

NATIONAL PRESS CLUB NEWSMAKER LUNCHEON WITH JIM PRESS,
PRESIDENT, TOYOTA NORTH AMERICA

TOPIC: THE AUTO INDUSTRY AND ITS FUTURE

MODERATOR: JONATHAN SALANT, PRESIDENT OF THE NATIONAL PRESS CLUB

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MR. SALANT: Good afternoon, and welcome to the National Press
Club. I'm Jonathan Salant, a reporter for Bloomberg News and
president of the Press Club.

I'd like to welcome club members and their guests in the audience
today, as well as those of you watching on C-SPAN. Please hold your
applause during the speech so we have time for as many questions as
possible. For our broadcast audience, I'd like to explain that if you
hear applause, it is from the members of the general public and the
guests who attend our luncheons, not from the working press.
(Laughter.)

The video archive of today's luncheon is provided by ConnectLive
and is available to members of the National Press Club through our
website at www.press.org. Press Club members may also get free

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202-662-7511.

Before introducing our head table, I'd like to remind our members

of future speakers. On July 20th, Senator Rick Santorum of Pennsylvania, the head of the Senate Republican Conference, will talk about America's war against Islamic fascism. On July 25th, Senator Richard Lugar and Congressman Mike Pence, both Republicans from Indiana, will talk about the federal media shield bill that they've introduced; and on August 7th, Governor George Pataki of the state of New York.

On September 9th, the Press Club will hold its ninth annual 5K run-walk and silent auction to raise money for our minority scholarship fund for aspiring journalists of color. For more information about the 5K run or to register, please check out our website at www.press.org.

If you have any questions for our speaker, please write them on the cards provided at your table and pass them up to me. I will ask as many as time permits.

I would like now to introduce our head table guests and ask them to stand briefly when their names are called. Please hold your applause until all head table guests are introduced.

From your right, Jim Ostroff, associate editor with the Kiplinger Washington Editors; Harry Stoffer, Washington reporter for Automotive News; Dave Shepardson, Washington automotive writer for the Detroit News; Holly Yeager, Financial Times; Ken Thomas, the regional reporter for Michigan for the Associated Press; John Gallagher of Traffic World and a member of the National Press Club's board of governors; Sholnn Freeman, the auto industry writer for The Washington Post; John Hughes of Bloomberg News, the chairman of the National Press Club speakers committee; skipping over our speaker for a moment, Ed Lewis (sp), the member of the National Press Club speakers committee who organized today's event -- and Ed, thank you very much; Rick Dunham, editor of Business Week and the former president of the National Press Club; Judy Austin (sp) of USA Today; Marc Stertz, Washington Automotive Press Association president, and also the publisher of Auto Exec Magazine; Gary Martin, Washington correspondent for the San Antonio Express News; and Alex Kaplun of Environment and Energy Publishing. (Applause.)

Jim Press has been around cars all his life. At age eight, he built his first go-cart. His uncle sold cars. His brother fixed them. And Jim Press was a mechanic himself. Fresh out of college, he went to work for the Ford Motor Company and joined Toyota more than three decades ago when the Japanese company occupied just a small niche in the American car market.

Today Toyota is threatening to replace General Motors as the number one car company in the world, and Jim Press is the president of Toyota Motors North America, the first non-Japanese to hold that position. He's already made one major change: He traded in his pickup truck for a Camry hybrid.

Toyota has seven American plants, with an eighth scheduled to open later this year in San Antonio. Meanwhile, GM and Ford are shedding employees and factories. That has enabled Toyota and the other Japanese auto companies to boost their lobbying clout on Capitol

Hill.

One reason for Toyota's growth is its leadership in producing gas-electric cars. These hybrids have grown in popularity as gasoline climbs to the three-dollar-a-gallon mark. Toyota accounts for almost three-fourths of all the hybrids sold in the United States, and more are on the way.

Jim Press gets a lot of the credit for Toyota's growth here. He was able to convince executives in Japan to build the kind of car that Americans wanted to buy, such as minivans with big, full-size, huge cupholders and a full-size heavy-duty pickup truck.

Still, Toyota dealers ranked below average in J.D. Power surveys. Toyota executives acknowledge a problem with customer service and say they are working to fix the problem. And former U.S. Labor Secretary Alexis Herman, who is here today, is heading a committee to review Toyota's policies. Secretary Herman was named after Mr. Press's predecessor was hit with a sexual harassment suit.

When he's not traveling between Japan, California and New York, Jim Press is a competitive swimmer and participates in triathlons. I don't know how he trained for today's appearance.

Let's welcome Jim Press to the National Press Club. (Applause.)

MR. PRESS: I really appreciate that. It's a very great honor to be here. Walking down that hall and seeing the pictures of those that have been here, I'm quite humbled to be in front of you. I'm also surprised, with my last name, I didn't get a free membership. (Laughter.) Maybe that's something we can work on.

And also, for those of you journalists here to find out about the news that's going on right now, I can save you the time. I have not met with Mr. Goin (ph) and I don't plan to meet with Mr. Goin (ph) -- (laughter) -- so you can go ahead and file those reports and we'll get on.

