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February 14, 2019

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Mr. Jonathan Morrison
Chief Counsel
National Highway Traffic Safety Administration
(NCC-111), Room W41-227
1200 New Jersey Avenue, SE
West Building
Washington, DC 20590

RE: Docket No. NHTSA-2015-0055 – Mercedes-Benz USA Request for Extension of Priority Group 9 Sufficient Supply and Remedy Launch Deadline Under ¶ 39 of the Third Amended Coordinated Remedy Order to Address Takata Recalls

Dear Mr. Morrison:

On behalf of our clients, Daimler AG ("DAG") and Mercedes-Benz USA, LLC ("MBUSA"), and pursuant to ¶ 39 of the Third Amended Coordinated Remedy Order to address the Takata recalls, this letter requests an extension of time in which to comply with the sufficient supply and remedy launch deadline for Priority Group ("PG") 9 vehicles, as set forth in ¶ 33 of the Fifth Amendment to the Takata Coordinated Remedy Order ("Fifth Amended Order"). Under ¶ 33 of the Fifth Amended Order, the sufficient supply and remedy launch deadline for MBUSA's PG 9 vehicles that are the subject of this request is March 30, 2019.

A. Background

As described in prior communications with NHTSA, MBUSA is implementing a recall remedy strategy that involves use of the superior technical solution of **[ ]** based inflators provided by a single supplier. These **[ ]** inflators are incorporated into the new airbag modules that are being used for all Mercedes-Benz vehicles affected by the Takata recall in the U.S., including the PG 9 vehicles to which this letter relates.

The inherent design of the affected Mercedes-Benz vehicles, where all affected driver-side inflators are integrated into the airbag module, necessitates the entire airbag module to be replaced for the recall remedy, and not just the inflator as with other OEMs. This is a complex task that must address significant design and performance requirements, due to the numerous subcomponents of the airbag module and, in case of driver-side airbags, controls incorporated into the steering wheel. Carryover of PSAN module components into the new **[ ]** based modules is limited, resulting in either tooling modifications or new tools for a large number of components.

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DAG and MBUSA have worked closely with its single supplier **[ ]** to develop and validate the **[ ]** based replacement modules. Working with **[ ]**, DAG and MBUSA have made every effort to streamline the development and approval process, including **[**

].

DAG has also engaged in extensive negotiations with **[ ]** to secure additional production capacity and has actively engaged with sub-suppliers to ensure adequate supply of needed subcomponents.

Additionally, to minimize delays in general and expedite shipments, DAG created a new process only for the U.S. for direct shipment of airbag modules from **[ ]** to **[ ]** in the U.S., where the modules are then picked up by Mercedes-Benz US International and shipped to MBUSA Parts Distribution Centers for distribution to authorized Mercedes-Benz dealerships. This measure was initiated in order to avoid any additional delays caused by inbound/outbound handling and transfer of the parts within the DAG Global Logistics Center in Germany, which is normally part of DAG's parts handling process

As NHTSA is aware from prior DAG and MBUSA communications, MBUSA and DAG remain subject to the limitations and capabilities of the **[ ]** production and supply process, as well as changes in the global demand for inflators, which greatly impact all development and supply timelines. As described below, these limitations and changes, as well as other challenges outside of MBUSA's control, are having a deleterious effect on MBUSA's ability to launch the remedy for PG 9 vehicles.

B. PG 9 Issues

Despite MBUSA's rigorous efforts to launch the recall remedy for PG 9 vehicles on time, several factors are forcing MBUSA to delay the launch past the March 31, 2019 remedy launch deadline. These factors are outlined below.

1. Contractual and Logistical Issues

As explained in prior submissions, DAG and MBUSA have encountered a number of challenging contractual issues with **[ ]**. First, **[ ]** did not consent to the pre-production of airbag modules prior to the formal finalization of the release process, contrary to DAG's experience with **[ ]**, which prevented DAG from taking advantage of existing supply capacity during the final release steps. Second, delays in the contractual negotiations relating to **[ ]**, as well as due to **[ ]** in the U.S., resulted in a temporary freeze on **[ ]** internal delivery of parts from Germany to the U.S. in the first half of 2018. These issues significantly affected the initial calculations as to when the sufficient launch supply threshold of twenty percent would be

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reached for earlier PG launches, and continue to cause resulting, downstream impacts on later PGs, including PG 9, since each delay impacts the ability to accumulate parts for subsequent launches.

