

# LIVE BLOG OF AUTO HEARINGS: SENATE BANKING COMMITTEE

I was a little late tuning in (CSPAN), so I missed Senator Shelby speaking about how cool his SUVs were, as compared to American SUVs.

Interesting, Jim Bunning (crazy-KY) favors some bailout—so it sounds like he's siding with this constituents like McConnell.

Carper states that a GM bankruptcy wouldn't be Chapter 11, would be Chapter 7. Also notes that the auto industry has done a lot of the reorganization they're being called to make now—also mentions the UAW's concessions.

Liddy Dole (forcibly retired-NC) says it's all Fannie and Freddie's fault. There she is! Bust the unions!!

Menendez asks for them to take a responsibility—notes that the climate crisis should not come as a surprise. Slams them for opposing the CA exception on emissions.

Corker (a mix of auto companies-TN) actually comes off as fairly moderate.

Sherrod Brown: We need to help industries that make things.

Allard (retired by choice-CO): says that bailing out Detroit will be unfair to other workers in the industry.

Bob Casey: What is the cost of doing nothing? Invest in American worker.

Bob Bennett (used to be ew's boss, sort of-UT): I'm not going to lecture, the Big Three is reducing capacity as quickly as they can. In favor of finding cash to continue. "Hourly workers are going to have to have their contracts renegotiated downward." [Though to his credit, that's not busting the union.]

Tester: I like iron. I like iron a lot. I had a hard time finding a pickup that was built in the US. That distresses me. I traded off a 2004, I took a loss of 3-4 MPH. That's ridiculous. [I agree, Tester!!] We've got to spend the money in the US—not in Canada. No matter how much money we put forth, if the business model isn't changed, you're going to fail.

Martinez: Failed business model. Use the energy funds.

Bayh: Michigan is greater Indiana. We've been taking steps, none of which appear in your Econ 101 text book (lists banks, insurance, credit cards, Fannie and Freddie). We should have invested in Lehman Brothers. If we allow 10s of thousands of ordinary Americans to lose their job, it will have unintended consequences, some of them severe. Probably not the right moment in our economic situation to allow that to take place.

Crapo: We have to use the Committee process.

Stabenow:

I have to confess. Senator Stabenow is a pretty good Senator. But until this point of her speech, I wasn't convinced. She sounded like a booster—which her audience isn't going to buy. But she's reviewing the investments our competitors make (Germany, South Korea, China, etc) into their national car industry. And talking about the suppliers who also supply the military. [Also, she's mis-stating the CAR study, which purports to calculate all job losses.] Her note that the PBGC is going to be on the line ought to get people thinking, as well. Notes that UAW has taken a 50% cut for wages for new workers. Labor cost gap between domestic and foreign automakers will be eliminated by end of UAW contract. Eliminated 50% of companies liabilities for health benefits. "Somebody has to make something in America. Credit Default Swaps aren't going to do it." We need to make sure we're not moving from foreign dependence on oil, to foreign dependence

on technology, to foreign dependence on manufacturing.

Ron Gettelfinger: Starts with warning that PBGC would be responsible for pre-Medicare auto retirees. What the UAW has done. Commitment that retirees would not have to contribute to healthcare. Negotiate health care fund. Talks about safety record and quality records. "There is [sic] a lot of misconceptions out there about our unions." Have lost 47,000, and all but eliminated jobs banks.

Mulally (Ford): [I was at Dearborn the day after Mulally was hired. A lot of people complained about his payment package. But I do think he has made good decisions.] Well on our way to building a new Ford. Is there a competitive future for our auto industry. Is a bridge loan better than inaction. The answer to both of these is yes. As a newcomer to this industry, I have seen this in a different light. Boeing, transform commercial airplane business. More aggressive transformation. Aggressively restructure. Closing 17 plants and shedding 51,000 jobs. Balanced line-up. The best or among the best fuel economy with every new vehicle. Will introduce two new hybrids. Fusion hybrid beats Camry hybrid by 6 MPG. Enlarged production at truck plant and converting fuel efficient small cars. We were profitable in the first quarter and were on our way to profitability. Eliminated all raises and bonuses. [That's going to help.] Suggest loans be structured in revolving format, to protect taxpayers. Must prepare ourselves for deteriorating economic environment. Domestic auto industry highly interdependent.