The fact of the matter is, think about it. With a name like mine, being here at the National Press Club, in the National Press Building, with members of the national press, it's a dream come true. It's like a family reunion. (Laughter.) So I want to thank you for making me feel so welcome.

Based on my calendar, my watch, in exactly 468 days, 11 hours and 30 minutes, Toyota will celebrate its 50th anniversary here in America. And, you know, because we've made really great strides, a lot of people think we've been a very successful company all along.

But in many ways, like America itself, Toyota comes from humble beginnings. And, well, we've had our share of hard times, I have to tell you. It may surprise you to know that Toyota actually started out as a textile loom manufacturer.

In 1924, after watching his mother's frustration with broken threads while she was weaving fabric, our founder, Sakichi Toyoda, created a revolutionary automatic loom that would shut down if it

detected a broken thread. It saved time, materials, and ensured quality -- revolutionized the loom companies.

Sakichi then sold that patent for the loom and gave the proceeds to his son so he could start an automobile company. That was in 1937, and the company, of course, became Toyota Motor Corporation.

Sakichi passed on more than his company. It was his legacy, the key principles that still form the central values of our company today.

One is the fundamental belief in balancing business needs with the needs of society. In fact, the vision that started this company and still runs it is that we are here to enrich society through building automobiles.

Now, two other key values are respect for people and kaizan, which is the drive for continuous improvement.

Over the years, these values have served us well. But, like all companies, I've got to be honest, we've had our ups and our downs. Today we may be profitable, but we almost went bankrupt in the early '50s. Our first American product actually was a real dud. It's true.

During a recession in the early 1950s, Toyota faced severe financial problems and actually had to lay off some workers, the lowest point our business has ever had. And shortly thereafter, the company began its comeback by supplying a powerful all-terrain utility vehicle for the U.S. Army to be used in Korea. That vehicle went on to become the popular Land Cruiser, which is, of course, one of the most admired vehicles on earth today.

We learned from these difficult times, and we've tried to stay responsive ever since, because we've realized that we need to survive in business from the long-term perspective. And to do that, we had to look globally. So Toyota came to America in 1957 and opened our first showroom in Hollywood, California.

Now, that was the year that Elvis sang "All Shook Up" and the Russians launched Sputnik. With high hopes and a postwar boom creating the need for second family cars and affluence in America, Toyota launched a sturdy sedan with a strange name, the Toyopet Crown. I don't know why they named it that; I was still in grade school. But I think that's the reason the car failed.

The Toyopet had some remarkable new features for its time. It even had a remote gas-door opener. But it was badly underpowered and it really drove like a truck. The fact of the matter is, it was originally designed for the roads of Japan and it was used as a taxi, not for the wide open, high-speed highways of America. We missed the mark, and we were trying to sell a car people didn't want.

After the first year, the company sold 287 Toyopets and one Land Cruiser. Sales peaked later that next year. We sold a thousand. But then we dropped off in 1961 and we withdrew the car from the U.S. market. We survived by selling the Land Cruiser, which is the only model that we've sold continuously for the last 50 years in America.

But this failure taught us a key lesson that we will never forget, that you have to design and build products that people want and that will fulfill their needs, not the company's needs.

We spent the next five years studying the needs of American consumers, and then in 1965 we came back with a new car called Corona, a compact sedan that was powerful, economical and dependable. It became an overnight sensation, and really since then we haven't looked back.

Today Toyota has the number one selling passenger car in America, the Camry, the number one selling luxury line, Lexus, and the number one gas-electric hybrid, the Prius. Our Corolla sedan, now in its ninth generation, is the world's best-selling passenger car of all time. We build it both in the United States and Canada and a dozen other countries throughout the world.

During this time we've also become a big manufacturer here in America. We've got nine major vehicle and parts plants across the nation. A tenth is set to open this fall in San Antonio. We're also adding a new Camry production line and a thousand new jobs to a Subaru plant in Indiana as we speak.

Having key manufacturing plants in eight states and one in Canada and Mexico means that nearly three out of five vehicles that we sell here are made here in North America. We employ 32,000 Americans directly. That's more than companies like General Mills or Texas Instruments or even Cisco Systems. And with our dealers and our suppliers, we create another 177,000 direct jobs.

And when you add the other spin-off employment resulting from our presence, the Center for Automotive Research estimates that we're responsible for about 400,000 American jobs. That's roughly the size of a city like Miami. We purchase about \$28 billion in parts, materials and services each year from 400 suppliers, and we have a presence in 35 states. The number one state is Michigan.

We're proud of the fact we're ranked number one in the industry for supplier and dealer relations. It's a tribute to our belief that if we help them be more successful, then we'll be successful.

In addition, we're building a new North American research and development complex in Ann Arbor, Michigan on land that's roughly six times the size of Disneyland. It will house 1,100 engineers and designers, and it will be the hub for all of our efforts to design cars and trucks by Americans for Americans.

So we've come a long way in 50 years, and I've got to tell you, we plan to keep moving forward. Toyota's philosophy is to build cars where we sell them. Our global chairman, Mr. Cho, is asking those of us in North America to take even greater responsibility for designing, building, selling and servicing vehicles in this, the world's number one automotive market.

