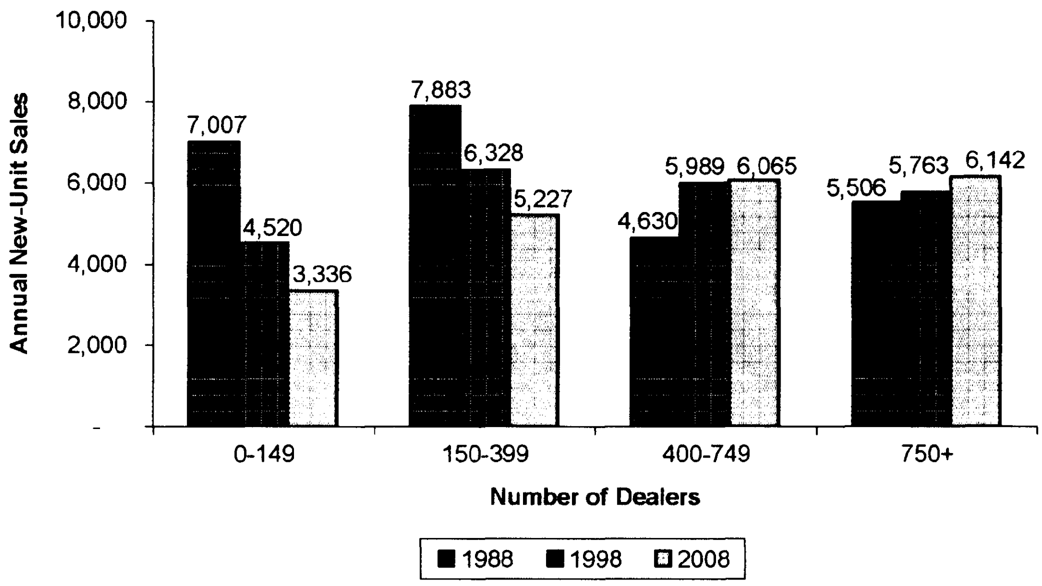
Source: Chrysler, "U.S. Dealer Network Review," May 21, 2009.

Notes: The Detroit 3 has a larger footprint in rural areas compared to the more recent dealerships that market foreign-badged vehicles. The example above is illustrative of these differences.

Second, as the auto industry has matured, the nature of dealerships has also changed. Consolidations are creating larger dealerships as size and financial capabilities, especially in urban areas, become increasingly more important factors in the ability to compete successfully. As shown in **Figure 4**, the loss of dealerships is concentrated in the smaller-volume categories. In 2008, more dealers sold at least 750 cars a year (6,142 dealerships) than those selling fewer than 150 cars a year (3,336 dealerships).

Figure 4. Auto Dealer Consolidations and Growth of Larger Firms

1988, 1998, and 2008



Source: *AutoExec Magazine*, "NADA Data," May 2008, p. 47.

Some dealers see the advantage of the consolidation, which they maintain will enhance the competitiveness of the remaining dealers. Mike Jackson, CEO of AutoNation, the largest U.S. dealer group, which has had seven of its Chrysler dealerships terminated, said recently, "dealer consolidation is a necessary measure in today's automotive industry, and will strengthen America's dealer network and improve dealer profitability over the long term."[34]

The recession and the GM and Chrysler reductions in their dealership networks have also accelerated this trend. In June 2009, NADA estimated that the recession would have prompted the loss of about 1,200 dealers and that the GM and Chrysler reductions will double or triple the number of dealers who will have changed hands or gone out of business.

Auto dealer employment at nearly 1.2 million[35] is larger than the number of workers employed in the entire automotive manufacturing industry, which employed 880,000 people last year.[36] Within the auto assembly sector,[37] GM, Toyota, BMW, Ford, and other assemblers employed an estimated workforce of 166,000 workers in 2008 (see **Figure 5**). The largest sector in automotive manufacturing is the motor vehicle parts manufacturing industry, with employment totaling an estimated 541,100 workers, according to U.S. government data.

[34] AutoNation press release, May 14, 2009.

[35] U.S. Department of Labor's Quarterly Census of Employment and Wages (QCEW).

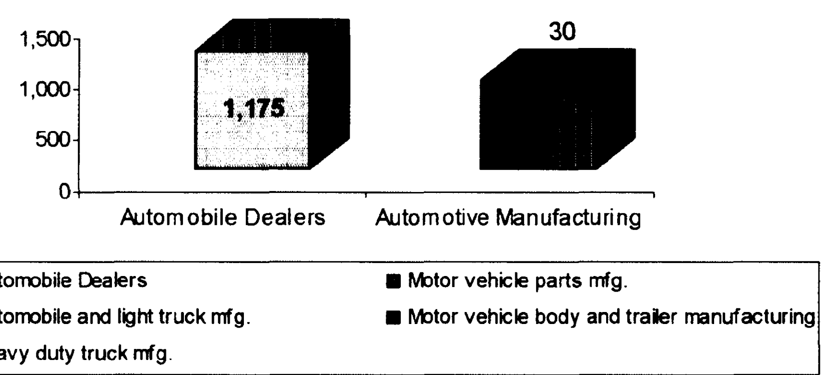
[36] This industry is comprised of NAICS 3361 (motor vehicle manufacturing), 3362 (motor vehicle body and trailer manufacturing), and 3363 (motor vehicle parts manufacturing). For a complete description of the NAICS system see http://www.census.gov/eos/www/naics/.

[37] NAICS 33611 covers automobile and light truck manufacturing and includes are such vehicles manufactured in the United States, including those made here by foreign-owned companies such as Honda and BMW.

That there are so many more workers in auto parts manufacturing is a result of extensive outsourcing by automakers over the past 20 years. At one time, the Detroit 3 made most parts themselves. This changed over time so that a majority of the 15,000 or so parts on an auto are today purchased from other companies (such as Dana, Delphi, American Axle, and Lear) and assembled into a finished car or truck by the automakers. Outsourcing of parts, the application of new technologies, such as robotics and computers, and the resulting rising productivity, have greatly diminished the amount of labor needed to produce an automobile.[38]

Figure 5. Comparative Auto Industry Employment

2008 (p) (in thousands)



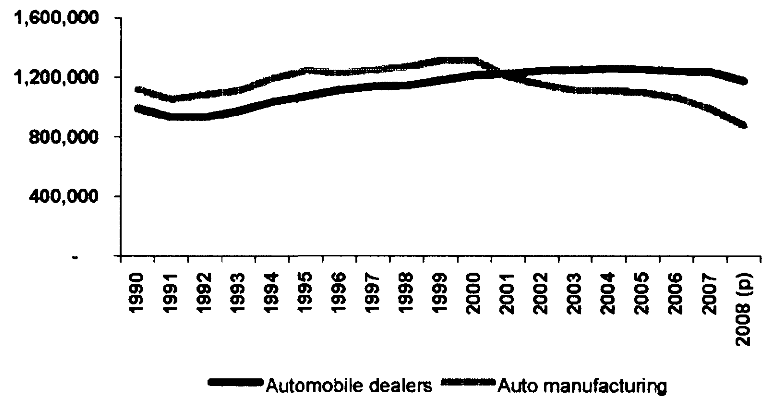
Source: Preliminary 2008 employment data are from the U.S. Department of Labor's Quarterly Census of Employment and Wages (QCEW) and represent NAICS 4411 (Auto Dealers), the summation of NAICS 33611, 3362, and 3363 to represent automotive manufacturing.

