

The state of the auto industry

Meyers

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cylinder engines? Does it bother you that AMC, forgetting Renault for a minute, does not have the competitive technology against those kinds of cars?

A. Dave, you cannot forget Renault. Renault is an integral part of AMC and AMC is an integral part of Renault. Renault LeCar gets 30 mpg in the city and 40 mpg on the highway, and that's as good as almost anybody on the list you just described. The 181 that's just been introduced gets 26 or 27 mpg in the city and much higher on the highway. You put it together, and we've got products that are right. That's the big reason why we got together.

Q. What's your view of the current market?

A. In my opinion, it will be coming back gradually until we get into the spring and there is a return of confidence. That should be the beginning of the return to better profits.

Q. When do you expect AMC to be back in the black?

A. I'm not going to get into when we're going to be profitable. That's much too newsworthy for me to answer. You have to conclude if you're going to see the full results of a rebound during next year's second quarter, which is our third quarter, that sometime around there you might get back to the black, but that won't be my saying it. It's speculation.

Q. What about having a United Auto Workers official on your board?

A. We have agreed we would recommend a UAW member to a nominating committee, and favorably so, if it is judged by federal agencies that it is within the realm of legality. My opinion about the whole subject of constituents on the board hasn't changed at all. Constituency boards are not a desirable thing for stockholders, particularly when they don't represent stockholders. But if the UAW member is deemed to be legal and proper, we agreed with it, and we're going to work with it.

Q. Not with any enthusiasm.

A. We're going to tell the board we welcome it, with open arms. But it is difficult to think about somebody coming on your board who doesn't represent the stockholders. You can say one thing about Renault: that they are big stockholders and therefore represent a lot of stockholders. When there's someone on your board who openly says he does not intend to represent the stockholders, that's got to be something you have reservations about, and I do. But that's what we agreed to do.

Iacocca

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have a lame-duck situation until Jan. 20, so we're stuck.

Q. Mr. Reagan originally opposed federal loan guarantees to Chrysler, and he's also known as a free-trader. What's he going to do about the industry's problems?

A. He's got to be pragmatic. I talked to him for two hours when he was in Detroit. Afterward he told me he was convinced that the administration created Chrysler's problems and owed it to us to help bail us out. "I was against it, but now I'm for it," he told me. Some campaign promises are fuzzy, but on trade he was pretty unequivocal. He said, "I've been a free-trader and I don't think I'd be for tariffs, but I would be one tough negotiator, man to man, with the Japanese." I'll be calling him soon to remind him, because he's publicly committed to us. There's got to be some coordinated, integrated, concentrated plan to make sure industry in this country remains healthy for the good of the U.S. If they rule out steel, houses and cars, this country will be sick forever.

Q. You sound like you expect a disaster in '81.

A. Today, with no indication interest rates are going to go down, we may have the shortest recovery in history. You could be real cynical, Dave. It's funny, the recession started to end three months before the national election. Now they say, "April fool. There's something wrong and we're going back to the same recession."

Q. Are all signs negative?

A. The underpinnings at some point should be great. There's enough pent-up demand for a two-year ride, but I don't know when the roller coaster starts. It hasn't yet. People are hesitant, uncertain and their cars are getting old. When they decontrol gas prices, it'll go to \$1.65 or \$1.70 a gallon. That will put more pressure on people to get out of 12-mpg cars into models such as the Omni or Horizon Miser.

Q. But you can't get much for a 12 mpg oldie when you trade for a Miser.

A. That's why we need a \$1,500 tax credit on older cars, to prime the pump. It's a credit to save energy and it happens to get people back to work. I still don't understand why I can go out to my home right now and get a \$4,000 federal tax credit for putting in solar panels, but I can't get \$1,500 for a car that would save more fuel than all the solar panels in the world.

Q. With credit tight and rates high, what is Chrysler doing to help dealers? Earlier this year you covered interest above 10 percent or 11 percent on vehicles in their inventories?

A. Above 10.97 percent. We tried it for two months, but ran out of funds. It sells cars all

day long, but it takes a lot of money. Banks won't touch it. We'd touch it with our own finance company, but we don't have any money.

Q. You've borrowed \$800 million of \$1.5 billion in federal guaranteed loans. Will you borrow more?

A. We've told them our plan isn't working as well as we thought it would for reasons I've already outlined, Dave. But we have no compunction, if we need it, of going to our original request of \$1.2 billion. They came up with \$1.5 billion, but we have a great incentive not to draw that down, because we pay the prime rate plus 1 percent, and that's expensive as hell.