At the same time, we're also trying to live up to our vision of contributing to American society through our business practices and

community work, and we're equally proud of those results.

During our first half-century here, we've made significant contributions to American business, culture, including things like new fuel economy standards, safety, hybrid technology, lean manufacturing process, kaizan improvements, trustworthy relationships with our dealers and suppliers and our partners, cooperation with government agencies, community education programs like our family literacy centers.

But underlying our success are the fundamental principles that Sakichi installed in our organization three-quarters of a century ago. And I come to Washington today with that spirit of optimism, determination and cooperation.

I truly believe that we can be part of the solution to the great issues of our times, issues like energy independence, air pollution, health care, safety, global warming. And that's what I'd like to talk about now: The state of the auto industry, the contributions it makes to America, and how we can play a leading role in helping solve some of the key issues of society today.

Now, despite some of today's headlines, the auto industry is alive, well and growing. Globally, sales are rising because people in major developing countries, like China, India, Russia or even Brazil are gaining a higher standard of living, and they're discovering the freedom that cars provide.

Here in the United States, business has been steady. As our population approaches 300 million, the future is full of promise. The U.S. auto industry is coming off its third best year in history, and sales so far this year are nearly on the same pace.

General Motors and Ford are taking bold steps to strengthen and recover. There are signs that good things are starting to happen for them as well. Both were profitable in Asia, Europe and Latin America in the first quarter, and their sales have doubled so far this year in China, which is rapidly becoming the world's second largest auto market.

I firmly believe GM and Ford will both come back stronger than ever and be very successful. And that's important, because they are vital to our industry and our national economy.

What we're seeing is not the demise of the U.S. industry. It's the globalization that's occurring. Companies are restructuring and redeploying resources to meet the needs of markets all around the world and compete with new companies and new corporations in other countries. And if we don't make these adjustments now, we won't be able to be prosperous in the future.

In fact, last year, for the first time in its long history, General Motors sold more vehicles outside the United States than it did in America. And we're going to see more of that in the future. It's the way of life in the 21st century.

I think that's one of the reasons behind this rumored GM-Nissan-

Renault alliance. All major companies are looking for creative ways to meet the challenges of increasing competitive pressure and the escalating costs of developing new technologies and the need to create value for our shareholders.

Toyota has had a great working alliance with General Motors now for more than two decades. We share operations at the only West Coast auto plant, and we do some joint research in advanced technologies.

Now, I can't speculate on what will happen if GM and Nissan come together, but I think it illustrates just how tough and expensive it is to compete on a global basis as well as the consistent need for efficiency in our operations.

It also points to the fact that international auto companies are helping change the face and direction of the auto industry.

Here in the United States, international automakers like Toyota, Honda, BMW are building new plants and adding jobs to the economy.

The international automakers have contributed almost all of the growth in the U.S. motor vehicle industry in the past 10 years, according to a 2005 study by the Center for Automotive Research. The end result: It's still the same -- a healthy and resilient auto industry. It just looks a bit different than it did 20 years ago.

Of course, challenges remain -- volatile gas prices, rising interest rates, increasing raw material costs. But overall, the industry is successfully responding to the market and it's still growing.

At Toyota, we expect U.S. industry sales of about \$17 billion this year, about where it was or up a hair from last year. And that would make 2006 one of the top three or four automotive industry sales years in history.

For the long term, annual industry sales of 20 million vehicles -- that's 3 million higher than today -- are within reach during the next decade. And the whole industry will benefit from this rising tide.

But you may ask, where's this boom coming from? Well, first of all, people are living longer and driving longer. It's not unusual for an 85- or 90-year-old individual to come in and buy an automobile. C&W Research found that seven vehicles, more than half of the 13 cars the average American buys over a lifetime, are purchased after the head of household turns 50.

Sixty percent of the U.S. population will be 50 or older in the next five years, and our baby boomers won't reach their peak spending power until 2009. There are enormous opportunities for growth ahead.

Generation X, they're maturing now. They're moving into their prime income-earning years. As a result, they're buying more than a fifth of all new cars, and they're starting to buy cars for their children. And, of course, the 63 million young people of Generation Y, 63 million people will be getting their driver's licenses in the

next 10 years.

Think about that. It's the second-largest generation of all time. They're coming of age and they're starting to flex their spending power. By 2010, they'll be buying one out of every four automobiles.

If you ever wonder about the future of the auto business, you could do what I do on a Sunday. It's kind of fun. Go to the hospital maternity wards. Do you ever do that, just to go up there? You don't know anybody. They're all friendly, right? Everybody's having a good time and big smiles. And while you're there in this happy place, just remember, each one of those little plastic baskets, those little blue and pink baskets, is 13 or 14 purchase cycles. (Laughter.) It'll cheer you right up. It's really a wonderful opportunity.

This is a great country. We actually now have more cars per household than drivers per household. Is this wonderful? (Laughter.) There's plenty of room on the road. And as we're speaking right now, people are creating new customers for us. (Laughter.) It's a great annuity.

And the fact of the matter is, these trends are all converging at once, and they will create a unique opportunity. In the next 19 years, the population of the United States will actually grow by more than 70 million people. That's adding the population of California, New York and New Jersey in the next 19 years.