The limited capacity of **[ ]** air freight contractors to transfer the airbag modules by air to **[ ]** in the U.S. is another factor impacting parts availability. All modules for Mercedes-Benz passenger cars are manufactured in Europe and must be shipped as dangerous goods/hazardous materials. Globally, there are limited logistics capacities for hazardous materials, which has negatively affected the availability of parts in the U.S. Although MBUSA has taken counter-measures to mitigate these logistical challenges, such as direct supply to the U.S. and ensuring that all shipments to the U.S. are via air-freight, these issues nonetheless continue to cause delays, including for the PG 9 launch.

In addition, DAG just learned that **[ ]** is closing its U.S. parts distribution facility for Mercedes-Benz airbags in **[ ]** this month and relocating it to **[ ]**. This relocation will double the transport time from pick-up at **[ ]** to the MBUSA parts distribution centers, and will involve the transfer of inspection and U.S. shipping processes and training of new personnel, all of which are likely to adversely impact the flow of part supplies in the U.S. The relocation is occurring at the time of this document submission, so the full scope of impact is not yet known.

Although these contractual and logistical issues are beyond DAG's control, DAG and MBUSA continue to make every effort to negotiate with **[ ]** to secure additional production capacity and streamline delivery processes.

2. Additional Markets

Recall mandates by the respective governmental agencies in relation to PSAN Takata inflators in other global markets have significantly affected the allocation of production capacity. Recall mandates announced in China, Taiwan, Australia, and New Zealand dramatically cut into the allocation of the supply capacity for replacement parts for the U.S. market. Although DAG continues to prioritize the U.S. market, the limitations on allocation of the supply capacity for the U.S. market due to recall mandates in other markets continues to impact the initial calculations as to when the sufficient launch supply threshold of twenty percent would be reached for the PG 9 vehicles. Moreover, the potential remains for additional worldwide markets to join the Takata recall; the addition of any new markets will have a further adverse impact on supply capacities for the U.S.

The implementation of wide ranging recalls similar to the U.S. recall in these additional markets, including models not sold in the U.S., also impacted the development and validation process for U.S. replacement parts. The development and validation of these parts needed to be adapted to address the certification and approval processes of the respective markets in addition to the U.S. requirements. This in turn impacted initial estimates with respect to the development and validation timelines for remedy parts in the U.S. market.

3. Sub-Supplier Issues

In late 2018 and again in February 2019, DAG's airbag material supplier, **[ ]**, experienced production anomalies leading to an interruption in production of several

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weeks. **[ ]** is the only approved supplier able to fabricate the driver-side and passenger-side bags required for the airbag modules in Mercedes-Benz vehicles; there is no alternative supplier in the market. This production disruption is having an ongoing impact on part supply availability for current and future PGs.

4. Recall Response Rates

DAG and MBUSA have engaged in extensive efforts to boost Takata recall performance rates leading to a continuous improvement of the overall completion rate as successive waves of the Takata recall have launched. In addition, as the phases of the recall have progressed, newer Model Year (MY) vehicles are included; owners of newer vehicles are more likely to respond to notifications and bring their cars in for repair. As a result of these factors, MBUSA is experiencing greater and greater demand for parts, even as the other circumstances described in this request constrain its supplies.

C. PG 9 Extension Request

MBUSA proposes to launch the PG 9 remedy as soon as twenty percent of the necessary replacement airbags are available to dealers for each individual model, no later than April 30, 2020.

The PG 9 models to which this request applies are listed in the table below:

PG 9 models				
Make	**Platform**	**Model**	**Model Year**	**Launch**
Mercedes-Benz	204	C-Class PAB (Zone A)	2013	April 30, 2020
Mercedes-Benz	A207	E-Class Cabrio PAB (Zone A)	2013	April 30, 2020
Mercedes-Benz	C207	E-Class Coupe PAB (Zone A)	2013	April 30, 2020
Mercedes-Benz	X204	GLK-Class PAB (Zone A)	2013	April 30, 2020

MBUSA respectfully requests an extension of time to fully comply with the PG 9 launch deadlines to April 30, 2020.

Thank you for your consideration of this request. Please let us know if you need any additional information.

Sincerely,

R. Latane Montague

Attachment: Certificate in Support of Notice of Anticipated Shortage and Request for Extension

cc: Stephen Hench, Esq.
R. Thomas Brunner