Within the auto supply chain, auto dealer employment has increased since 1990, rising from 989,000 to 1.2 million, posting an increase in employment of 19% by 2008 (see **Figure 6**) and in line with the general economy. By comparison, the overall increase in private sector employment between 1990 and 2008 was 25%, while retail trade employment grew by 14% during the same time period. These statistics are in sharp contrast to auto and auto parts manufacturing employment, which dropped by 21% between 1990 and 2008, declining from 1.1 million to an estimated 880,000. Within this category, employment at just the auto assemblers, such as GM and Ford, posted an even greater drop of 27% during the same time period, falling from 228,800 workers to 166,000.

[38] A look at GM's production and employment numbers show the dramatic change in auto making from outsourcing and technology applications. In 1988, GM employed 634,000 worldwide to produce 7.7 million vehicles. By 2008, GM was producing 8.3 million vehicles, but employed 243,000 people. That is a nearly 8% rise in vehicle production, but a 60% drop in the workforce over 20 years.

Figure 6. Long-Term Trend in Automotive Industry Employment

1990-2008 (p)



Source: Employment data are from the U.S. Department of Labor's Quarterly Census of Employment and Wages (QCEW) and represent NAICS 4411 (Auto Dealers), the summation of NAICS 3361, 3362, and 3363 for Automotive Manufacturing.

Franchise dealers are significant contributors to the economic health of local and state economies. Bureau of Labor Statistics data shown in **Table 1** below highlights five states—California, Texas, Florida, Pennsylvania, and New York—where the auto dealer industry employed more than an estimated 50,000 workers in 2008; it exceeded 100,000 in California and Texas. In many states, dealer employment comprises a sizable share of total retail employment. For example, in Georgia, the 37,000 auto dealer employees account for 7.9% of all retail employment. Other states where auto dealers comprise a significant share of total retail trade jobs are Delaware (8.9%), Maryland (8.8%), Oklahoma (8.6%), and Virginia (8.6%).

Table 1. Auto Dealer and Retail Employment in Top 10 States

2008 Preliminary

(Employment numbers in thousands)

Rank	State	Auto Dealer Employment	Retail Employment	Dealer Employment % of Total Retail Employment
	U.S.	1,175	15,307	7.7%
1	California	125	1,636	7.6%
2	Texas	100	1,176	8.5%
3	Florida	81	988	8.2%
4	Pennsylvania	53	649	8.2%
5	New York	52	895	5.8%
6	Illinois	48	628	7.6%
7	Ohio	45	590	7.6%
8	Georgia	37	465	8.0%
9	North Carolina	37	463	8.0%
10	Michigan	37	475	7.8%

Source: Employment data for 2008 are preliminary. Data are from the U.S. Department of Labor's Quarterly Census of Employment and Wages (QCEW) and represent NAICS 4411 (Auto Dealers) and NAICS 44 (Retail Trade).

Motor Vehicle Financing and State Franchise Laws Define Modern Dealerships

Floorplan Financing

Without financing, virtually no automobiles would be sold in the United States, either to dealers or to consumers. It is a vital component of the manufacturer-dealer-consumer value chain. Dealers buy cars from the automakers using financing, and 90% of consumers take out a loan to buy their car.[39] With the credit crisis of fall 2008, this system broke down.

An integral part of the franchise system is floorplan financing. When automakers sell cars, the dealers serve as the intermediary between the manufacturer and customer. Dealers have traditionally used the manufacturers' finance arms (e.g., GMAC, Chrysler Financial, Toyota Motor Credit) to purchase the automobile inventory from the manufacturers. These loans are called floorplan financing.[40]

[39] Testimony of John McEleney, NADA Chairman before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations, June 12, 2009.

[40] According to the Comptroller of the Currency, "Floor plan, or wholesale, lending is a form of retail goods inventory financing in which each loan advance is made against a specific piece of collateral. As each piece of collateral is sold by the dealer, the loan advance against that piece of collateral is repaid. Items commonly subject to floor plan debt are (continued...)

When customers purchase cars or trucks from dealers, auto company financing also plays an important role. Through the finance arm of the manufacturers, auto dealers also provide their customers with retail financing from companies like Ford Motor Credit or GMAC. Those customers who do not want to purchase a vehicle with cash or do not use a credit union or an alternative source of credit frequently use auto dealer arranged financing. Much of the floorplan and retail financing for GM and Chrysler vehicles is provided by GMAC, which absorbed Chrysler Financial when Chrysler went into bankruptcy. Prior to that bankruptcy, Cerberus Capital owned 80% of Chrysler LLC, including its finance arm, Chrysler Financial. Both GMAC and Chrysler Financial were formerly captive companies, wholly owned by the automakers. Cerberus paid $14 billion to GM for a 51% stake in GMAC in November 2006.[41] Other auto financing companies, such as Ford Motor Credit Company and Toyota Financial Services, are still wholly owned by the automakers.[42]

As the 2008 banking crisis intensified, floorplan and retail financing were seriously affected because the financing companies were unable to raise the capital to fund the manufacturer-dealer-consumer pipeline. A key component of the federal government's auto support program has been a recapitalization of GMAC and Chrysler Financial, the two financing companies. As part of this restructuring, GMAC entered into an agreement with Chrysler LLC in April 2009, to provide floorplan and customer financing for Chrysler dealers and customers.[43] Nearly $13.5 billion in federal assistance has been provided to GMAC since December 2008, in an effort to jumpstart the flow of financing to dealers.[44] In return for the U.S. Government recapitalizing GMAC, the U.S. Treasury now owns approximately 35.4% of the company, while Cerberus owns 22%, Cerberus investors own 18.1%, General Motors owns 9.9%, and a blind trust owns an additional 14.6% of GMAC. GM must sell its ownership of the trust by the end of 2011in return for GMAC obtaining a bank holding company license in 2008.

As of early July 2009, efforts to revive floorplan and retail financing had met with limited success, and dealers were still constrained by the amount of funding available to them and their customers. Many banks have exited the auto financing market, further tightening credit availability. While zero percent retail financing has been widely advertised, it has been available mainly for those customers with excellent credit.[45]

(...continued)

automobiles, large home appliances, furniture, television and stereo equipment, boats, mobile homes, and other types of merchandise usually sold under a sales finance contract." Comptroller of the Currency, Administrator of National Banks, *Comptroller's Handbook*, "Floor Plan Loans (Section 210)," March 1990, p. 1.

[41] GMAC Financial Services, GM press release, "GM Closes GMAC Sale," November 30, 2006; DBRS, "GMAC LLC's Ratings Unchanged After GM Bankruptcy, Senior at CCC," June 1, 2009.

[42] GMAC Investor Relations Website, http://www.gmacfs.com/us/en/about/investor/faqs.html, visited July 1, 2009.

[43] As part of the Chrysler restructuring, it was agreed that the assets of Chrysler Financial would be transferred to GMAC, which would in turn become the financing arm for both GM and Chrysler vehicles. GMAC Financial Services, "GMAC Financial Services Enters Agreement to Provide Financing for Chrysler Dealers and Customers," April 30, 2009.

[44] At the time GMAC was provided its initial federal assistance of $5 billion in December 2008, GM was also given a $1 billion loan to facilitate GMAC's reorganization. Subsequently GM used nearly $900 million of that loan for that purpose. In a further effort to boost automobile financing, Chrysler Financial was given $1.5 billion in January 2009 by the Bush Administration.