Nardelli (Chrysler): Consumer loans, wholesale purchase, and Chrysler obligations, \$4-5 billion/month. What happens with bankruptcy: We believe that retail sales will plummet dramatically, sales fell 37%, consumers leery of buying product from manufacturers not in existence. Our factories would be idled for significant period of time while we negotiated

contracts with thousands of suppliers, would turn the whole financial equation upside down, where we'd have to buy COD and then build and wait for funds. Cost would be significantly higher in a Chapter 11 process than what we're asking from this committee. We cannot be sure we'd emerge from bankruptcy. Welcome govt as a shareholder. Cerberus would forgo any benefit from the upside that would happen with a govt loan. Taken out 30% of installed base. Reduced fix costs by \$2.2 billion. Furloughed 32,000 employees (12,000 salaried employees). Through first half, exceeding targets.

Wagoner (GM): Starts by describing his constituents, including employees, stockholders, retirees, and GM owners. GM has made a lot of progress. Since 2005, reduced fixed cost by 23%. Expect to reduce more. Between 2003-2010, reduce US hourly labor costs from 18B to 6B, President Gettelfinger has worked with us to have a competitive labor situation. Addressed pension and retiree cost in the US. Now matching or beating foreign competitors on productivity, quality, safety, and by 2010 will beat them on labor costs. Advanced propulsion technologies. More than twice nearest competitor in number of cars with 30 MPG cars. Running all out to get the Chevy Volt to market as soon as possible. We've addressed what we think were competitive short-comings, felt we were well on the road to turning around the American business. What exposes us to failure now is not our business plan, it's the global failure. America's real economy. We'll use this bridge to pay for essentials and taxes. In the process, we'll continue to reinvent the automobile by developing technologies like those in the Chevy Volt. The cost of bankruptcy would be catastrophic. This is about saving the US economy from a catastrophic collapse. It will produce enormous benefits later.

Morici (speaking against the bailout): It would be better to go through bankruptcy to produce cars at costs enjoyed by their competitors. Circumstances are different than 1979, when the

US bailed out Chrysler. Today the Detroit 3 have achieved remarkable progress. But they still don't have costs quite as low as their Japanese competitors. There is no such thing as competitive enough in the auto industry. Either the costs are the same or they're not. Sooner or later one of them will walk down that path. I ask you to consider the example of AIG. Government ownership. Is \$25 billion enough in the grand scale of things. Without a new labor agreement, the Detroit will lag in innovation. GM makes about the same number of cars as Toyota, it has a smaller development fund bc of the cost it bears. If you have less money to develop product, you will have less good products. If Chapter 11 is put off, the industry will continue to shrink. Chapter 11 is viable—they can't go out of business completely and then there be adequate cars to be sold. Talks about policy issues that could make it easier—but they won't work. Congress could give substantial support to the automakers. I would condition that on sharing patents. We could have a clunker trade-in program. There are things we can do to improve the efficiency of cars on the street.

Dodd: There's no question that authority to use the TARP exists. Paulson—what is the point. What are the financial implications? Is there systemic risk?

Nardelli: Over 7-8B outstanding debt—those suppliers would be helpless in recovery of those funds. Dealers, over a billion of dollars of inventory in lots. Of top 100 suppliers, 96 are common to other companies.

[I don't think Nardelli knows what "systemic risk" means. Maybe he should let someone else who knows what it means answer.]

Dodd: What mistakes did the industry make?

Mulally: The real run rate—the real demand rate—we're assuming that there is a lower run rate.

Dodd: what might that be?

Mulally: We don't know, separating out the slowdown, we're going through vehicle by vehicle, possibility that over the long term less than 17 million.

Nardelli: Eliminated 4 vehicle nameplates—designed for Europe and sold in US. Chief customer officer. Improve performance, reliability, fit and finish. Move to remedy. Warranty costs gone down 25%. [Wow] Having spent time in housing industry, unbelievable bubble. Mistake Chrysler made, responding to customer that wanted bigger vehicles, chased that demand up. Moving as fast as we can to make it much more balanced profile.