Q. Despite high interest rates, you still have to sell cars.

A. A few years back (as a Ford executive) I said monthly payments were so high, let's go from 36 months to 48 months. It was a tough sell; they thought I'd lost my marbles. But cars weren't being traded as fast and prices were going up. So we gambled and cut monthly payments. I don't know how far we can go, but I think we've got to find new ways of financing, because the guy needs transportation — it's no longer a luxury. The real key is certainly the guy's going to keep his job and keep pace with inflation.

Q. What about merging with another company? You've said some parties have shown interest.

A. There could be a lot of joint ventures — cars or pieces of cars. That will have to be ascertained when we turn the corner. We've got to show two or three quarters of good profits. That's when we'll have serious talks. We have partners now with which we have huge contracts or equity interest (Chrysler owns 15 percent of Japan's Mitsubishi Motors Corp. Ltd., and 15 percent of France's PSA Peugeot-Citroen). All kinds of studies are going on.

Q. What's your reaction to Mitsubishi angling to set up its own U.S. sales network?

A. That's just what this country needs — another Japanese distributor. Hell, they've got 3 million cars and trucks here already.

Caldwell

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costs. But I think the situation this fall and winter, as difficult as it is, certainly is not the disaster it was last spring. We'd all like to see lower interest rates, but you have to get the inflation rate down to justify them. Second, higher rates are reflected in monthly payments. When money is more expensive, it increases monthly payments, and that becomes a drag. Third is the cost of money to the manufacturers. All three of these factors fall negatively.

Q. Ford recently reinstated \$1 billion of spending.

A. Our investment programs for North America and the rest of the world are much more definitively described now. We have lengthened our look so we have a rather clear idea of what our product programs will be in the 1990 model year. We know where we want to go, we know the markets we want to be in and we know the technology that we're working on. Several times since last spring, we've re-evaluated the totals required. The \$1 billion was an indication we felt the need to put about that much more in. It's confusing to people, but it's hard to project over a 10-year period without having some changes.

Q. This \$1 billion extra is budgeted through '85?

A. Yes. When you're dealing with powertrain programs that have five- or six-year lead times, and you're dealing with the reality that American consumers are reconciled to smaller cars, you are able to be more definitive in the path you want to travel. That's the net of it. So we've re-described what we need through 1985 as well. Therefore, our investment requirements are more accurately defined than they were. Basically, it's for new products, with heavy emphasis on powertrains.

Q. Would you say you're up to German or Japanese quality yet?

A. We're every bit as good as German quality, and Japanese quality has two aspects. There's the initial impression, what some people call fit and finish. We know we can do more in that area than we're doing even with Escort and Lynx, but we're not ashamed in any way of their quality. But we have our people so charged up on this point that they're not willing to just sit on their laurels. We mean to get this job done.

Smith

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dom, said we had to meet an excruciatingly difficult emission standard for '81.

Q. Why hasn't GM joined in seeking import relief as Ford has?

A. Differences between us and Ford aren't really all that great. Ford is "free trade" long-term. Short-term, we want something else, too, but we want it done voluntarily because we're scared what happens in Washington if you start putting restrictions into law. We're afraid if you start something by the time it gets through committees and channels and comes out at the bottom, you may have something nobody can live with. We think the Japanese ought to be smart enough and do it (voluntarily reduce imports) in their own self-interest. Ford already has given up on that and, in effect, says, "Hell, it isn't going to work, GM is nuts, we want legislation." We say, "No, you're making a mistake going for legislation because we think that's going to be a big problem."

Q. How can U.S. auto companies complain about Japanese penetration on one hand but import Japanese pickups and components on the other?


A. Our original game plan was to learn about the Japanese market and be a participant in it. But there are stronger forces in Japan than we can handle. If you want to talk about industry-government cooperation, they've got it in spades over there. What I worry most about is European policies aimed at curbing Japanese imports.

Q. By one, as you walk down the hall, you see those doors go slam, slam, slam, slam. There's only one big door left down there at the end of the hall.

Q. We're literally the only free-trade market left in the whole world, so we have got to make sure we don't get dumped on. That's why I think the Japanese are making a mistake in not doing something sensible right now.

Q. During your tenure as GM's chairman, will a UAW member be elected to the board?

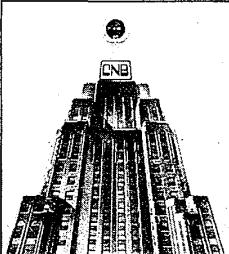
A. I don't think so. They had a unique situation at Chrysler. When Doug Fraser (UAW president) says there's a conflict of interest for him to own Chrysler stock, I can't understand how he can be on the board and not find that a conflict of interest. You shouldn't have a director representing a particular segment, be it labor, finance, women or anything else.

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