

**ORAL TESTIMONY OF MR. JOHN MCELENEY  
CHAIRMAN, NATIONAL AUTOMOBILE DEALERS ASSOCIATION  
BEFORE THE  
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS  
OF THE  
HOUSE ENERGY AND COMMERCE COMMITTEE  
ON  
GENERAL MOTORS AND CHRYSLER DEALERSHIP  
CLOSURES AND RESTRUCTURING**

**June 12, 2009**

Chairman Stupak and Rep. Walden, my name is John McEleney, and I am the Chairman of N.A.D.A, the National Automobile Dealers Association.

I am also president of McEleney Autocenter, of Clinton, Iowa, which is in the district of Rep. Bruce Braley. We operate General Motors, Toyota, and Hyundai franchises and have been in business for 95 years and provide jobs for 140 people. Additionally, my family held a Chrysler franchise between 1984 and 2007.

NADA welcomes the engagement of this subcommittee. This panel has a long history of aggressive congressional oversight and that is exactly what we need to enhance our understanding of the Chrysler and GM bankruptcy proceedings. The lack of transparency during this government-structured process has compounded our concerns about the treatment of dealers throughout this ordeal. In the initial viability submissions, Chrysler mentioned nothing other than continuing their current program to facilitate dealer consolidation. Yet, bankruptcy has left 789 Chrysler dealers without franchises on 26 days notice without even buying back their vehicles, parts, and factory-specific tools.

No manufacturer has ever done that. GM's original viability submissions reflected the desire to eliminate some brands, and its call for additional dealer consolidation was over an extended period of time. Now, besides the brand eliminations, 1,350 additional GM dealers face terminations on a much more aggressive timeline.

Why this dramatic shift? In response to a question before the Senate Banking Committee on June 10th, Ron Bloom of 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. . . ."

Everyone agrees that these companies need to decrease costs and increase revenue, but dealer cuts do not achieve these goals. The other key elements of the restructurings provide direct and timely cost savings to GM and Chrysler. In sharp contrast, terminating a dealership does not provide any material cost savings. The retail network— the land, the buildings, the employees, training, – the dealers pay for it all. As detailed in my written testimony, we dispute the notion that the dealer network imposes any significant per vehicle cost, or any significant administrative costs on the manufacturers. Indeed, company officials have been widely quoted as saying that the manufacturer's costs do not vary whether there are 6,000 dealers or 3,000 dealers.

Moreover, the "faster, deeper" approach of the Auto Task Force will reduce manufacturer revenue at a critical juncture. Over 90% of Chrysler and GM's revenue comes from the dealers, because the dealers buy the cars, the parts, and even the dealership signs from the manufacturers. Automakers will tell you that it takes at least 18

months to regain the sales of a closed dealership. And that is the “best case” scenario. In short, the dealer terminations will cause revenue losses for the manufacturers without any corresponding cost savings. As such, we do not see how these cuts make economic sense -- not for the companies, not for the dealers, not for local communities, and certainly not for the struggling U.S. economy.

Now, I will turn to the status of the GM agreements, both the Participation Agreements for those dealers going forward and the “wind down” agreements for those dealers who will lose their franchises. Last week during my testimony to the Senate Commerce Committee, I voiced NADA’s concerns about the extremely one-sided Participation Agreements delivered to the 4,000 dealers of the new GM. During that hearing Mr. Henderson committed to meet with NADA to discuss our concerns. GM followed through on that commitment. Our leadership met with senior GM officials last Friday, and we had a very frank discussion. As a result, GM has agreed to make significant improvements in the Participation Agreement. Additionally, GM has committed to clarify some of the terms of the wind down agreements, and NADA will continue to work with GM to improve these agreements. We appreciate GM’s efforts to continue to work with NADA on these crucial matters.

In conclusion, Mr. Chairman, I want to thank you again for convening this hearing, because we still have fundamental concerns. These government-negotiated bankruptcies continue to threaten dealer rights under state motor vehicle franchise laws. These laws inject balance in the inherently unbalanced economic relationship between a dealer and the manufacturer and also provide consumers a reliable, convenient, and competitive auto retail network. Therefore, Congress should ensure that the franchise

laws of the 50 states apply with full force and effect, especially when the new Chrysler and the new GM are operating outside of bankruptcy. We urge Members of Congress to support H.R. 2743, which would restore fundamental rights to dealers. We stand ready to work with you to achieve this goal.

Thank you for holding this important hearing, and thank you for the opportunity to testify.