

COPY

Certified Automotive Parts Association
Washington, D.C.

March 3, 1993

Jack Grundfast
President
ABPA
2900 Wilcrest Drive, Suite 122
Houston, TX 77042

Bob.

FVI

Jack

Dear Jack,

This is in response to your letter of February 3, 1993 to me and members of the CAPA Board of Directors representing the viewpoint of the Association's Executive Committee and the majority of members of the ABPA Board of Directors.

As your lengthy letter covered a number of subjects, and because we want to address each with completeness and candor, I have identified the key points by paragraph and, hopefully, will provide a complete response.

Paragraph 2 -- regarding CAPA's approach to legislation: As I and other CAPA staff have indicated to ABPA Executive Director Stan Rodman on numerous occasions and in a recent speech before the ABPA, we do NOT support legislation which would "exclude any but CAPA parts in the marketplace as substitutes for original equipment." Your assertion that this is my personal position, as well as CAPA's, is surprising considering the fact that I have been a leader in opposition to H.R. 1790.

As a consumer advocate and as Executive Director of CAPA, I am 100% against any law or legislation that would effectively put the aftermarket part industry out of business. You may want to consult the many pages of information issued by the Coalition for Competitive Repair parts, of which you are a member, presenting the consumer position on aftermarket parts for assurance that neither I, CAPA, nor any of the consumer leaders are attempting to do anything to "put you out of business." As a matter of fact, while CAPA has not actively participated in legislative or lobbying efforts, I have personally seen to it that the nation's largest consumer advocacy organization, the Consumer Federation of America, came to the immediate defense of your industry in the wake of the Ford/Keyston settlement. Furthermore, I have spent numerous hours with the New York State Department of Insurance for one reason only--to protect and defend the presence of your industry in the marketplace. In addition, I have traveled throughout the country, at the invitation of numerous state legislative bodies, with one goal in mind--to protect the existence of your industry.

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Before you continue with public or private accusations about either me or CAPA somehow trying to "put you out of business", I strongly suggest that you consult your colleagues in the distributor industry who are well aware of my personal and public efforts to preserve a free and open marketplace. Your colleagues in automobile manufacturing would, I am sure, be quite surprised to hear of your concern that I am trying to "put you out of business."

Regarding your specific allegations on the impact of "legislation" on your industry: I am not aware of any currently pending legislation that would generate the litany of outcomes that you list in Paragraph 2 of your letter. If, by chance, you are referring to the proposal of the New York State Insurance Department, I would like to set the record straight on both the regulation and our support of it.

This regulation, as I understand it, applies only to insurance related repairs and only applies when there is a certification standard for a particular part. As such, I am most confused by all of your stated problems with our support of this legislation. Thus, I hope, your calling our position "reprehensible" is due to your misunderstanding of the scope of the legislation rather than your wanting to deny the insurance consumer the right to high quality, fairly priced auto crash repair parts. I will say, however, that I fully support any legislation or regulation regarding insurance company repairs that requires, when available, the use of a CAPA certified part. This is the only way that consumers can be fairly protected from shoddy parts being substituted for OEM parts. Furthermore, for any legislative body to deny access to consumers who might choose less expensive, lower quality body parts for their own or non-insurance repairs would clearly be anti-consumer.

Before you implement the threat that you and members of your association are not going to "sit idly by" as CAPA advances the various agendas that I have outlined above, you may want to recheck the legislation and regulations we are supporting, the consumer group efforts that we have initiated and our vocal position before body shop and car company forums on the subject of the availability of aftermarket parts. If, after having done that, your decision is to "not sit idly by" while we advance these positions, then that is your right.

Paragraph 3 -- regarding CAPA's enforcement procedures: You make a number of very serious accusations in this paragraph. First of all, the procedures that we have set up to enforce our policies in the field are regularly subject to considerable public scrutiny. These procedures have been approved by both the Technical Committee and the CAPA Board. Both of these groups,

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which have active representation from your industry, enthusiastically endorsed the procedures. We have not yet found anyone who has had any objection to those procedures, either domestically or abroad. Nevertheless, you accuse these procedures as being "too unwieldy" and "time consuming." Unfortunately, we have absolutely no concept of what you mean by this and trust that an explanation which describes both the unwieldy and time consuming nature of CAPA enforcement procedures will be forthcoming shortly.

You also indicate that our enforcement procedures are "filled with inconsistencies." We encourage you to document those inconsistencies, as CAPA will absolutely not tolerate any inconsistent enforcement of our policies. Upon receipt of your documentation of the inconsistencies we will take immediate corrective action. In addition, serious reprimands will be issued to those responsible for the inconsistent enforcement of our policies. Because this is such a serious concern to us, any effort you could make to expedite the documentation of inconsistencies would be greatly appreciated.

