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Toyota recalls mount as automaker faces increasing scrutiny

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TOKYO (Bloomberg) -- Toyota Motor Corp. made its fourth global recall involving more than a million vehicles this year, as the world's largest automaker begins operating with stricter supervision over safety from U.S. regulators.

The carmaker is calling back 1.75 million vehicles, including 759,000 Toyota and Lexus sedans to repair fuel pipes that could leak and raise fire risks. While the automaker may accrue hundreds of millions of dollars to pay for the recall, "the cash risk will be much less" because not all customers will get the repairs, said David Whiston, an equity analyst with Morningstar Inc. in Chicago. The company didn't provide an estimated cost for the recalls.

"A single initial report cannot identify a trend and rarely prompts a recall," said Dion Corbett, a spokesman, noting that the first report of a problem with these cars came from the U.S. in June 2010. "When we see what might be a trend and investigate the issue, and when we believe there is a safety-related defect, we begin a recall."

Automakers are under increasing pressure to hasten their recall process and justify the time lag between learning about potential flaws and calling back cars for fixes. The scrutiny has intensified after General Motors Co. took more than a decade to start replacing deadly ignition switches in some of the record 30 million cars and trucks the company has recalled in North America this year.

'Just in case'

"Carmakers have changed their attitude and recall anyway as long as the problem is happening with multiple vehicles," Koji Endo, a Tokyo-based auto analyst at Advanced Research Japan, said by telephone. "Just in case."

Toyota said it isn't aware of fires, crashes, injuries or fatalities caused by the flaws in the vehicles it's recalling. The fuel pipe fix involves Toyota Crown, Crown Majesta and Mark X cars and Lexus IS, GS and LS sedans built from January 2005 to September 2010.

The recall announcement by Toyota involves two other defects. The company first received reports in July 2011 from Japan of brake fluid leaks that could lead to reduced performance. The other safety campaign, which also involves a fix to fuel systems, follows an initial report from Japan in January 2013.

The recall is the first major global campaign by Toyota since David Kelley, a New York-based partner at Cahill Gordon & Reindel LLP and former U.S. Attorney, was appointed by the U.S. Justice Department in August to supervise the carmaker's safety procedures.

'Lessons learned'

Kelley will review Toyota's policies and verify the accuracy of its public statements for three years as part of the automaker's \$1.2 billion settlement related to its handling of more than 10 million vehicles recalled in

2009 and 2010 for problems that caused unintended acceleration.

Toyota has now recalled about 5.3 million vehicles in the U.S. market this year, according to its website. A total count for vehicles recalled globally wasn't immediately available, Corbett said.

"With the lessons learned from past recalls in North America, Toyota keeps showing the attitude to proactively recall and have everything under control before any serious accident happens," said Takashi Aoki, a Tokyo-based fund manager at Mizuho Asset Management Co. "I don't think this recall would damage the brand image, or cause the shares to decrease, as there were no injuries, fatalities or crashes."

Japanese crowns

In Japan, China and other markets in Asia, Toyota said today that it's calling back about 802,000 Crown, Crown Majesta, Noah and Voxy models made June 2007 to June 2012. The company will replace a rubber seal in the brake system that could crack and cause fluid to leak, leading to degraded performance.

Toyota also recalled about 190,000 Rumion and Auris cars in Japan to replace emission-control units that could cause fuel leaks and lead to greater fire risk.

In the years after its unintended-acceleration recalls, Toyota has sought to repair its reputation for quality that helped it become the world's top-selling automaker. While the company lost that title to GM in 2011, it regained leadership for each of the past two years and clung to its lead over Volkswagen AG through the first half of 2014.

"The reputational damage from the accelerator issue is done," said Whiston, the Morningstar analyst, who rates Toyota a hold. "The more recalls we have now will numb the consumer, to an extent."

More investigation

Toyota may still not be done dealing with problems involving unintended acceleration. The U.S. National Highway Traffic Safety Administration last month said it would evaluate an owner's claim that "low-speed surging" contributed to an accident with a Toyota Corolla. As many as 1.69 million cars from model years 2006 to 2010 could be subject to investigation depending on the regulator's inquiry.

Toyota expanded a 14-month-old recall of more than 2 million vehicles for faulty airbags in June after supplier Takata Corp. told customers further fixes may be needed.

In April, Toyota called back more than 6 million vehicles for five potential hazards involving almost 30 models. The company recalled 1.9 million Prius hybrids to update software and fix defects that could cause the cars to lose power or shut down and stop in February.

"This recall is generally not that big of a deal," Whiston said. "Reputation only tends to be an issue when people die and Congress gets involved."



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