Now, market drivers are also on our side. The gross domestic product is growing. Consumer spending is positive. Jobs are increasing. Productivity is rising. I feel this period has the markings of a golden era for the auto industry, a time of prosperity for auto companies to develop new designs, introduce technologies, safety measures that will excite people, save lives, and, most importantly, help cars live in harmony with the earth.

Now that we know the future is bright, I think it's also important to understand why having a thriving auto industry is so vital to America. If you think about it and study history, you know that just about every leading developed country in the world grew under the wings of the mighty auto industry leading the way.

The U.S., Great Britain, Germany, Italy and Japan all rose to prominence by fostering a strong automotive industry. I think that's why you see countries like China, Korea, Russia and India now plowing money into their fledgling auto businesses. But that's also creating the global competition.

They know the auto industry is a powerful economic engine that not only provides mobility for people and commerce, but it creates long-term prosperity. For instance, the auto business is the largest manufacturing industry in the nation. We're responsible for one out of every 10 American jobs. We generate nearly 4 percent of the nation's total GDP.

The auto industry spends more than \$15 billion on research and development each year. That's more than any other manufacturing

industry. And we buy more metal, plastic, rubber, textiles than any other business, including we buy more computer chips than the computer industry does.

And my personal favorite: All of the top 12 American Fortune 500 and global Fortune 500 companies are either automakers or support the auto industry in a significant way.

But the auto industry is more than just big. It makes a positive difference in our lives every day. Cars arouse our aspirations, tug at our emotions. They stimulate our desires. They reflect who we are. They free us. They give us independence. They please us. We get our privacy. They provide almost unlimited possibilities. And that's why we love them so much and why they're still one of the most popular products on earth.

I believe the time is right today to enlist the immense talent and might of our industry to help solve some of the key issues resulting from this car-loving world, namely oil dependency, air pollution, traffic accidents, congestion and global warming.

The good news is the industry is starting to make some positive progress in meeting those challenges. At Toyota, we're spending on average \$22.7 million every day on research and development to solve those issues.

Through the industry's use of lighter materials, advanced engine and transmission technology, cleaner fuels, conventionally powered cars are cleaner today than they've ever been in history. Today's vehicles are 99 percent cleaner in smog-forming emissions than their counterparts that were sold in the 1970s. And our light trucks today produce fewer smog-forming emissions than cars did in 1993.

In California, more than 20 car models offered by 12 companies, including our Camry and Prius, are partial zero-emission vehicles. They're not only the cleanest gasoline engines ever built, but they maintain near-zero emissions throughout their entire life on the road.

But that's not enough. So we're inventing a new wave of power-train technologies. Right now, today, there are more than 40 hybrid and alternative-fuel vehicles for sale in the United States. There are 8 million on the road. There are 35 new models that will be introduced in the next 12 months alone.

I'm proud of the fact that Toyota introduced the world's first mass-produced gas-electric hybrid car nearly 10 years ago, the Prius. Today's Prius has the room of a midsize sedan, delivers about twice the mileage of conventional cars, but produces 70 percent fewer smog-forming emissions than the average new car on the road. It's been so popular that we just can't keep it in stock. There's still a two-month wait to get one.

The Prius is just the beginning. We now sell five Toyota or Lexus hybrids, including the Camry hybrid that will be built in Kentucky early next year. We offer a sixth one next year, the world's first V-8 hybrid, our flagship Lexus LS sedan. In total, we've sold more than 350,000 hybrids in the United States.

And I've got to tell you, it's a great business for us. We're making our money. Our customers are saving gas. They're helping the environment, all at the same time. In fact, we've sold more hybrids in the U.S. this year than Cadillac, Buick, or even Mercedes Benz has sold cars. It's a big business. And believe me, more will follow, because these vehicles are making a difference.

First of all, we estimate that all the hybrids we've sold in America have saved more than 155 million gallons of gasoline. That's enough to fill five tanker ships, not to mention eliminating 3 billion pounds of greenhouse gases.

But the real beauty of all these hybrids is that they're available now, using today's infrastructure. You can pick one up at a dealer today, and you don't have to make any major sacrifices to drive them. I'm just making the point you can pick them up today. I promise not to try to sell anything.

Hybrid technology can be teamed with other promising technologies to make them even more efficient and fuel-stingy. Whether it's a high-tech gas engine, clean diesel, biodiesel, ethanol, plug-in, hybrids, or even hydrogen fuel cells, the hybrid system is the efficiency for all of those types of fuels and engines.

The hybrid is not an alternative.

It's the piece that makes all of them more efficient, and we offer them today (forward?). And make no mistake about it, hybrids are the technology of the future and they will play a starring role in the automotive industry in the 21st century, no matter what we use for fuel or what cars we drive.

And that's why we're not backing off our commitment to hybrids. We know they're absolutely essential to the future success of this industry. We're working hard to bring down hybrid premiums significantly, reducing the size of components by up to 75 percent. And costs -- our target is to cut them in half.

Our target is to offer hybrid options throughout our entire lineup of trucks and cars. And we're not alone. Honda has three and plans to add a fourth hybrid. Ford has two and plans to add three more. Nearly every other automaker, from Hyundai to Porsche, plans to introduce hybrids in the very near future.