Wagoner: 03-05 period, fueled by low cost credit, under looser terms than would have been appropriate, wealth taken out of houses, trade up and buy vehicles. Within the industry, we had a structural issue. We have a lot of employees, obligations on healthcare, pressure to keep revenue quite high, had to reduce structural costs. We're all going to have to adapt to more realistic credit terms, less leasing. Energy prices have plummeted, but we don't believe that's going to last. A more likely trend volume probably 15.5 million, and it could be lower. Planning business on much lower business than that.

Dodd: Let me respectfully suggest—you were providing the sources of credit. Some acknowledgment that that was going on in the auto industry. GMAC was providing that credit. Any acknowledgment that it was going to end up in this situation.

Gettelfinger: We have been tracking loans (about to say they managed it okay). Consumer payment on auto bills has been pretty good.

Nardelli: Our credit company at the time didn't tell people you shouldn't buy a bigger vehicle. As Rick indicated if you look at delinquency, they're up, but not like housing industry.

Mulally: we didn't offer easy credit, combine low interest prices, with low fuel prices, did

incentivize big buying.

Shelby: Why should we believe you can restructure now when you couldn't under more benign conditions. A lot of people think the model has failed. What would you do with the money if you were able to get \$10 billion? What would you do with it specifically?

Wagoner: What's different? Our capacity in 2005 was 5 million, now that number will be 3.3 million—we've taken a huge chunk of capacity out.

Shelby: Well why aren't you making money?

Wagoner: Costs to restructure. Hopefully we won't have to decrease another 30-40%. Market has plunged bc people can't get credit.

Shelby: You weren't making money when you had cheap money a year ago.

Wagoner: When you take away charges for restructuring.

Shelby: What have you spent on restructuring.

Wagoner: If we look at business going forward: 12 million next year, 13 the following, level out at 14.5 – 15. We can be profitable.

Shelby: What would you say to people who've said "we've heard that before"?

Wagoner: I would take as evidence coming out of the labor agreement last year. Got good products.

Shelby: Ford? And how are you going to pay this money back?

Mulally: We set out to build a sustainable business. The most important thing was make products that people valued. Best in quality, best in fuel efficiency, best value. Leverage all global assets, best in class small vehicles around the world. Bring online smaller more efficient vehicles. Improve quality—statistically equal or better than our Japanese competitors. On fuel efficiency,

participate in energy independence act. We would be world class at fuel efficiency. Safety, Ford has more 5 star ratings than any other brands.

Nardelli: Harbor report.

Shelby: Familiar with that.

Nardelli: Spot on Toyota. As Ron said, our hours our pay per hour will be competitive, on vehicle production standpoint, we will be globally competitive. Consolidate dealers. Put brands under one roof. Taken structure down, assuming more conservatively than the other fellows. 11 million next year. Delay organization expand employee control. Adding \$400 on fit and finish.

Shelby: What if you don't pay it back?

Morici: If you go to China where they've got a clean slate, they can compete with the Japanese. So long as you're downsizing, you'll have special charges forever. Chrysler is on par with Toyota. Ford is not by large margin, GM is not by 2/3 of that. It's not that they are not capable managers, but burdened by history. Must be on par with Honda in IN and work rules that puts them on par with Honda in IN. It is possible to accomplish drastic change.

Shelby: How many model lines? How many are profitable?

Wagoner: 60. About half are profitable. For lower cost vehicles it's harder to make money. That's changing.

Mulally: On brands, we have divested all other brands. We're losing money now, larger vehicles make more money. We'll be able to make money on all.

[Shelby doesn't know what he's asking here]

Nardelli: Three brands, 20 lines, eliminated several already. Newest products, new minivan, journey, truck, liberty, making money on variable cost basis.

Carper: Notes that the Durango plant is



operating way below capacity. Lay out confluence of events, to 2010, when labor savings really kick in. Carper has a Town and Country Minivan with 210,000 miles on it. Morici, what is unrealistic about what I just suggested?

Morici: Unrealistic that on sustainable basis that we'll sell 16 million any more. As a consequence they will be selling minivans. With the kind of buyouts the contract requires, an expanding group of manufacturers in the southeast—that's what's wrong with the margins.

