

November 16, 2018

CONFIDENTIAL BUSINESS INFORMATION REDACTED

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 7 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”) 7 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 7 vehicles is December 31, 2018.

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. 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 7 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 most 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 the 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.

DAG and MBUSA have worked closely with [] 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.

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 7 vehicles.

B. PG 7 Issues

Despite MBUSA's rigorous efforts to launch the recall remedy for PG 7 vehicles on time, additional influencing factors beyond those described above are forcing MBUSA to delay the launch past the December 31, 2018 remedy launch deadline. These factors are outlined below.

1. Contractual Issues

For previous PGs, [] had agreed to pre-produce airbag modules prior to final release by DAG, in order to allow DAG to take advantage of existing supply capacity during the final release steps and build up parts supply and expedite the launch dates. Contrary to DAG's experience with earlier models within the Takata Recall, [], did not consent to the pre-production of airbag modules prior to the formal finalization of the release process. This significantly affected the initial calculations as to when the sufficient launch supply threshold of twenty-five percent would be reached for the PG 7 vehicles.

An additional issue outside of DAG's control related to the supply of parts by [] is the lack of timely shipments from manufacturing plants to [] in the U.S., due to internal contractual negotiations between [] and []. As noted in prior DAG and MBUSA communications to NHTSA, 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. However, 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. between January and April 2018. This delay had

an adverse impact on the availability of parts in the U.S., with a continued downstream effect on later PGs, including PG 7.

Although these contractual 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. Also, DAG and MBUSA have now implemented a process under which [].

2. Additional Markets

Recall mandates by the respective governmental agencies in relation to PSAN Takata inflators in other global markets continue to significantly affect the allocation of production capacity. Recall mandates announced in China (December 31, 2017), Taiwan (December 31, 2017), Australia (February 27, 2018), and New Zealand (February 27, 2018) have 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 impacted the initial calculations as to when the sufficient launch supply threshold of twenty percent would be reached for the PG 7 vehicles.

Additional markets implementing wide ranging recalls similar to the U.S. recall, 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. Supply Chain Logistical Issues

Additional unforeseen challenges arose due to the limited capacity of [] air freight contractors to transfer the airbag modules by air to [] in the U.S. 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, they have nonetheless caused a delay in the PG 7 launch.

C. PG 7 Extension Request

MBUSA proposes to launch the PG 7 remedy in phased intervals, as soon as approximately twenty-five percent of the necessary replacement airbags are available to dealers. Within the intervals, MBUSA intends to launch the remedy for these remaining vehicles as soon as sufficient parts become available.

By executing this strategy, MBUSA will continuously launch the remedy for vehicles within PG 7 in phases, beginning by January 31, 2020, and will have launched the remedy for the remaining vehicles from PG 7 by February 28, 2020. MBUSA currently anticipates that it will have the necessary remedy parts available to begin launching the PG 7 remedy for certain models by January 31, 2020, as shown in the table below.

PG 7				
Make	Platform	Model	Model Years	Launch
Mercedes-Benz	204	C-Class PAB (A)	2012	by January 31, 2020
Mercedes-Benz	207	E-Class Cabriolet PAB (A)	2012	by February 28, 2020
Mercedes-Benz	207	E-Class Coupe PAB (A)	2012	by February 28, 2020

MBUSA respectfully requests an extension of time to fully comply with the PG 7 launch deadlines to February 28, 2020. Of course, MBUSA will launch the remedy for these models sooner if replacement parts become available.

* * *

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