And why? Because increasingly Americans realize hybrids are a simple way to make an important difference in curtailing foreign oil dependence, air pollution and greenhouse gases, all at once. Plus they're a heck of a lot of fun to drive. Being able to thumb your nose at a gas station on a regular basis is just the icing on the cake.

But as good as hybrids are, we're not stopping there. Our global president, Mr. Watanabe, recently challenged all of us to redouble our efforts to contribute to society in our work. He told us of his dream to create cars of the future that will travel across the United States on just one tank of gas, clean the air while they're driven, and

prevent accidents and injuries as they go.

Of course, it's a dream at this point, but that's where we're headed. And Mr. Watanabe has committed the resources to vigorously promote what we need in development to get there.

In traffic safety, the auto industry is already making great strides by using computers, sensors and other advances to ensure that people are better protected and cars are smarter in avoiding and handling crashes.

Global automakers are offering more safety features than ever -- energy-absorbing crumple zones, headlights that swivel to better light turns, lane departure warnings, cruise control that can stop a car in city traffic, and airbags for every part of your body, including my favorite, the dual-stage knee airbag. It's working. Traffic fatalities on U.S. roads today are the lowest since the government began tracking them in 1966, 40 years ago.

So overall, there are many good things happening in our industry today. But a lot more needs to be done. And when we talk about being part of a solution, those of us in the industry realize it's a challenging time, because we operate in a market where half of all vehicles bought by Americans are trucks, vans or SUVs. They love the utility, and those are the vehicles they choose to purchase.

We can't disregard the needs of our earth, but we can't afford to ignore the needs of our customers. So together we have to strike a balance in our lineups, from big trucks and SUVs to gas-electric hybrids, clean diesels, flex-fuel vehicles, plug-in -- (audio break) -- it will take monumental cooperation among all players -- the automakers, oil companies, suppliers, labor, government, educators, NGOs, communities, and the other industries.

I know these are thorny issues, and they seem daunting at first glance. But the time is right and the stakes are just too high for us to ignore them. Our customers, our leaders, our viewers, our constituents, they want us, they expect us, to come together for the greater good of society. And, yes, we must heed that call.

And I think it starts with the auto industry being more proactive. It's time for us to stop being the against industry and to come out strong for something important, like a better earth and a better quality of life. The automakers need to work with government to set reasonable goals to improve fuel economy standards, reduce greenhouse gases in a way that doesn't damage the health of America's most vital industry.

Reasonable people may disagree, but they can always compromise, find common ground, and allow us to move forward. And that's what I'll be working on in the future. It's the full backing of a company founded by an inventor who wanted to help people and contribute to a better society.

Today I'm happy to announce two key American developments from Toyota that have been highly anticipated. First, Toyota is strongly

considering the introduction of a flex-fuel vehicle program in the United States in the near term. We're already developing vehicles that can operate in ethanol-rich Brazil, and we're optimistic that we can offer similar vehicles here to American consumers.

And second, we are pursuing a plug-in hybrid vehicle that can travel greater distances without using its gas engine. It will conserve more oil and it will slice smog and greenhouse gases to nearly imperceptible levels.

Both projects will help to solve some of the key issues facing society, as well as encourage other automakers to keep moving forward.

Well, I hope that in the past few minutes I've helped rekindle some of that unbridled spirit of optimism, determination and cooperation that I spoke of earlier. At Toyota, we pledge to do our part, to lend a hand and to work hard with the rest of the world to help create real solutions for the problems that we all face.

That's how we spent our first half-century here, and that's how we'll spend our next 50 years in America, because in the end, that relentless pioneer fortitude to improve and make life better not only drives America; it also drives Toyota. And if we let it, it will drive us all to new heights of prosperity in the 21st century.

Thank you very much. (Applause.)

MR. SALANT: A lot of questions; let's begin.

What has been the impact on automakers of \$70-a-barrel oil? And what will be the impacts if we see \$100-a-barrel oil?

MR. PRESS: Well, the impact of the automakers has been, first of all, a shift in mix. There's been a shift in traditionally the larger vehicles that have worse gas mileage have been less popular, and we've seen a big impact in increasing the sales of our high-mileage vehicles, and especially our hybrids.

The market itself hasn't declined, but the fact is there's been a shift in mix. As we go up closer to \$100 a barrel, then we're going to start to see some effects, especially on customers at the lower income levels that are especially driving used cars, and it may pull them out of the market. It may slow down some of the growth.

But the fact of the matter is, adjusted for inflation, gasoline is still a fairly good value in terms of percentage of income and spent. It's not that great, but it's a lot higher than it was. The fact is that the biggest problem facing changing driving habits is the availability of gasoline, not the cost.

But as we continue to escalate, obviously there will be alternative sources of fuel and other types of technology that will be very important to offset that increase in cost. And the cost is increasing. If you look at the long-term trend, it's not going to get less; it's going to continue to accelerate.

MR. SALANT: Should the federal government raise fuel taxes and

state governments raise fuel taxes to increase incentives for Americans to conserve more and to buy more fuel-efficient vehicles?

