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September 6, 2019

VIA E-MAIL

Mr. Jonathan Morrison
Chief Counsel
National Highway Traffic Safety Administration
Room W41-227
1200 New Jersey Avenue, SE
West Building
Washington, D.C. 20590

RE: Request for Extension of Priority Group 10 Sufficient Supply and Remedy Launch Deadline Under ¶ 39 of the Third Amended Coordinated Remedy Order

Dear Mr. Morrison:

Daimler AG (“DAG”) and Mercedes-Benz USA, LLC (“MBUSA”), pursuant to ¶ 39 of the Third Amended Coordinated Remedy Order submit this request for an extension of time to meet the sufficient supply and remedy launch deadline for Priority Group (“PG”) 10 vehicles. Under ¶ 33 of the Fifth Amended Coordinated Remedy Order, the sufficient supply and remedy launch deadline for MBUSA’s PG 10 vehicles that are the subject of this request is currently September 30, 2019.

Background

As described in prior communications with NHTSA, MBUSA has implemented a recall remedy strategy that involves use of the superior technical solution of [REDACTED] based inflators that are provided by a single supplier. These [REDACTED] inflators are incorporated into the new airbag modules that are being used for all Mercedes-Benz vehicles affected by the Takata recalls in the United States.

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. There is only limited carryover use of the original PSAN module components into the new [REDACTED] based modules. New tooling or substantial modification for the components is required.

DAG and MBUSA have worked closely with its single supplier [REDACTED] [REDACTED] to develop and validate the [REDACTED] based replacement modules. Working with [REDACTED], DAG and MBUSA have made every effort to streamline the development and approval process, including [REDACTED] [REDACTED]. Despite MBUSA's rigorous efforts to launch the recall remedy for PG 10 vehicles on time, several factors are forcing MBUSA to delay the launch past the September 30, 2019 remedy launch deadline.

Further, to increase passenger airbag production, a second production line at [REDACTED] dedicated to remedy parts for Mercedes-Benz passenger vehicles in the US is underway. Establishing a second production line at the supplier includes, *inter alia*, equipment procurement, planning, physical set-up, part production, validation, etc. The second production line is anticipated to be up and running by the end 2019.

DAG has also engaged in extensive negotiations with [REDACTED] 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 [REDACTED] [REDACTED] to [REDACTED] 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 [REDACTED] 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 10 vehicles.

Factors Impacting the Launch of PG 10

Despite MBUSA's rigorous efforts to launch the recall remedy for PG 10 vehicles on time, several ongoing factors are forcing the company to delay the launch past the September 30, 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 [REDACTED]. First, [REDACTED] 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 [REDACTED], which prevented DAG from taking advantage of existing supply capacity during the final release steps. Second, delays in the contractual negotiations relating to [REDACTED], as well as due to [REDACTED] in the U.S., resulted in a temporary freeze on [REDACTED] 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 20% would be reached for earlier PG launches, and continue to cause resulting, downstream impacts on later PGs, including PG 10, since each delay impacts the ability to accumulate parts for subsequent launches.

The limited capacity of [REDACTED] air freight contractors to transfer the airbag modules by air to [REDACTED] 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 10 launch.

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

2. Expansion of Takata Recalls to Additional Market

Complicating the situation further are a series of additional developments related to the Takata recalls. In July 2019, DAG announced that it would recall all non-desiccated PSAN affected Mercedes-Benz passenger cars worldwide. Despite the fact that DAG continues to prioritize the U.S. market, the above described extension of the recall will have a further adverse impact on supply capacities for the U.S., as already pointed out in previous extension requests.

3. Recall Response Rates

Finally, improved Takata recall completion rates have impacted the available parts supply. For example, the PG 4-9 campaigns resulted in higher than projected completion rates.

Because the same passenger airbag modules used in PG 4-9 are also used in PG 10, this factor also affects the sufficient inventory needed for the PG10 launch.

PG 10 Extension Request

In order to offset the effects of the various factors described above, DAG has engaged in extensive negotiations with [REDACTED] to secure additional production capacity and has actively engaged with sub-suppliers to ensure adequate supply of needed subcomponents. DAG has been providing updates to the agency on the progress of the status and will continue to do so on a regular basis.

MBUSA proposes to launch the PG 10 remedy as soon as at least 25% of the necessary replacement airbags are available to dealers for each individual model. MBUSA anticipates that the PG 10 vehicles would launch as outlined in the chart below and in no case later than November 30, 2020.

The PG 10 models to which this request applies are listed in the table below:

| PG 10 Models | | | | | |
|---------------|----------|----------------|--------|-------------|------------------------|
| Make | Platform | Model | Region | Model Years | Launch (no later than) |
| Mercedes-Benz | 204 | C-Class | A | 2014 - 2015 | August 31, 2020 |
| Mercedes-Benz | 204 | C-Class | non-A | 2012 - 2015 | August 31, 2020 |
| Mercedes-Benz | X204 | GLK-Class | A | 2014 - 2015 | October 31, 2020 |
| Mercedes-Benz | X204 | GLK-Class | non-A | 2013 - 2015 | October 31, 2020 |
| Mercedes-Benz | 207 | E-Class Cabrio | A | 2014 - 2017 | November 30, 2020 |
| Mercedes-Benz | 207 | E-Class Cabrio | non-A | 2012 - 2017 | November 30, 2020 |
| Mercedes-Benz | 207 | E-Class Coupé | A | 2014 - 2017 | November 30, 2020 |
| Mercedes-Benz | 207 | E-Class Coupé | non-A | 2012 - 2017 | November 30, 2020 |

MBUSA requests an extension of time to launch the recall campaigns for the PG 10 vehicles consistent with the chart above and to fully launch PG 10 no later than November 30, 2020.

We appreciate your consideration. Please feel to contact me with any questions.

Very Truly Yours,

A handwritten signature in cursive script that reads "Jacqueline Glassman". The signature is written in black ink and is centered below the closing.

Jacqueline Glassman
Partner

JG:cli

cc: Stephen Hench
R. Thomas Brunner

Enclosure