[45] *Automotive News*, "GM Offering 0% Financing in Brief July Sale," June 30, 2009.

Other Financial Steps to Aid Dealers

In addition to support for the financing companies, the federal government has taken other steps to assist dealers and dealer financing, including:

- *Warranty commitment.* In March 2009, the Obama Administration announced a new "warrantee commitment program" to assure potential vehicle purchasers that new-car warranties would be backed by the federal government during the period in which GM and Chrysler were being restructured. Whatever the status of the companies, even in bankruptcy, any vehicle warranty offered by the companies would be "back-stopped" with federal support.[46]
- *Small Business Administration.* Through the Small Business Administration's (SBA) 7(a) loan program,[47] the Dealer Floorplan Financing (DFP) pilot program permits government-guaranteed loans to be issued to finance dealer inventories for autos (as well as recreational vehicles, boats, manufactured homes and other dealerships). Starting July 1, 2009, this new program allows dealers to borrow from banks against retail inventory and "acts as a revolving line of credit for a dealer to obtain financing for retail goods. The dealer repays the debt as its inventory is sold and can borrow against the line of credit to add new inventory."[48] The DFP makes individual loans of up to $2 million available.
- *Term Asset-Backed Securities Loan Facility (TALF).* The Federal Reserve announced in December 2008 that auto dealers could participate in a new $200 billion loan facility to finance inventory purchases. TALF is not a source to which dealers can apply to obtain floorplan loans directly, but it helps by reopening the floorplan securitization market and in turn providing capital to banks and other floorplan lenders so they can extend better credit to auto dealers.

  This facility has so far had limited success. According to NADA, "Unfortunately, because the funding is limited to AAA-rated securitizations and many dealer floorplan securitizations were recently downgraded below AAA, the initial funding of the TALF is not expected to significantly enhance the availability of credit for floorplan loans. Nevertheless, the initial funding is assisting in the availability of retail auto credit."[49]
- *Fleet Modernization Vouchers.* In June 2009, Congress passed a limited "cash for clunkers" bill to stimulate the purchase of new cars for the period July 1 to November 1, 2009. The program exceeded expectations and the program reached its maximum support level within a week of regulations being issued. It is estimated that this program could generate the sale of up to 250,000 new automobiles and will assist all dealers.[50] A website—http://www.cars.gov/—has

[46] See discussion of federal government steps to aid the dealer network in CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis.

[47] 7(a) loans are the most basic and most frequently used loans provided by the SBA to small businesses in the United States. http://www.sba.gov/services/financialassistance/sbaloantopics/7a/index.html.

[48] *U.S. Small Business Administration*, "Dealer Floor Plan Financing Program," http://www.sba.gov/floorplanfinancing/, referenced on July 1, 2009.

[49] NADA, "Understanding the TALF," March 30, 2009.

[50] For a full description of the cash for clunkers voucher system and how similar systems have evolved abroad, see (continued...)

been established by the National Highway Traffic Safety Administration (NHTSA) to explain the cash for clunkers program to the public.

State Franchise Laws

Over the years, all 50 states and the District of Columbia have adopted franchise laws governing contracts between independent auto dealers and the manufacturers they represent. Initially these laws were passed to level the playing field between auto manufacturers and dealers. However, auto manufacturers and dealers often do not see eye to eye on the reach of these statutes. Dealers say they need protection from termination without cause, while auto manufactures claim they need more flexibility to improve the distribution of their automobiles and their ability to react to changing market conditions.

Evolution of the Automobile Franchise System

As the motor vehicle industry developed, automotive manufacturers quickly realized that a distribution system was needed to outsource the costs associated with vehicle retailing and maintenance. The early automakers viewed dealers as a source of cash and sales experience, and as a way to increase their businesses with minimal expenses. Thus, the automobile manufacturers moved to set up franchise arrangements to sell their products. This gradually evolved into the franchise dealer system.

Franchise agreements cut the cost of the middleman and gave manufacturers greater control over how their cars were sold. The first franchise agreements were vague with many of these agreements benefitting the automotive manufacturers at the expense of the dealers. Generally, the auto manufacturers had the superior bargaining position and were able to gain control over much of the dealer's operations. Auto dealers were exclusive agents of automakers. In exchange, according to Lawrence Seltzer, the car manufacturers imposed tough conditions on dealers, including requirements such as payment of huge cash deposits when dealers ordered vehicles, payment upon delivery of the automobiles by the dealers, and acceptance of cars regardless of market conditions.[51]

Prior to 1940, automobile dealer agreements typically were on a year-to-year basis and were also subject to unconditional cancellation by the manufacturer. In return, the dealers agreed to provide suitable facilities and their best energies to sell the cars.[52] Dealers could carry as many brands as they wanted, but they were restricted to an assigned selling territory and had to sell the cars at the price specified by the manufacturer. Responding to pressure from NADA to investigate the auto industry, the Federal Trade Commission (FTC) conducted a study in the late 1930s that criticized the power that manufacturers could exert over dealers.[53] A 1939 FTC report concluded that the

(...continued)

CRS Report R40654, *Accelerated Vehicle Retirement for Fuel Economy: "Cash for Clunkers,"* by Brent D. Yacobucci and Bill Canis.

[51] Allen, Leslie, "The First Dealers: From Humiliation to Retail Success," *Automotive News*, September 25, 2006.

[52] Garner, Michael, "Franchise and Distribution Law and Practice," September 2008, Volume 2, Thomson-West, Chapter 14, p. 4.

[53] Federal Trade Commission, *Report on the Motor Vehicle Industry*, Government Printing Office, Washington, DC, 1939.

automobile franchise agreements were unfair and noted that the franchise agreements were "between parties of very unequal economic bargaining power. The terms of the agreements were set by the manufacturer."[54] In the same report, the FTC criticized dealer practices that were not in the interests of consumers, pointing to practices such as price fixing, padding new-car prices, and packing finance charges.[55]

Automobile Franchising Laws at the National and State Level

Because of the perceived inequality in the relationship between the auto manufacturer and auto dealer, states began to enact statutes pertaining to the regulation of automobile distribution, with Wisconsin being the first in 1937. Almost 20 states had dealer franchise laws in place regulating some aspect of the auto manufacturer and auto dealer relationship before a federal measure was enacted on auto franchising.[56] Despite these state laws, there were continued concerns about the business issues arising from the inequality of power between the manufacturers and dealers.

U.S. Automobile Dealer's Day in Court Act

In 1956, after nearly two decades of demands for federal automobile dealer legislation by NADA, national legislation was passed by Congress. The Automobile Dealer's Day in Court Act (the Dealer's Act)[57] provides for legal remedies for dealers harmed by the actions of manufacturers that are not in good faith, the so-called good faith law, in complying with or performing the terms of the franchise agreement, or in terminating, canceling, or not renewing the franchise agreement.

Auto dealers contend that the 1956 federal law has not been effective in protecting them. According to a study of the Dealer's Act by NADA, dealers attained relief in about 20 of 115 cases they filed in the law's first 30 years.[58] Since the passage of the Dealer's Act, which the dealers maintain did not give them protection from the abusive and coercive practices of the auto manufacturers, all the remaining states and the District of Columbia have enacted automobile dealer legislation. In 2002, Alaska was the last state to pass legislation on dealer franchises.[59] The state-level auto franchise laws have been scrutinized by the courts and the statutes have been upheld by them.[60]

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[54] Smith, Richard, *Franchise Regulation: An Economic Analysis of State Restrictions on Automobile Distribution*, Journal of Law and Economics, p. 131, The University of Chicago, April 1982.