MR. PRESS: Well, that's a great question in Washington. (Scattered laughter.) Politically speaking, we don't really have a position on that. The fact is that we need to find a way to help have

our customers understand the position we're in, both with regard to the availability of long-term fuel, the cost it's going to incur in extracting and generating fuels in the future, as well as the effect on the air, on the quality of life that we have.

And if it takes incentives or encouragement from the government, then we're for that. To go into the discussion of going into a tax, you get into all kinds of issues about how it affects different people in different socioeconomic classes. And that's way beyond, I think, what we want to address. But, yes, we do feel that it would be very good to come up with some strategies and visions of a long-term energy policy where the auto industry can be part of that solution and come up with some elegant new approaches, both with the government and the regulators as well as the NGOs and the industry.

MR. SALANT: Will Toyota finish 2006 as the third largest U.S. automaker by sales for the first time, surpassing Daimler-Chrysler?

MR. PRESS: I don't know. And that really is more a factor of what Daimler-Chrysler does than us. That's not our goal. We've never tried to be big. Our focus is taking care of customers, building high-quality, high-value cars that people want. If we do that, then we're rewarded by better sales.

We don't have the manpower or the resources to worry about what's going on in the other companies. We've got a lot of things to take care of to keep our company humming along.

But the fact of the matter is, I don't know if that happens or when it'll happen. The fact is it's more up to what Daimler-Chrysler decides and what they do than what we're going to be doing.

MR. SALANT: How would the GM-Nissan-Renault alliance impact the auto industry?

MR. PRESS: Well, first of all, I don't know if there's going to be an alliance, so we don't want speculation of what that may be. And it depends really on how that might come together and what it may look like.

If you consider the facts of what's going on in the industry today and the need to generate the kind of efficiencies to compete in product development, the cost for new technologies, these kinds of alliances, like we started 20-some years ago with General Motors, are important. We learn from each other.

The fact is, I think that if anything happens that will strengthen the world's auto companies, the consumers will win. We'll have a better company. It'll be more viable. Hopefully we'll have better products. Customers will win. And if they get stronger, the

competitive pressure will make us get stronger. I guess everybody wins if that happens.

MR. SALANT: Would you be interested in expanding your alliance with GM rather than have Renault and Nissan involved?

MR. PRESS: First of all, we've had no discussions with GM. They've never approached us. We haven't approached them. And because of this, it doesn't really change our position with regard to alliances. We've always been open to discussions with them. We respect them, have a great relationship. They respect us, have a great relationship. I don't really see those two issues that would ever come together. We would always consider more alliances with or without whatever may happen. And that's a lot of speculation what that would even look like.

MR. SALANT: What are the three top factors Toyota considers when locating assembly plant sites in the United States?

MR. PRESS: Ah. The three top factors for the states -- I think -- well, first of all, our decisions for state placement of our plants are really business and economic decisions. We have to run a company where we can give our customers the highest quality, best products, that we can give our dealers the best vehicles to sell. And you can't really compromise those decisions.

So things like logistics and proximity to the work force, ability of the work force, the quality of the land and, if you look at the logistics both in and out relation to the supplier base, those are all very important factors.

Obviously we have one eye that we take a look at the political aspect of it, or even the temperature and the weather and those kinds of things that have an impact of production of automobiles. But mainly they're based on business and economic reasons.

MR. SALANT: Why are so many of the manufacturing plants located in areas that traditionally are hostile to labor unions?

MR. PRESS: Could you -- that question was why are they located --

MR. SALANT: In areas that are traditionally hostile to labor unions.

MR. PRESS: Well, I'm not sure. I don't know how you define what hostile to labor unions means. It's kind of hard to grasp on that. The fact of the matter is that there's a lot of new land and new plants and new industry that's developing in all kinds of states. In fact, the ex-governor of Michigan is here, and I'm pleased to see that. And he's very familiar with the fact that manufacturing is moving around. Jobs are being created all over. And I think that it doesn't really relate to the union or anything like that.

Our company works with unions. We work with those workers that aren't represented with unions. And it's really up to the individual

workers to make those decisions. We've got good relations with all.

MR. SALANT: This questioner says, "How is Toyota dealing with the lack of highway and railway capacity to deliver automobiles to customers?"

MR. PRESS: The infrastructure is an important issue, not only from highway -- delivery of our vehicles, but I think long term we have to think of the infrastructure of the country, both in terms of its repair and its expansion. And that's something we need to worry about.

We've started doing things like nighttime delivery, where we use the vehicles during the night, and the day. We extend the use of -- trains run all the time. Our trucks are now delivering cars 24 hours a day. We are supply-limited in terms of resources for the logistics, and that's one of the challenges we face.

We've been growing. And as we grow, we need a bigger share. There have been some changes relative to other manufacturers' needs of some of those resources, and we've been able to take up where they may have gone slack. We've actually been customers for some excess room on rail cars and some of the trucking companies.

MR. SALANT: Is Toyota actively interested in using hydrogen power to fuel cars and trucks?

MR. PRESS: Yes, we are. Hydrogen is definitely a fuel of the future, but it's going to be a longer-term development process. There are a lot of basic science things that have to be overcome in terms of storage and delivery and the infrastructure for hydrogen. I mean, just in the state of California alone, the cost is immense to build a hydrogen highway.