Finally, ABPA's most disturbing accusation is that many of the foreign manufacturers believe that the program "smacks of political favoritism." Again, your documentation of this very serious charge will lead to our taking whatever steps are necessary to immediately cease such favoritism and severely reprimand those responsible. CAPA takes very seriously the absolute fairness by which we implement this program and will not tolerate any violation of that principle guiding factor.

In the last sentence of paragraph 3 you indicate that you made a suggestion at the November Advisory Meeting which you felt had great merit, but in the minutes of the meeting it was simply "glossed over." You did not identify the suggestion, however, in paragraph 4 and from further reading of your letter, it seems as if it referred to the concept of a certified factory. Your assertion that we did not take the suggestion seriously is totally inaccurate.

As I said at the meeting, it is a concept that we have discussed on numerous occasions and represents a direction in which we would like CAPA to move. Furthermore, the issue was so relevant that we placed it on the agenda for our February 4, 1993 Board meeting, the first to convene after the Advisory Committee meeting. After discussion, the Board agreed to implement the proposal as soon as I present a specific plan. You might be interested to know that our newest Distributor Board member, Don Vestal, contributed a solution to the problem of how not to lose parts already in the program which are made by manufacturers who choose not to become CAPA participants. I only hope that the

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serious charges that you make in paragraph 3 are as wrong as they were in this case.

Paragraph 5 and 6 -- regarding CAPA certified factories: While we have not finalized the details, here is a brief explanation of our tentative plan to certify factories. After a given date, any manufacturer who wants to submit new parts into the CAPA program must agree that all parts made at that factory, for which we have CAPA standards, must be CAPA certified. The only exception would be parts for cars which are not sold at all in the United States. Those manufacturers who choose not to participate will be allowed to maintain their currently certified parts, however, they will not be allowed to introduce any new parts into the system until they agree to get all of their new CAPA certifiable parts CAPA certified.

Paragraph 7 -- regarding CAPA seals: The Board, Technical Committee (both of which include representatives from your industry) and I have revisited your suggestion that we cease using seals regularly, and we still believe that it would be entirely inappropriate to cease the use of seals. One of the biggest issues facing the users of CAPA certified parts is verifying their use. Ironically, our adoption of ABPA's proposal to have a two part seal provides the most powerful argument for keeping the seals. Without this two part seal, there is little that a user of a certified part can do to verify use to either the insurance company or the consumer. I trust you can understand our finding your suggestion quite unusual, given that the two-part seal was a suggestion from your industry. After again considering this issue, we have no current plans to drop the use of the seal. Not only does it provide easy verification of use (as ABPA Executive Director Stan Rodman has quite rightly stated on many occasions), but it serves a number of other needs including: a simple means of fairly charging Participants; a way to cross check complaint ratios; and, an easy method of counterfeit detection. None of these would be possible by marking the part. In addition, we need the seals to track problem parts.

Paragraph 9 -- regarding each of your points: (1) For the reasons stated above, we strongly disagree. Currently, seals are a vital part of the program. (2) I can assure you that putting more money into this system is a secondary consideration for CAPA. We are, instead, attempting to make the system work. Furthermore, it is much more equitable to charge less to those manufacturers who make fewer parts and use our services less, and to charge more to those who make many parts and use our services more. The seal allows us to do that. It also makes it more difficult for manufacturers to falsify production records. (3) In no way would this eliminate "cheating." In fact, it would be

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much easier to stamp a manufacturer's logo into a part which isn't certified than it is to find and attach one of our seals which have easy-to-detect, anti-counterfeit measures.

Paragraph 12 -- regarding CAPA standards: May I direct your attention to our plastic standard to which you are apparently alluding. We have made numerous modifications to this plastic standard and the current range of acceptable plastics is quite broad. We do, however, have some basic generic requirements for similarity. Let me reiterate, however, that the fundamental concept of CAPA is to ensure that the end user receives a product that is functionally equivalent to the OEM. At this stage, our goal is to get Participants to produce an equal product and not a better product. Maybe in the future, if sufficient demand for CAPA certified parts arises, we could insist on a better product, but that time is not yet here. In the meantime, will CAPA settle for a substandard product? Absolutely not.

You might be interested to know that Carl Hartman, the ARPA representative on the Technical Committee, has been pushing CAPA to develop its own criteria (rather than matching OE) which in some cases would actually exceed OE performances. We believe thinking like this, rather than accepting substandard performance, will play a large role in the future of your industry. In fact, at least one of our manufacturers has suggested that we develop CAPA specs that exceed OE and challenge OE to match CAPA quality. We are taking these suggestions very seriously and have no plans to accept substandard parts as equivalent to OE parts.