[55] Higashiyama, Jessica, *State Automobile Dealer Franchise Laws: Have They Become the Proverbial Snake in the Grass*, University of California, Hastings College of Law, April 2009, p. 7.

[56] Garner, Michael, "Franchise and Distribution Law and Practice,"September 2008, Volume 2, Thomson-West, Chapter 14, p. 7.

[57] 15 U.S.C. §§ 1221-1225.

[58] Teahen, John, "Day in Court Act Fought Factory Coercion," *Automotive News*, September 14, 2008.

[59] The Alaska State Legislature, Motor Vehicle Sales and Dealers, SCS CSHB 182(L&C), June 20, 2002.

[60] For example, in New Motor Vehicle Board of Cal. v. Orrin W. Fox Co., 439 U.S. 96 (1978), the Supreme Court of the United States recognized that States are "empowered to subordinate the franchise rights of automobile manufacturers to the conflicting rights of their franchisees where necessary to prevent unfair or oppressive trade practices." See Statement from Texas Attorney General Greg Abbott Concerning the Objection Filed by Texas Regarding GM's Attempts to Circumvent Texas Laws. June 12, 2009. https://www.oag.state.tx.us/oagnews/release.php?print=1&id=3010.

State Automobile Franchise Laws

The main instrument at the state level for regulating auto dealers' operations is each state's motor vehicle franchise law, which often goes into considerable detail about the relationship between auto manufacturers and dealers. The dealerships are seen as a heavily regulated sector, particularly when compared to franchisees in other industries. The business relationship between auto dealers and manufacturers has been subject to a level of regulatory scrutiny not found in many other industries. For instance, states such as Texas and North Carolina have asserted that the smooth operation of the retail auto industry has such broad economic implications that it is a matter of public interest, and thus requires a unique set of laws.[61]

Auto dealer franchise laws vary from state to state, and states regularly amend them. Generally speaking, state laws typically cover a much broader range of conduct than the Dealer's Act and provide for certain obligations on how car manufacturers must interact with their dealers. They typically address a range of issues in the franchise relationship, including:

- relevant marketing area (RMA) laws which define the geographic area within which a new-car dealer is presumed to be directly competing with existing dealers;
- the administration of warranty claims;
- level of investments made by dealers;
- new cars, parts and specialty tools to be purchased by dealers;
- the allocation and delivery of automobiles; and
- the mechanism for terminating a franchise.

A central concern in many of the state automobile franchise laws is the manner of and terms for termination, cancellation, or nonrenewal of the dealer relationship. Typical state franchise laws can require "a manufacturer to show good cause in order to terminate a dealer agreement, provide a framework for determining fair value of the franchise terminated, and establish basic rights of succession from generation to generation."[62] Some state franchise laws (e.g., Massachusetts,[63] California,[64] New Jersey,[65] North Carolina,[66] and Virginia[67]) also place limitations on the

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[61] For example, the Texas Motor Vehicle Commission Code states that the "distribution and sale of motor vehicles vitally affects the general economy of the State and the public interest and welfare of its citizens." Tex. Code § 2301.001. Similarily, North Carolina's statutue says that

> the distribution of motor vehicles in the State of North Carolina vitally affects the general economy of the State and the public interest and public welfare, and in the exercise of its police power, it is necessary to regulate and license motor vehicle manufacturers, distributors, dealers, salesmen, and their representatives doing business in North Carolina, in order to prevent frauds, impositions and other abuses upon its citizens and to protect and preserve the investments and properties of the citizens of this State.

N.C. Gen. Stat. § 20-285.

[62] National Automobile Dealers Association, *The Benefits of the Franchised Dealer Network: The Economic and Statutory Framework*, November 24, 2008, p. 5.

[63] Mass. Gen. Laws ch. 93B, § 6.

[64] Cal. Vehicle Code § 3062.

[65] N.J. Stat. § 56:10-18 – 23.

[66] N.C. Gen. Stat. § 20-305.

manufacturer's ability to place new dealers in an existing dealer market area without first giving the dealer notice and an opportunity to protest the action. Automakers assert that some of these state franchise laws make it difficult and costly for them to adjust to changing market conditions.[68]

According to the NADA, the state franchise laws were enacted to create a more level playing field to "address the vast disparity in the bargaining position between a dealer and its manufacturer."[69] Others view these laws as having shifted too much power in the relationship to the dealer. For example, in many states, state franchise legislation restricts the auto manufacturer's ability to terminate its relationship with a dealer.[70] While effectively preventing a manufacturer from arbitrarily and unfairly terminating a dealer, some experts contend that the termination provisions that exist in many state automobile franchise laws are a key reason for the existence of too many dealers.[71] In other instances, some state franchise laws "protect the dealers by making it unlawful for the auto manufacturers to engage in coercive behavior, such as forcing the dealers to take unwanted and unordered vehicles, parts, and accessories."[72]

Auto manufacturers argue that it is becoming increasingly more difficult for them to comply with more recently enacted state franchise laws. They claim that these state laws severely constrain their ability to operate their businesses efficiently and strategically. Increasingly automakers contend that, in addition to state level automobile franchise laws making it hard for them to adjust to changing market conditions, these laws also benefit the narrow interests of traditional franchise dealers at the expense of consumers, manufacturers, and other retailers. For instance, in 2002, 45 states did not allow manufacturers to sell cars directly to consumers in competition with their dealers (e.g., over the Internet).[73] As a result of such restrictive legislation, some argue that automakers are unable to develop more efficient ways to sell cars to consumers.[74] According to Gerald Bodisch, an economist at the Antitrust Division of the U.S. Justice Department:

> Perhaps the most obvious benefit from direct manufacturer sales would be greater customer satisfaction, as auto producers better match production with consumer preferences ranging from basic attributes on standard models to meeting individual specifications for customized

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[67] Va. Code § 46.2-1569.

[68] The case of GM's elimination of its Oldsmobile line is often cited, which took four years and over a billion dollars in payments to Oldsmobile dealers.

[69] National Automobile Dealers Association, *The Benefits of the Franchised Dealer Network: The Economic and Statutory Framework*, November 24, 2008, p. 1.

[70] Jessica Higashiyama, *State Automobile Dealer Franchise Laws: Have They Become the Proverbial Snake in the Grass*, University of California, Hastings College of Law, April 2009, p. 11.

[71] Michael Oneal, "Credit Crunch: Auto Dealerships Struggle, Close as 'Floorplan' Financing Dries Up," *The Chicago Tribune*, March 29, 2009.

[72] Jessica Higashiyama, *State Automobile Dealer Franchise Laws: Have They Become the Proverbial Snake in the Grass*, University of California, Hastings College of Law, April 2009, p. 12.

[73] Gerald R. Bodisch, "Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers," Economic Analysis Group, Antitrust Division, U.S. Department of Justice, May 2009. Singleton, Solveig, "Will the Net Turn Car Dealers into Dinosaurs? State Limits on Auto Sales Online," Cato Institute Briefing Papers, July 25, 2000.