Gettelfinger: Labor cost savings incremental, 50% pay cut, put them in 401K healthcare. For all employees. COLA and wage concessions in billion dollar range.

Carper: How do we tell taxpayers it's a good deal for them?

Wagoner: between dealers and suppliers, affects every state. Take our commitments to ensure it's paid back and with interest. Expectations something addition, whether it's warrants or whatever.

Carper: New administration in 63 days, 7 hours, and 4 minutes. Infrastructure development. Focus on hydrogen infrastructure?

Bennett: Public capital would be patient in finance. I see the parallel here. We're being asked to put public capital into the auto industry, in the belief that as patient capital, it can be paid back over time. We have a contrarian here who says it's not going to happen.

Morici: Cost structure not aligned. I was working out. If labor cost differential was zero, your hypothesis would be correct.

Bennett: We're being asked to put public capital in, is it going to work. Even if wage is spot on, and all the other elements are the same as Honda of IN.

Dodd: I want to know the total amount.

Menendez: Really hammering them on total numbers they'll need.

Menendez: I hope you won't oppose CA's request for a waver.

Corker: We've got one of most important businessmen here, a dealer with about 300 employees. (I bet money I've been there...) I don't think you'd all be considered viable. Chrysler barely has a heartbeat. You've all created a pact, but you won't tell us what you've each asked for, though I think you did tell Mr. Levin. I'd like Gettelfinger to tell us which of the three should survive. I just want the numbers.

Gettelfinger: From best to worst? Ford, Chrysler, GM.

Corker: I've been a card-carrying union member, I don't have a problem with unions, well I do of course with card check.

Wagoner: 80% of consumers would not consider buying a GM car if it were in bankruptcy. (Sounds like Chrysler was 95%, just guessing.)

Dodd defends union for paying people in layoffs.

Casey: How would you spend the money, and on environmental question, fuel efficiency. How far advanced are you—a status report?

Mulally: We can make it a year, but we want the bridge in place so we can get it if we need it. As to environmental, we're making the combustion as efficient as possible while putting research in plug-in, electric, and then hydrogen.

Tester: I've got to pee! And will this money be spent in the US?

Yesses all around.

Tester: Wagoner, you're in business in Russia, how can we be sure we're not sending this to Russia.

Wagoner: We're profitable overseas, they send

money back here.

Mulally: We do bring profits from overseas back to the US.

Tester: Do you really need the money? If you can take money from other areas? Can't you do that in the short term?

Mulally: The reason we're here, with all the markets slowing down worldwide, we're giving you a status of the companies.

Wagoner: We have tried to repatriate the money from different countries. That played out over the last 60-90 days in W Europe, playing out now in Brazil, we have been very profitable in Brazil this year, but that's slowing down.

Tester: Strings attached. CAFE standards. Any problem with that?

Mulally: We're going to meet CAFE.

Tester: mileage increase in trucks is minimal. I'm talking half tons. If you get those up your CAFE would go up significantly.

I agree, Tester, knew I liked you!!

Tester: you'd be opposed to string attached for bailout.

Tester: Lee Iaccoca took one dollar compensation. Would you be willing to do that?

Nardelli said yes. Wagoner said he already cut his salary 50%. Mulally hedged.

Good question—seems we need to come back to that.

Morici: Strings—the best would be to the nine largest banks.

Tester: has the \$300 billion helped you?

Wagoner: We have been able to use the fed window, but not beyond that.

Nardelli and Mulally: No, none.

Dodd for Mikulski: Tax deduction for buying a

new car?

Nardelli: We wouldn't turn down the help, but before you get the crisis, you have to buy a vehicle, the FICA scores are too high to qualify. Our biggest immediate challenge is to get, we must get the financial companies healthy. And certainly then the tax credit would be beneficial.

Dodd: Executive compensation are pretty rich. [starts describing them] If we're going to be talking about an assistance here, it's very important that you understand the public's reaction to this, it is the concern that people have that some people are subsidizing this. I can't tell you what sort of reaction we'd get from the public if they could be sure they're not going to pay to subsidize exorbitant salaries.