

Statement of

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Johnson Controls, Inc.

Before the Senate Banking, Housing and Urban Affairs Committee

On The State of the Domestic Automobile Industry: Part II

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Chairman Dodd, Senator Shelby and Members of the Committee, thank you for the opportunity to provide testimony on the state of the domestic automotive industry. My name is Keith Wandell and I am President and Chief Operating Officer of Johnson Controls, Inc., a global multi-industry company with sales of \$38 billion in 2008. Approximately 37% of our sales involve the supply of systems and services to improve the energy efficiency of nonresidential and residential buildings worldwide. We are also the largest supplier of batteries to the automotive aftermarket and original equipment manufacturers.

In addition, Johnson Controls is the 7th largest automotive supplier in the world. We are the third largest supplier in North America behind Magna, a Canadian company, and Delphi, a U.S. company which has been in bankruptcy since 2005. Our global sales of seats and other interior products to the auto industry totaled \$18 billion, \$6.7 billion of which are to the North American market. We supply every automaker with a presence in the U.S.: Chrysler, Ford, GM, Honda, Hyundai-Kia, Mazda, Mercedes, Mitsubishi, Nissan, and Toyota. Johnson Controls has 43,000 employees in the U.S. with operations in all 50 states. Some 22,000 are employed in the states represented by the members of this Committee.

While Johnson Controls is a key supplier to the global automotive industry we are an atypical automotive supplier. We are much larger and more diversified by product, geography, and markets. Being a supplier of interior systems, we are less capital intensive than many automotive suppliers. We are profitable, and we have a strong balance sheet. We do, however, share the same issues and concerns about the domestic automotive industry as those suppliers which are solely dedicated to the automotive market.

A Detroit 3 failure would have dire economic ramifications for the vast interconnected supply chain of companies providing the parts and components which enable the U.S. automakers to assemble vehicles. Our main concern is that once cascading supply chain interruptions would begin, many suppliers will fail due to the interdependence of the supply chain, causing some companies to fail that could otherwise have continued operations. Many of the companies which would be impacted are small, women and minority-owned businesses.

At Johnson Controls we are proud to have many joint-ventures/partnerships and supply arrangements with women and minority-owned businesses. This year for the second time we were named "Corporation of the Year" by the National Minority Supplier Development Council, in part, in recognition of the \$1.7 billion of goods and services we purchased from minority and female-owned business. I can assure you that each of the Detroit 3 is equally committed to the development of women and minority-owned businesses with a combined purchase of approximately \$12 billion from such businesses in the last year. Should any one of the U.S. automakers suddenly fail, the vast majority of these businesses will fail and fail quickly.

Let me share an example with you. Recently, a minority supplier to Johnson Controls, Plastech Engineered Products, failed and went into bankruptcy. This supplier had \$800 million of revenue, shipped 6,200 part numbers from 11,350 tool sets providing parts to 52 vehicle assembly plants, 121 vehicle lines and 12 customers: General Motors, Ford, Chrysler, Volkswagen, Mercedes, Honda, Toyota, Nissan, Hyundai-Kia, AM General, Mazda and Mitsubishi. Had Johnson Controls and the first-tier lending group not acquired Plastech's assets out of bankruptcy, assembled an operating team to manage the process, and provided bridge financing, the supplier would have been liquidated, and forced the shutdown of these 52 assembly plants to one degree or another for varying durations.

A year ago approximately 20% of Johnson Controls automotive suppliers were financially distressed according to independent third parties. Since the rapid deterioration of industry volumes that number has grown to beyond 35% and continues to grow. Johnson Controls suppliers employ 100,000 people in the U.S. so you can understand how serious this situation has become.

Should one of the Detroit 3 fail a significant number of supplier failures would occur and become unmanageable. These suppliers, in general, support all three automakers and many, like Plastech and Johnson Controls, also supply the Asian and European transplants in the U.S. I can assure you that even though Toyota, Nissan, Honda and other foreign automakers are not here today, they too are deeply concerned about the viability of the U.S. supply base. The automotive suppliers are financially distressed due to reduced cash flows resulting from the recent volume reductions, they are experiencing higher borrowing costs and many cannot access the credit markets at all.

None of us would disagree that major changes are needed in the North American automotive industry. This is obvious as shown in the plans submitted by the Detroit 3 for these hearings. It is in the best interest of all constituents that these changes occur in an orderly fashion which is unlikely if we allow even one of these companies to fail.

It is extremely important that we have a sound, healthy and sustainable U.S.- owned automotive industry that is competitive globally. I do not believe that Americans want to yield an industry that impacts millions of jobs, invests billions of dollars in technology and will help secure our energy independence through new, innovative and environmentally friendly transportation. It is just as important that our domestic supply base is strong as it delivers 70% of the value-added components of a vehicle and 40% of the research and development dollars spent.

The plans that have been submitted address many of the issues that have been burdensome to the health of this industry: excess capacity, proliferation of brands, a sub-optimized dealer network and an uncompetitive cost structure. Given the opportunity to continue to address these challenges, the Detroit 3 would be able to invest at an even greater rate to bring to market the consumer-desired fuel efficient, environmentally friendly vehicles.

Our company is also a leader in helping to develop fuel efficient vehicles. In our automotive seating and interiors business we are constantly striving to reduce weight in our components to help increase fuel efficiency and to introduce recyclable and renewable materials into our products. We are also developing the next generation of battery systems for hybrid and plug-in electric vehicles, and we are working with the Detroit 3 to bring these environmentally favorable vehicles to market.

I was also asked to comment on the potential impact of a Detroit 3 failure on Johnson Controls. Earlier I said that we are diversified, profitable and have a strong balance sheet. Unlike many automotive suppliers, we would weather this storm largely due to our strong non-automotive businesses. A Detroit 3 failure would have a short/mid-term impact on our cash flow, access to capital and cost of borrowing. One of the bigger impacts would be the curtailment of our investments in new technologies in all of our businesses, including hybrid vehicle battery technology.

The U.S. industry has a long and proud heritage; it has played a significant role in the development of this country's strong economic position in the world. Speaking for our company, and, I am sure for all auto parts suppliers, we respectfully urge the Members of this Committee, and the Congress as a whole, to provide the financial support the automakers need at this critical time. Each is on their own path to improve their performance and the fuel efficiency of the vehicles they produce. But their progress has been hampered by the current economic crisis which has tightened access to consumer credit and further eroded vehicle sales.

To avoid drastic economic ramifications to the automotive industry supply chain, including hundreds of small and medium-sized businesses throughout the country, we hope the Congress will take positive action to assist this vital U.S. industry.

Thank you for your attention.

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