Long term, that power will be important. But it's just not available right now. We actually have cars on lease today. You can get one if you want. It's about \$100,000 a month, and there are about three places you can get it filled up. That's the reality of the science today.

The fact is, though, we're working hard on overcoming the issues. And we think that in the future we'll see hydrogen-powered vehicles. But it will be part of a matrix, a mix of vehicles. We'll have smart diesels, advanced diesels, and IC engines. And these will all work.

And it's interesting; I talked a little bit earlier about the hybrid system. The hybrid system that we use in the Prius is the same system, whether it's a hydrogen fuel cell, a gas engine or a diesel. But the hybrid piece is from the electricians all the way to the motor which runs the wheels. And so the hybrid work that we're doing is actually consistent with what will be our hydrogen cars in the future.

MR. SALANT: Toyota still hasn't filed a formal response to the harassment suit. Is the case likely to go to court, or is the settlement being worked out?

MR. PRESS: Well, we have a dialogue going on. In fact, we've

had some extensions that have been agreed to. It's a suit that's currently in its way through litigation. I really can't talk about the suit itself. But I can assure you that the lessons that we learned from this will make us a much stronger and greater company.

We have taken steps to improve our training. Alexis Herman is here, who is head of our diversity council and has also taken the charge of reviewing all of our policies. We feel that it's important that nobody ever have this kind of an issue if we can find a way to avoid it.

And I know -- actually, I had an experience not so long ago where I actually had a stalker, and I can really identify with empathy to this associate. And I do -- we have pledged to have zero tolerance, and we're going to continue that. And we're going to achieve a point where we're going to get much better and stronger from having this experience.

MR. SALANT: This questioner says, "You talked about the automakers' concerns for society's interests. But the auto industry has historically been in the forefront of opposing everything from seat belts to unleaded gas to better gas mileage standards. Why is this?"

MR. PRESS: You have to ask them. I think that, you know, as we go forward and mature as the industry, and as we realize that the growth of our great industry, if we want it to continue, we've got to make sure that we can move these barriers out of the way so we can solve society's problems, not create them.

And to do that, it takes a collegial effort where we work together and not against and be for and not against. And I think that's really the associations -- the Alliance for Auto Manufacturers, the AIAM, the NADA, the associations that represent our great industry and our dealers -- they have really helped us focus in that area. And it really has brought the manufacturers together. And I think we have a new era of a spirit of can-do to maybe change the history there.

MR. SALANT: Do you believe Congress should increase fuel economy standards?

MR. PRESS: Well, I think that we need to see an increase in our fuel economy standards consistent with the environment we live in. Congress may not be the appropriate location. There are government agencies that are responsible for reviewing the science, as well as the capability and the downstream effect of improving fuel economy standards. We want to work with those agencies that can understand both. It's not a political issue. There's a lot of science and a lot of technology that has to go into the consideration.

You know, the other part of that is that you've got to be careful, because if you create a standard that doesn't fit the needs of the customer, then it really doesn't work. It's sort of like if a shoe company only made size six shoes. Not everybody can wear that size. So you've got to take some consideration of the customers' needs and the industry and come up with plausible standards. But,

yes, we support increasing CAFE.

MR. SALANT: This questioner wants to know, "Why aren't the salaries and compensations of American auto company executives directly related to their companies' performance? How can a \$100 million compensation and benefits package be justified when that executive's company is losing market share?"

MR. PRESS: Well, I wonder if he's going to be there long and if there's going to be an opening. (Laughter.) I can't answer that, because it's sure not true at our company.

MR. SALANT: In Japan, Toyota has ventured into home manufacturing, gardening, aerospace and advertising. Is Toyota North America going to only make automobiles?

MR. PRESS: Well, actually, our scope in the United States and in North America, we're focusing on the automobile business. That is our interest. We have affiliates that have other businesses that are operating in the United States, and this may be the same thing you're referring to.

The core of Toyota is still automobile manufacturing, but there are some companies that have spun off in Japan that do housing. We have a large company that does material handling and forklifts. We're involved in heavy trucks through affiliates, trading companies, those kinds of businesses. But for Toyota in North America, our focus is our love, our hobby, and that's building great cars and trucks that people want to buy.

MR. SALANT: Can you comment on how foreign or perhaps international car companies have learned to advance their political agenda in Washington?

MR. PRESS: How we've learned to advance our political agendas? Well, the first thing we did is we got invited to the Press Club to give a speech. (Laughter.) And I don't know if it's working so far. I'll have to tell you after it's done. (Laughter.)

But the fact of the matter is, we really don't consider advancing an agenda. What we want to do is to enter into the reality of the decisions that are being made and educating and helping everybody understand what technology can provide and what solutions, as opposed to what pollution, the industry can create.

And by doing that, I think we can raise the standard for everybody. And it really isn't just about one company, but I think it's about society and in the best interest of our customers and the air that we breathe and our kids' and our grandkids' future.

MR. SALANT: What explains the spate of recent Toyota recalls, including those affecting the Prius and Echo? Is Toyota's reputation for quality at risk?