[74] In a 2002 report, the Consumer Federation of America concluded that the distribution inefficiencies fostered by restrictive automobile dealer laws add at least $1,500 to the price of every new vehicle. Source: Cooper, Mark, "Bringing New Auto Sales and Service into the 21st Century: Eliminating Exclusive Territories and Restraints on Trade Will Free Consumers and Competition," p. 9, Consumer Federation of America, October 2002.

cars. With better information about consumer demand, optimal inventory levels should fall, even short of full build-to-order capability by auto manufacturers.[75]

Bodisch goes on to note:

> The total value of new car inventory held by the 20,700 franchise new car dealerships in the United States near the end of 2008 was about $100 billion and the annual carrying cost of that inventory was estimated as $890 million. These figures may provide an order-of-magnitude perspective of the savings potential from a reduction in inventories that might derive from direct manufacturer sales of autos.[76]

The issue of automobile franchise laws remains hotly contested. Beyond existing state-level dealer franchise legislation, about two-thirds of the state legislatures are considering new dealer franchise laws, including California, Colorado, New York, South Carolina, Texas, and Washington, as auto dealers continue to press to strengthen statutes that benefit them on such matters as warranty rate reimbursement and post-termination assistance.[77]

The General Motors and Chrysler Bankruptcies: Impact on Dealers

Detroit 3 in Crisis

The global recession and credit crisis have caused serious problems for automakers all over the world, but none have been affected as much as the Detroit 3.[78] GM and Chrysler have gone through bankruptcy; Chrysler is now owned by Fiat,[79] while 72.5% of GM is owned by the U.S. and Canadian governments.[80] Ford Motor Company narrowly avoided bankruptcy because it took steps several years ago to shore up its finances. From two-thirds of the U.S. market for passenger cars in 2000, the Detroit 3 share fell to less than half in 2008, with foreign-owned companies making steady inroads.[81]

In the fall of 2008, the combination of rising gasoline prices and a full-blown credit crisis and the recession it spawned created a major downturn in automobile sales in the United States and

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[75] Gerald R.Bodisch, "Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers," Economic Analysis Group, Antitrust Division, U.S. Department of Justice, May 2009, p. 4.

[76] Ibid.

[77] Cooper, Mark, "Bringing New Auto Sales and Service into the 21st Century: Eliminating Exclusive Territories and Restraints on Trade Will Free Consumers and Competition," Consumer Federation of America, October 2002, p 9.

[78] Toyota recorded its worst quarter on record in QI 09, losing nearly $8 billion, even more than the nearly $6 billion GM lost in that quarter.

[79] Fiat owns 20% of the equity, the UAW's VEBA owns nearly 68%, and the U.S. and Canadian governments own the remainder. Fiat's share may grow to 51% if it meets certain benchmarks.

[80] In addition, the GM VEBA owns 17.5%.

[81] CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis. The same trend is true of auto production. In 1998, GM produced 14.8% of all autos sold in the world and Toyota sold 8.4%. By 2008, GM was producing 12.8% of all autos and Toyota had eclipsed it as the world's largest auto company, selling 13.7%. The new GM, with four divisions, is projected to have a smaller market share than GM before bankruptcy.

abroad, with 2008 sales 30%-40% lower than a year before. U.S. auto sales fell to a 26-year low, from a high point of 17.3 million cars and light trucks in 2000 to 13.2 million in 2008. Sales fell much further in the first half of 2009 and are projected to be no more than 10 million units, with recovery to 12 million units several years away.

In light of the market turmoil and credit contraction, the weak financial base of both GM and Chrysler led them to seek federal assistance. The path to federal assistance and the congressional and Administration steps to encourage restructuring outside of bankruptcy are detailed in CRS Report R40003, *U.S. Motor Vehicle Industry: Federal Financial Assistance and Restructuring*, coordinated by Bill Canis. While both companies succeeded in obtaining new contracts with their unions and most of their creditors, they were unable to reach agreement with all creditors.

Paths to Bankruptcy

General Motors and Chrysler submitted viability plans to the Obama Administration in mid-February 2009, to demonstrate how they would work their way out of their financial situations. At that time, the federal government had already provided GM with a $13.4 billion loan and Chrysler with $4 billion.[82] These funds were inadequate to stem the losses caused by these two companies' precarious finances and the deteriorating economy. The incoming Obama Administration asked for viability plans on which it would base further federal assistance. The viability plans submitted by GM and Chrysler in February 2009 were rejected by the Administration at the end of March 2009 as inadequate. Chrysler was given 30 days, until April 30, 2009, and GM was given 60 days, until June 1, 2009, to develop comprehensive restructuring plans, including the dealer network. During this time, the Administration's Auto Task Force worked closely with the two automakers to line up stakeholders so that bankruptcy could be avoided.

The companies were unable to complete their restructuring in the time allotted. Chrysler filed for bankruptcy on April 30, 2009, and GM followed a month later on June 1, 2009. The Chrysler and GM proceedings went swiftly. A new entity formed, in part, by Fiat purchased most of Chrysler's assets in mid-June and then changed its name to Chrysler Group LLC.[83] In early July, the sale of most of GM's assets to a new entity named "General Motors Company" was approved. The new automakers are smaller companies that have fewer plants, workers, and, in some cases, brands[84] than did the former GM and Chrysler.

Other parts of the auto supply chain have been affected by the downturn in auto sales as well. During the first half of 2009, at least 15 auto parts suppliers have sought Chapter 11 protection, including two of the largest auto suppliers, Lear Corporation and Visteon, as well as Cooper-Standard and Metaldyne.[85] An increasing number of smaller auto suppliers are also going out of business or filing for bankruptcy as the restructuring process and the months-long closure of GM

[82] The Bush Administration provided these first federal loans to the automakers at the end of December 2008, taking the funds from the Troubled Asset Relief Program (TARP).

[83] Chrysler LLC, which entered bankruptcy at the end of April, is now referred to in court documents as "Old Carco LLC (f/k/a Chrysler LLC)."

[84] The new General Motors Company will no longer produce Pontiacs, Saturns, Hummers, or Saabs.

[85] Bennett, Jeff and Jay Miller, "Lear Reaches Tentative Pact with Lenders to Restructure," *Wall Street Journal*, July 3, 2009.

and Chrysler plants has left them with few backup financial resources and limited prospects for quick or large increases in car and light truck production.

Terms of Restructuring Affects Dealer Networks

As part of its restructuring plan, Chrysler terminated 789 of its 3,200 dealers in June 2009 and General Motors announced that it would reduce its dealerships from over 6,000 dealers to 3,600 when contracts expire in October 2010.[86] The Auto Task Force, in rejecting the companies' viability plans in March, cited a number of steps the manufacturers should accelerate, including reducing the number of dealers, while leaving the details of such reductions up to GM and Chrysler management.

Chrysler and GM have argued that reducing the size of their dealer networks will be a key ingredient in the success of the new automakers. Many dealers across the country are opposed to the size and scope of the reductions. In addition, many Chrysler dealers have objected to the short wind-down period (26 days) and lack of appeals process; some GM dealers voiced objections to the allegedly onerous terms of wind-down agreements (for dealers to be terminated) and performance agreements (for dealers continuing with GM). Many Members of Congress have been made aware of these concerns from dealers in their districts and states—independent family-owned businesses that have often sold vehicles for two or three generations.

