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AUTOS

GM to pull out of joint venture with Toyota at California plant

General Motors says it and Toyota can't agree on what vehicle to build at the NUMMI plant in Fremont. The move jeopardizes the future of the last vehicle assembly plant in California.

By Ken Bensinger and Julie Strack

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Reporting from Los Angeles and Fremont, Calif. — America's auto crisis has stretched beyond the Midwest all the way to California.

The state's last automobile plant is facing potential closure after General Motors Corp. said Monday that it would drop out of the joint venture with Toyota Motor Corp. that operates the factory and builds three vehicles there.

The troubled automaker will produce its final Pontiac Vibe at New United Motor Manufacturing Inc., or NUMMI, by the end of August. Whether Toyota plans to keep building its Corolla sedans and Tacoma small pickups at the Fremont, Calif., plant is still being decided.

The Japanese automaker has long resisted layoffs and closures. But given the high costs of manufacturing in California, the dearth of surrounding parts suppliers and the fact that the Northern California factory is Toyota's only unionized facility in the U.S., many experts worry that the company may follow GM's lead and exit the Golden State.

If a shutdown occurs, it will be yet another blow to California's struggling economy, costing 5,400 jobs at NUMMI as well as 30,000 jobs indirectly tied to the factory, according to the East Bay Economic Development Alliance.

It would also serve as a reminder that the auto industry's woes are hardly limited to Michigan and the states it borders. Detroit-based GM has slated 14 plants for closure as part of its restructuring, but most have been limited to the Rust Belt, where most of the 100,000-plus industry layoffs in the last year have occurred. Losing the NUMMI plant, long hailed for reinventing the way cars could be built in America, would drive the misery to the Pacific.

"We've been able to escape the industry's very significant downsizing so far," said Steve Levy, director of the Center for the Continuing Study of the California Economy in Palo Alto. "Now we're finally getting hit by the global auto shakedown."

NUMMI delivered the news to its employees at a lunch meeting Monday. As the first shift ended, many of the plant's 4,100 members of the United Auto Workers stepped into the hot summer sun with grim expressions.

"People are stressing. I'm stressing," said Roberto Gonsalves, who delivers auto parts to the assembly line. "We don't know what to expect."

GM and Toyota opened NUMMI in 1984 on the site of a former GM plant that had a reputation as one of the least efficient in the country.

The joint venture was touted as a way for GM to learn the Japanese method of "lean" manufacturing, focused on just-in-time delivery. For Toyota, it was a chance to establish its first U.S.-based factory using GM's existing supply lines.

NUMMI quickly gained a reputation as one of the most productive, reliable factories in the nation.

"The historical achievement of NUMMI is it demonstrated that American workers and the Toyota system could be very compatible," said Harley Shaiken, a labor expert at UC Berkeley. "Losing it would be a real blow."

But with the industry facing its lowest sales in decades, NUMMI's production has been cut. In the first six months of this year, the assembly line making the Vibe and the Corolla rolled out only 76,000 vehicles, a 25% decline from a year ago, while the line making the Tacoma saw an 83% drop in production, according to the Automotive News Data Center.

Meanwhile, as GM was pushed into bankruptcy, it decided to pare brands and models, including Pontiac. Earlier this month, GM said it would stop producing the Vibe hatchback and was in talks with Toyota about a suitable replacement. Those talks failed.

"After extensive analysis, GM and Toyota could not reach an agreement on a future product plan that made sense for all parties," said Troy Clarke, GM's head of North American operations.

A GM spokesman said the company was using the bankruptcy process to reject its contract with NUMMI.

Toyota has made no promises about the plant's future.

"While we respect this decision by GM, the economic and business environment surrounding Toyota is also extremely severe, and so this decision by GM makes the situation even more difficult for Toyota," Toyota spokesman Mike Goss said.

The automaker's U.S.-based executives have long noted that layoffs are a last-ditch option, but Toyota has also been buffeted financially, reporting a \$7.7-billion loss in the most recent quarter and installing a new president who has said that operations have grown too big too fast.

That's particularly so in the U.S., where Toyota has six other plants, most running well below capacity, plus a new one in Mississippi that sits unused. "Toyota is feeling the pinch of being a full-line auto manufacturer, just like GM did," said Aaron Bragman, an industry analyst at IHS Global Insight.

Further complicating the picture is the fact that NUMMI, unlike Toyota's 12 other North American manufacturing facilities, is unionized. As a result, its wages are higher than at any other Toyota location, including plants in Canada and Mexico that also produce the Corolla and the Tacoma, respectively.

The current UAW contract with NUMMI expires Aug. 31. Leticia Quesada, recording secretary of UAW Local 2244, said negotiations were continuing but that nothing had been formalized.

"Some people think Toyota might close down and then later open back up as a nonunion shop," she said.

Another problem for NUMMI is that its suppliers are distant. A study by Thomas Klier, senior economist at the Federal Reserve Bank of Chicago, showed that only 11% of NUMMI's parts providers were within 400 miles of the plant.

Fremont's mayor, Bob Wasserman, was the city's chief of police when NUMMI opened. He said he deals with the plant, the city's largest employer, on numerous local issues but has received little feedback about the plant's future.

"You get very little information from them," Wasserman said. "We just don't know."

Some hold out hope the state will find a way to persuade Toyota to keep NUMMI running. Gov. Arnold Schwarzenegger recently came up with incentives that lured electric-car maker Tesla Motors to commit to building a plant in the state.

Despite denials by NUMMI officials, rumors swirl that Toyota might decide to build a hybrid at the plant.

A spokesman for Sen. Barbara Boxer (D-Calif.) said she "believes Toyota should stay and make this plant a model for producing fuel-efficient cars -- the kind of cars Californians and all Americans want to drive."

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