MR. PRESS: Well, I think that's a great question. I'm glad you asked it. The fact of the matter is, if you look at quality measures, J.D. Power's or IQS or Consumer Reports, or even if you look at

loyalty, our quality is very high and always at the very top. We have more winners in quality segments than any other company.

Recalls are an example of opportunities we have sometimes where we can make repairs to cars before customers have failures, if we learn about some failures early on. They're also -- and it's true, the fact of the matter is we are in a situation where we've improved our quality standards. We're improving our drive.

We've strengthened our organization to have even better levels of quality. And we are committed to do that. We want to make sure that we are able to provide that. That's our reputation. That's what drives our customers and our business and our resale value. And we're going to maintain that position.

MR. SALANT: As mentioned in the introduction, J.D. Power surveys indicate low ratings for the sales experience. What are you doing to turn this around?

MR. PRESS: That's also very, very important to us. We feel that we've made real progress there. If you look at the recent J.D. Power indicators, we have had some improvements. And we think that's primarily because our dealers, who have had to contend with a lot of growth, have been making some big investments in their facilities, increasing the training and the development of their own staffs. And that's really starting to show.

Our dealers are going to be spending, in the next two years, \$3 billion to expand their facilities and develop their own organizations. We have also entered into a position where I think that we have a good dialogue with the dealers. We've started systems where we're providing input for them so they can identify issues and problems and then come back with solutions for themselves.

The fact of the matter is it's part of our growth. We've got to overcome that. We're making some progress, but there's no excuses. But if you really want a measure if we've been successful, the best measurement really is loyalty. That's the end result of all this stuff -- if the car was good quality, if it was reliable, if it had good resale value, if it was a satisfactory experience, both buying and servicing.

And we're really proud of the fact that we have industry-leading loyalty. And that shows that perhaps we're able to deliver the dream. But it's not good enough. We know we have a lot of work to do. And believe me, our dealers are the first ones that are trying to drive it. We've got the best dealers in the industry.

MR. SALANT: Toyota -- you said you've sold 350,000 hybrids. But many times that number of low-mileage SUVs are still sold each year. What needs to be done to change the mind-set of the American car buyer?

MR. PRESS: Well, I think that the SUV -- we've just introduced the SUVs. And the real premise of the SUV hybrids is that you can have the great performance of a V-8 type vehicle for six-cylinder gas

mileage. So you get the advantage of an SUV where you're carrying something -- you need utility; you need towing power. You've got that power, but you don't have to pay the premium for a big V-8 engine or pay all the cost for the gas. So it really is the best of both worlds.

And it's a process of education and getting the cars out there. We've only been building them now since June of last year. It's new technology to us, and it's being developed. And this is a case where we've seen a real acceleration here in the last three or four months of our hybrid SUV volume. It's really gone up and our stock has come down.

MR. SALANT: Regarding auto safety, what needs to be done to reduce distractions such as the use of cell phones by drivers?

MR. PRESS: Well, I think the fact of the matter is, the biggest problem with cell phones is they don't work. You know, when you think about it, here we are in Washington; everybody's running for office. Instead of all these things that they say they're for that you never can get done, why don't we fix cell phone service? I mean, just one thing like that.

I was going by the White House the other day and my phone went off right in the middle of a conversation. Poor President Bush can't even make a cell phone call. (Laughter.) No wonder he's frustrated.

But the reality is, distraction is an issue we all have to take very seriously, and we're studying it. We've even got research going on with sensors that will identify if the pupils of the eye have been distracted from the road, and they've got a system where the steering wheel alternately gets hot and cold and it puffs some kind of a chemical in your face to bring you back to the center point.

I mean, these are the kinds of things that we all have to look at, and maybe someday you'll be driving a car that will be doing that. And that technology is available. Plus we need safer roads. We've got to work on congestion. There's a lot of technology involved. And that's where we all have to get together and have a vision to develop those kinds of solutions for the industry.

MR. SALANT: Before I ask the last question, I'd like to present you with the National Press Club coffee mug.

MR. PRESS: Oh, thank you.

MR. SALANT: I believe that mug will fit in those oversized cupholders in the minivans; and also a certificate of appreciation.

MR. PRESS: Oh, thank you. That's very kind of you. (Applause.)

MR. SALANT: Our last question comes from Oberlin College, who asks, "What do you suggest I do to become a car man?"

MR. PRESS: Ah. First of all, thank you for this mug. I'll tell my kids they can join also. (Laughter.)

It's great to see a young man here from Oberlin College who wants to get involved in the auto industry. We need you. In fact, our industries need young people that are smart and vital and that get involved. When you go to these other countries and you see what's happening in the education system, it really -- you see the lack of our own competitiveness. And I'm really happy that you're here.

The fact that you're here is a big part of it. The second-biggest factor of how you get involved in the car business with us is to drive a good car. Now, you drive a super twin-turbo, right? See me afterwards. I'll give you my card. (Laughter.)

MR. SALANT: Well, thank you very much. (Applause.)

I'd like to thank everyone for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz and Howard Rothman for organizing today's lunch. And thanks to the Eric Friedheim Library at the National Press Club for its research. Research at the library is available to all Press Club members by calling 202-662-7523.

We're adjourned. (Applause.)

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