Dealers presented their cases before the U.S. Bankruptcy Court judges who are adjudicating the Chrysler and GM bankruptcies, asking the court to alter the dealer terminations planned by both companies. The bankruptcy judges rejected such changes. As part of its bankruptcy proceedings, Chrysler rejected contracts with 780 dealers. The new entity purchased Chrysler's assets without assuming those rejected contracts. See **Appendix B** for a table showing the number and state breakout of dealerships closed by Chrysler and announced for closure by GM. Ford Motor Company, by contrast, which is neither receiving federal funds nor in bankruptcy, has said that it does not intend to significantly trim its dealer network.[87]

Congressional Hearings: Chrysler and General Motors Arguments for Terminating Dealers

In June 2009, hearings on dealer closings were held by the Senate Commerce, Science, and Transportation Committee and the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations. GM and Chrysler leadership faced off against auto dealers and the NADA.

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[86] General Motors instituted an appeals process for its announced dealer terminations and reinstated over 50 dealers.. While Chrysler's contracts with its dealers had no expiration date, GM's dealer contracts all expire in October 2010. In June 2009, GM asked 1,300 dealers to sign termination agreements, while asking the remaining dealers to sign contacts governing their relationship with GM after the company emerges from bankruptcy. In addition to the 1,300 dealers asked to terminate, GM has said that it expects an additional 1,200 or more dealers to leave through attrition in 2009-2010.

[87] *New York Times*, "Ford Rejects Big Cuts in Dealer Network," May 18, 2009.

At these hearings, GM President and CEO Fritz Henderson and James Press,[88] Vice Chairman and President of Chrysler LLC, addressed the importance of dealer closings to their restructuring efforts. The main points made by the automakers[89] included:

- *Market realities have changed.* The companies say that cutting their dealer network is an essential element of their restructuring and downsizing in response to a U.S. auto market that has shrunk from 16 million light vehicle sales in 2007 to around 10 million in 2009. The automakers cite projections used in their February 2009 viability plan that the market will recover to no more than 10.8 million units annually by 2012.

  GM's president stated that its market share has shrunk dramatically since the 1950s when many dealer franchises were opened and that GM now has too many dealers compared to the competition. Mr. Henderson said, "GM today has roughly 6,000 dealerships in the U.S. compared to 1,240 for Toyota and 3,358 for Ford."[90]

- *All segments of the GM and Chrysler auto making and auto marketing industry are downsizing.* The automakers, their employees, suppliers, and dealers are all going through the most difficult economic climate since the Great Depression. Sacrifices are required of all parties. Chrysler cites the remarks of Bankruptcy Judge Gonzalez, who presided over its bankruptcy filing:

  > The underlying argument of many opposing the transaction is not against the Government Entities' involvement. Rather, it is a desire to have the Governmental Entities protect every constituency within the auto industry from economic loss, and not to limit the protection to those interests that the government perceives as being essential to the survival of a successful "New Chrysler." For example, any dealership rejection that is approved will cause hardship to the particular dealership involved, but may well be necessary if New Chrysler is to survive. These are the kinds of economic decisions that have to be made in every bankruptcy case.[91]

[88] In addition to his current position as deputy CEO of Chrysler and special advisor to Chrysler CEO Sergio Marchionne, Press also served as vice chairman and president of Chrysler from 1997 until June 2009. Before joining Chrysler, Press was the most senior American at Toyota, serving as president and chief operating officer of Toyota Motors North America and as a member of Toyota's board of directors. From 2001 until 2005, he was president and chief operating officer of Toyota Motor Sales USA, Inc. From 1970, Press held positions at Toyota in advertising, service, marketing, product planning, market representation, and distribution.

[89] The automakers' arguments are sourced from their respective testimony before the Senate Commerce, Science and Transportation Committee on June 3, 2009 and the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations on June 12, 2009

[90] It is often argued that the Detroit 3 are "overdealered." In 2008, domestic brands accounted for 60% of the dealerships but only 48% of new-vehicle sales. *BNET Auto*, "Dealer Deaths Could Help GM, Ford, Chrysler," February 11, 2009.

[91] The quotation is from Judge Gonzalez's "Opinion Granting Debtors' Motion Seeking Authority to Sell, Pursuant to 11 U.S.C. § 363, Substantially All of the Debtors' Assets" (May 31, 2009), and was cited in the opening statement of Chrysler Vice Chairman and President, James Press, before the Senate Committee on Commerce, Science and Transportation on June 3, 2009, p. 2.

- *Parts of the current GM and Chrysler dealer networks are underperforming and hurting sales.* Mr. Press said that the Chrysler dealer network "is not profitable and therefore not viable." Poor performing dealers cost them customers. He noted that in 2008, the average U.S. automotive dealer made a profit of $279,000 according to NADA, but Chrysler dealers lost $3,431. The per franchise annual breakdown of sales for major automakers is shown in **Table 2,** showing the big disparity between Chrysler, GM, and Ford compared to the foreign owned car makers. For example, Chrysler's unit sales of 181 cars per franchise were below Toyota's comparable 1,523 units.

  Chrysler asserts that even with the terminations, it is retaining 86% of its dealer network and that customers will only have to drive an average of 11 miles to reach a Chrysler dealer, compared with 19 and 25 miles, respectively, for Toyota and Honda customers. GM states that the main goal of the dealer changes is not to reduce costs, although that is a factor. The main reason is to create "a healthy, strong and profitable dealer network ..."

Table 2. Average 2008 Unit Sales Per Franchise for Major Automakers

Toyota	Honda	Nissan	Ford	GM	Chrysler
1,523	1,104	762	286	219	181

Source: Automotive News, "In Per-Store Sales, All Suffer – in Different Ways," April 27, 2009.

- *Brand focus is part of the recovery strategy.* Chrysler's Project Genesis seeks to increase the strategic effectiveness of the dealer network by bringing all three brands—Chrysler, Dodge, and Jeep—under one roof. Some dealers are being terminated because they do not fit this profile. Both companies are also seeking to end dual dealerships, where a Chevy dealer may be paired with a Nissan dealer, for example. GM and Chrysler want their dealerships to focus solely on their brands and some dealerships do not now fit that business model.[92]
- *There are cost savings from the dealer reductions.* Chrysler's president outlined several costs resulting from the dealer network. He said "excess dealerships are costly in several ways." Maintaining multiple distribution systems is inefficient and costly. Marketing and advertising message are split among too many products. GM also cited costs for information technology systems and sales incentives.

  Mr. Press cited these costs and lost revenues: product engineering and development of $1.4 billion over four years to develop "sister" vehicles such as the Dodge and Chrysler minivans; lost sales due to dealer underperformance of $1.5 billion annually; administrative costs of $33 million annually to maintain the 789 dealers; and marketing and advertising costs of $150 million annually.
- *Process and Local Impact.* The automakers say that a rigorous and thoughtful process was used to select dealers for termination, including total sales, customer satisfaction reports, a dealer scorecard, quality of the dealer facility and location.

[92] *Automotive News*, "GM, Chrysler Duel the Duals," June 8, 2009.

GM has provided an appeals process for dealers; more than 50 have been reinstated.

GM and Chrysler maintain that the potential job loss associated with dealer closings has been exaggerated. Chrysler estimates that nearly 30,000 people are employed in the 789 terminated dealerships but 44% of those dealers sell other types of vehicles and are expected to remain in business. In addition, 84% of dealerships sell more used vehicles than new and they are likely to retain their profitable used-car businesses after termination.