Paragraph 14 -- regarding CAPA's current approach to quality: I did not personally know the prior manager of this program and will not comment on his perceptions nor will I comment on the development and implementation of the prior procedures. However, I will say unequivocally that today's CAPA program is one that has withstood public scrutiny, is based on sound technical principles and remains flexible to marketplace changes. It is a program which I have staked my personal credibility on and one with which all those associated can be proud.

We disagree with your theory that substandard quality is cheaper than quality. We believe that it can be incredibly cost efficient for CAPA Participants to comply with our standards. The problem is that they don't have to comply with those standards because right now there is little distributor demand for CAPA certified parts.

Paragraphs 16, 17, 18 and 19 -- regarding miscellaneous CAPA program issues: You may have a basic misunderstanding regarding

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what the CAPA standard setting program is all about. If so, it is clear that I have done a poor job communicating our objectives. We are a standard setting organization. The manufacturer certifies to CAPA that it meets or exceeds our standards. We have an independent technical laboratory who validates the manufacturer's certification. The foundation of the program is the standards.

It is clear that the manufacturers were not able to develop their own standards of performance for metal or plastic crash parts, which is why, apparently, the ASPA attempted to start a respectable, industry-wide standard setting program. CAPA's sole reason for existence is to develop acceptable and appropriate standards.

Using your example of radiators, right now there are no industry standards for the performance of aftermarket radiators, and numerous industry sources complain of inconsistent and substandard quality. To meet the marketplace need for consistent, high quality radiators we are developing a standard. Any manufacturer who chooses to participate in our program would certify to us that they meet the generally acceptable standards which we will develop. We, of course, will ask our lab to validate that certification because, as you know better than I, there needs to be an independent validation of any such claim. In re-reading your letter, I am not sure whether this concept differs from what you are suggesting. In any event, it is how CAPA approaches the issue of standards.

Paragraphs 22 and 23 -- regarding CAPA staff attitudes to distributors; I can assure you that we spend a lot of time on all correspondence which emanates from this office. We regret the interpretation that our correspondence "talks down" to any recipient. As far as our demands being "none-too-subtle", you are absolutely correct. We hope that the demands that we are placing on the marketplace are very clear, straightforward and not at all subtle.

Throughout my entire professional career and personally, I have always made it a point to treat every person with honesty, courtesy and respect. I have shown no favoritism to any group whether it be a member of the Board, members of the consumer community, members of the media, the body shop industry, or members of your industry. In fact, in spite of the incredible management challenge posed by running such a large operation with so few people, we spend considerable effort on communicating directly, honestly and straightforwardly with every single member of your industry who has contacted us. In addition, whenever possible, we make the effort to attend your industry gatherings to explain with straightforward candor, all the details behind

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the CAPA program. However, if you have any specific examples of any disrespect that I personally, or any of CAPA's staff, have shown any member of your industry, I will immediately issue a public apology--as such behavior is intolerable.

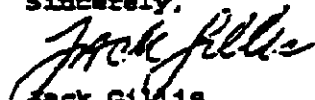
Paragraph 24 -- regarding Distributor Listing in the CAPA Directory: Due to numerous requests from your industry, we worked very hard to develop a reasonable set of standards and procedures by which body shops and insurance companies could find distributors willing to supply CAPA certified parts. As we became aware of the nearly 100% distributor non-compliance with our very simple requirements, we revisited the issue and spent considerable time developing a new set of guidelines. Throughout this time, however, we have internally questioned whether or not CAPA should be involved with this aspect of the marketplace. Nevertheless, we forged ahead, primarily because of the expressly spoken desire of your colleagues to develop a clear cut, meaningful, and enforceable set of guidelines that would help other marketplace members who were desperately seeking distributors who would agree to supply CAPA certified parts. Nevertheless, due to the tremendous levels of non-compliance and the anticipated difficulty in enforcing a new program, the Board recently decided that this effort was not in the best interest of CAPA.

We are disbanding any attempts to qualify "CAPA Approved Distributors". In addition, we have no plans in the future to attempt to qualify distributors. We are totally removing ourselves from your segment of the marketplace. In doing so, we have notified all electronic estimators that they must immediately remove CAPA approved designations from any distributors names that we have given them.

Regarding the duplication of distributor names under state headings, I would like to point out that this was done solely at the request of the distributor members of your industry.

I hope that this addresses all of your concerns. I look forward to addressing the ABFA in Toronto to respond to your letter publicly. Please do not hesitate to contact me if you wish to discuss these issues further.

Sincerely,


Jack Gilis
Executive Director

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