Dealer Counterpoints to the Automakers

At the June 2009 House and Senate committee hearings, NADA also testified about the dealer closings.[93] At those hearings, NADA Chairman John McEleney addressed the industry's perspective on the dealer closings and why they would be counterproductive to the recovery of GM and Chrysler. In his testimony, he argued that:

- *Transparency of decision-making about dealers has been poor.* There has been too little transparency in the decision-making of the Treasury Department's Auto Task Force. While NADA criticized the Auto Task Force in May 2009 for demanding "the rapid and disorderly elimination of thousands" of Chrysler and General Motors dealers, relying on "a dangerous misperception that new car dealers somehow create a cost burden to auto manufacturers."[94] NADA says that dealers are the primary source of revenue for automakers and bear most of the costs associated with selling and servicing motor vehicles.

  NADA also contends that the May 14, 2009, announcements by GM and Chrysler that more than 1,900 dealers would be closed were drastic, and lacked an objective standard and public accountability. The companies had not previously indicated that such large reductions were in the works. Dealers were under the impression that Chrysler, for example, would follow the patterns set by its ongoing Genesis program which, NADA observed, "relies principally upon negotiated transactions based on conditions in the local market."

  With only 26 days to dispose of inventory and close as Chrysler dealers, the 789 companies subject to termination were faced with a chaotic situation. Dealers contend that this short wind-down period was unfair and inconsistent with state franchise requirements. Mr. McEleney said, "the franchise agreement requires the manufacturer to buy back vehicles, parts and tools. No manufacturer has ever imposed such onerous conditions on terminated dealers."

  He said that GM's recent request that dealers who will be terminated sign wind-

[93] NADA arguments against dealer closings are sourced from a NADA position paper, "NADA Opposes Unnecessary, Forced Dealership Closures," May 2009, and from the remarks of John P. McEleney, NADA chairman, before the Senate Committee on Commerce, Science, and Transportation on June 3, 2009, and the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations, June 12, 2009.

[94] At a hearing before the Senate Banking Committee on June 10, 2009, Ron Bloom, speaking for the Auto Task Force said, "we did not give [the companies] a numerical target, but we certainly did say, regarding plants, regarding dealers, regarding white and blue collar headcount, regarding all these matters, that you need to be more aggressive...."

down agreements has onerous conditions, and the performance agreements GM has asked continuing dealers to sign is too vague, leaving dealers open to undefined financial commitments.

- *A larger number of dealerships will lead to more sales of GM and Chrysler products.* Dealers say that cutting dealerships will not make GM or Chrysler more successful. Mr. McEleney notes that dealers "generate more than 90% of manufacturer revenue. Auto manufacturers created the franchise dealer network to outsource virtually 100% of the cost associated with selling and servicing cars.

  A rapid reduction in dealer numbers would further CUT [emphasis in original] manufacturer revenue and market share." In addition, the dealers contend that terminating dealerships means GM and Chrysler will lose the long-standing customer relationships those dealers have built up for their brands in their community. The dealers have been loyal partners with the automakers and many dealerships have been family-owned for generations.

- *Purported administrative savings will not be achieved.* Because the franchise system effectively shifts most costs to the dealers, Mr. McEleney says that manufacturers "incur very little costs related to the dealer network. Therefore, few savings are likely to be generated from dealer reductions." Dealers currently absorb costs such as state and local marketing and advertising and employee training. In addition, manufacturers' incentives and shipping costs are determined by the number of vehicles sold, not the number of dealers, so this and other similar costs will not be affected by the elimination of these dealers.

- *State franchise laws are being "eviscerated."* These structured bankruptcies are described as having the unprecedented effect of wiping out laws enacted in the 50 states to govern manufacturer and dealer contracts and relationships. Circumventing these laws is seen as threatening even the surviving dealerships by raising the capital risk of future dealer investments.

- *Local impact of terminations will be severe.* Mr. McEleney said that the dealer terminations will result in the elimination of nearly 100,000 jobs at dealerships across the country at a time when U.S. unemployment remains high. He asserted "the rapid dealer reductions will adversely affect many lives and many communities."

  According to Mr. McEleney, fewer dealers mean that state and local governments will lose millions of dollars in auto sales tax revenue. In addition, he said, fewer dealers will mean reduced competition and, in some communities, consumers will have to drive much further to remaining dealers to have their cars serviced.

- *Lack of credit availability remains a challenge.* The retail auto industry, says McEleney, is highly dependent on credit availability and has been "disproportionately hard hit by last year's financial crisis." Floorplan financing for dealers "contracted dramatically and even creditworthy dealers are having trouble finding access to floorplan financing."

Legislation in the 111th Congress

Congressional Hearings Held

After the mid-May 2009 announcement by GM and Chrysler that they planned to close approximately 2,000 dealers between them, many Members of Congress began to hear from dealers in their districts and states who were slated for termination. As mentioned in the previous section of this report, committees in both the House of Representatives and Senate held lengthy hearings where GM and Chrysler executives testified, as well as the NADA chairman and several owners of automotive dealerships. At the hearings, some Members of Congress were sympathetic to the concerns of the dealers, citing instances in their districts and states where long-standing dealers had been notified of termination. These hearings served to raise the visibility of the dealers' concerns in Congress and with the media.

Legislative Activity

The rising visibility of the dealers' concerns has led to the introduction of a wide range of legislative proposals. These follow on more limited steps to help dealers that Congress has taken this year, including:

1. *SBA Loans*. Expanding the SBA 7(a) loan program in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), to establish a Dealer Floorplan Financing program.
2. *Cash for Clunkers*. Passage of a four-month fleet modernization program (also known as cash for clunkers) in the Supplemental Appropriations Act of 2009 (P.L. 111-32). This $1 billion federal program spurred the purchase of nearly 250,000 new vehicles during July 2009.[95] A similar $4 billion, year-long program was approved by the House prior to the vote on the Supplemental Appropriations.[96] Congress passed an emergency $2 billion extension of the program when it became clear that the $1 billion limit had been reached in only two weeks; H.R. 3435 was signed by the President on August 7, 2009, and it will run until the funds are exhausted.[97]
3. *Reversing Dealer Terminations*. On July 7, 2009, the House Appropriations Committee adopted by voice vote an amendment offered by Representative LaTourette that would require automobile companies that receive federal funds and are partially owned by the federal government to reinstate agreements with franchise dealerships to the extent that a valid dealer agreement existed prior to a Chapter 11 proceeding. This amendment to the Financial Services and General

[95] The program was auhorized to run from July 1, 2009, until November 1, 2009, or until the $1 billion was exhausted. For more information on this program, see CRS Report R40654, *Accelerated Vehicle Retirement for Fuel Economy: "Cash for Clunkers,"* by Brent D. Yacobucci and Bill Canis.

[96] H.R. 2751, Consumer Assistance to Recycle and Save, introduced by Representative Sutton, passed the House on June 9, 2009, based on her earlier proposal, H.R. 1550. The American Clean Energy and Security Act (H.R. 2454), included a similar one-year cash for clunkers provision when it was reported from the House Energy and Commerce Committee in May, 2009.

[97] *UPI.com*, "Obama signs 'clunkers' funding extension," August 7, 2009.

Government Appropriations Act, 2010 (H.R. 3170), was reported out of the Appropriations Committee on July 10 and approved by the House on July 16, 2009. Newpaper articles have indicated that the provisions of the amendment would apply to General Motors and Chrysler and their dealers; however, CRS legal analysts question whether it could effect that result.[98]

Representative LaTourette said that the amendment was needed because the bankruptcy judge had undercut state franchise laws and the dealerships have been closed in a "punitive and secretive" manner.[99]

GM and Chrysler oppose the amendment. A Chrysler statement said that it "would jeopardize the new company" and that Chrysler used "sound business judgment" to eliminate 789 dealers.[100] GM issued a similar statement saying that failure to complete dealer restructuring would jeopardize its long-term viability.[101] The Obama Administration has indicated it opposes the amendment.[102] The House passed the Financial Services and General Government Appropriations Act, 2010 (H.R. 3170), on July 16, 2009, by a vote of 219-208.

4. *Administration's Auto Task Force Activities*. On July 17, 2009, the House Committee on Financial Services agreed to H.Res. 591 (Boehner), requesting that the President report to the House of Representatives on the work of the Auto Task Force within 14 days of passage of the resolution. It requests that the President transmit to the House all information in his possession relating to specific communication with and financial assistance provided to General Motors Corporation and Chrysler LLC. The legislation specifically asks for all records pertaining to Auto Task Force actions with regard to dealer closures, retiree pensions, and allocation to labor unions of ownership of GM and Chrysler and other restructuring decisions. A similar resolution, H.Res. 462 (LaTourette), requests information relating to Chrysler's restructuring. The committee reported it without recommendation on June 10, 2009.

Other legislation addressing dealer concerns and the primary sponsor includes:

- H.R. 2743 (Maffei), the Auto Dealer Economic Rights Restoration Act and the companion Senate bill, S. 1304 (Grassley). This legislation would restore the "economic rights" of GM and Chrysler dealers, seeking to ensure that state franchise laws would still protect them as the automakers go through bankruptcy proceedings.[103]

[98] *See* CRS Report R40736, *Mandating Dealership Agreements for Automakers Receiving Federal Funds: Constitutional Analysis*, by Carol A. Pettit, Kenneth R. Thomas, and Robert Meltz.

[99] Representative LaTourette, "Panel Approves LaTourette Effort to Help Auto Dealers," News Release, July 8, 2009.

[100] *Associated Press*, "GM, Chrysler Fight Reopening of Closed Dealerships," July 10, 2009.

[101] *The Plain Dealer*, "LaTourette Bill Would Give Canceled GM, Chrysler Auto Dealers a Second Chance," July 10, 2009 and *Bloomberg.com*, "GM Says Dealer Restructuring Would Be Stalled by Legislation," July 9, 2009.

[102] *Detroit Free Press*, "House Panel Votes to Undo GM, Chrysler Dealer Shutdowns," July 8, 2009.

[103] *See* CRS Report R40736, *Mandating Dealership Agreements for Automakers Receiving Federal Funds: Constitutional Analysis*, by Carol A. Pettit, Kenneth R. Thomas, and Robert Meltz.

- H.R. 2793 (Kline), the Auto Dealers Pension Fairness Act, would require a report to Congress from the auto task force on GM and Chrysler dealer closings and suspension of certain pension actions until that report is delivered.
- S. 1253 (Corker), the Auto Dealers Assistance Act, would require reimbursement by GM and Chrysler to closed dealerships, through their federal loans.
- S. 247 (Feinstein), the Accelerated Retirement of Inefficient Vehicles Act of 2009, a one-year cash for clunkers program that would require the purchase of new vehicles with higher fuel economy standards than some other proposals. Its companion bill is H.R. 520 (Israel). Subsequently, Senator Feinstein introduced S. 1200, the Short Term Accelerated Retirement of Inefficient Vehicles Act of 2009, which would establish a temporary cash for clunkers program similar to the plan in S. 247.
- S. 1135 (Stabenow), the Drive America Forward Act, a cash for clunkers proposal similar to the plan passed in the House in H.R. 2751. This legislation would authorize $4 billion for a one-year program.
- H.R. 1606 (Manzullo), the New Automobile Voucher Act, to encourage purchase of new cars.
- H.R. 2224 (Terry), which would direct SBA to provide dealer inventory financing through the 7(a) program.
- H.R. 2285 (Peters), the Vehicle Efficiency Heightening Investment Credit to Lift our Economy Act of 2009, which would provide a tax break for a new-car purchase.
- H.R. 2750 and H.R. 2796 (LaTourette), the Automobile Dealer Economic Rights Restoration Act of 2009, which would require restoration of franchise law protections to GM and Chrysler dealers, prior to bankruptcy.[104]
- H.R. 3088 (Carson), the Jeremy Warriner Consumer Protection Act, which would require the newly restructured GM and Chrysler to carry liability insurance to cover claims made against them for any defective products produced by their predecessor companies.
- S.Amdt. 1189, offered by Senator Hutchison in May 2009 during Senate consideration of H.R. 2346, the Supplemental Appropriations Act, would have called on Chrysler to allow for a 60-day wind-down of its 789 terminated dealers. The amendment was withdrawn after reassurances about the company's dealer closing process, from Chrysler President James Press.

[104] *See* CRS Report R40736, *Mandating Dealership Agreements for Automakers Receiving Federal Funds: Constitutional Analysis*, by Carol A. Pettit, Kenneth R. Thomas, and Robert Meltz.

Appendix A. New-car Dealerships by State

January 1, 2009

State	Total	State	Total
Alabama	343	Montana	129
Alaska	35	Nebraska	207
Arizona	253	Nevada	116
Arkansas	257	New Hampshire	163
California	1,492	New Jersey	548
Colorado	280	New Mexico	137
Connecticut	302	New York	1,058
Delaware	62	North Carolina	656
District of Columbia	1	North Dakota	95
Florida	923	Ohio	901
Georgia	576	Oklahoma	296
Hawaii	64	Oregon	264
Idaho	121	Pennsylvania	1,097
Illinois	903	Rhode Island	60
Indiana	503	South Carolina	318
Iowa	358	South Dakota	114
Kansas	256	Tennessee	410
Kentucky	291	Texas	1,312
Louisiana	332	Utah	152
Maine	142	Vermont	91
Maryland	342	Virginia	537
Massachusetts	459	Washington	371
Michigan	745	West Virginia	170
Minnesota	412	Wisconsin	574
Mississippi	232	Wyoming	70
Missouri	480	Total	20,010

Source: NADA Industry Analysis Division.

Appendix B. Dealerships Announced for Closure by GM and Chrysler

Number of dealers affected, by state

State	GM	Chrysler	State	GM	Chrysler
Alabama	33	12	Montana	16	4
Alaska	0	0	Nebraska	21	8
Arizona	11	5	Nevada	3	5
Arkansas	17	8	New Hampshire	6	6
California	65	32	New Jersey	33	30
Colorado	15	12	New Mexico	10	4
Connecticut	11	7	New York	60	28
Delaware	2	3	North Carolina	36	14
District of Columbia	0	0	North Dakota	6	8
Florida	35	35	Ohio	79	47
Georgia	24	13	Oklahoma	17	12
Hawaii	2	1	Oregon	21	9
Idaho	8	3	Pennsylvania	90	53
Illinois	66	44	Rhode Island	3	1
Indiana	48	21	South Carolina	24	11
Iowa	46	22	South Dakota	16	7
Kansas	29	16	Tennessee	30	14
Kentucky	23	9	Texas	55	50
Louisiana	10	17	Utah	6	10
Maine	14	4	Vermont	8	2
Maryland	21	17	Virginia	26	26
Massachusetts	29	12	Washington	18	14
Michigan	58	40	West Virginia	25	18
Minnesota	39	19	Wisconsin	50	18
Mississippi	14	6	Wyoming	6	5
Missouri	38	27	U.S. Total	1,323	789

Source: General Motors and Chrysler.

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