

The car biz

The state of the industry, as seen from the top



GERALD MEYERS
American Motors Corp. chairman

AMC

Q. Jeep sales were off 44 percent in October. When will the four-wheel-drive market rebound?

A. There are signs and there's a lot of hope, and there's a lot more hope than signs. It's going to be gradual, more really a function of how fast we get the fuel efficiency in our products and get those products into the market. We're not happy about Jeep volume being down, but we know we're well positioned to capitalize when the market goes back up. We're bringing in new products to help make the market go up, of course.

Q. What is AMC's position on import restrictions?

A. We think there should be no permanent tariff or quota or any other kind of barrier for our kinds of parts and maybe a whole lot of other things. I said permanent tariff. But I don't mean there isn't real trouble. We think even through there ought not to be permanent walls, there is damage being done to the U.S. industry basically by the Japanese. If you talk about a wall-profit tax, this is a windfall automobile situation. Because they're in a position now to move into this marketplace at a time when U.S. industry is not yet ready to produce the numbers of vehicles that it soon will be producing, something is awry.

Q. How do you view Japanese competition?

A. With respect. They're strong competitors.

Q. With interest rates rising again, do you have a problem financing dealer inventories?

A. The embryonic beginning of the American Motors Finance Co. already is in place — in wholesale financing. At the moment, its leverage is about \$20 million, but eventually a retail organization will evolve. But it takes years to put together a finance company.

Q. Dealers have slowed factory purchases because of high interest rates, even though rates aren't as high as earlier this year.

A. There are places now where dealers ought to have more vehicles, and they know it, but they would rather — unfortunately — lose sales than get overextended, and that's a sad story.

Q. AMC's share of the car market is up, but you're losing money (a record \$155,672,000 in fiscal 1980 ended Sept. 30)?

A. Of the domestic makers, we went from 17 percent to 2.5 percent of the market. It's been a bad year, but we're hanging in there. But it's quite evident that making money in the U.S. automobile market for the past six months has been practically nil.

Q. Is it why you've raised prices three times in your '81 models?

A. We raised prices the same number of times as our competitors.

Q. But your total increase is higher than theirs. Is that because you haven't changed your dealer discounts?

A. Yes, that's part of the reason, and that's why there's confusion about prices. Our discounts on Jeep are 19 percent to 22 percent, but our competitors went down to 18 percent. When you lower yours for a specific reason, we said our dealers are entitled to the widest trading margin we can give them. They should be able to offer a person as much on his used vehicle as they possibly can. Even if it looks like our prices are higher, our dealers can offer, say, \$450 on a used vehicle while our competitors can offer only \$200. We say that's good trading advantage for a dealer. It makes our prices look higher on Jeep, but they aren't.

Q. Is the split-off of GM's aggressive small-car pricing advantageous to AMC?

A. We could not have raised prices unless the rest of the industry had done so. We are unable to make up for the labor contract we just settled and cover the purchased parts and all of that, even with the prices that we have settled on.

Q. How does AMC stack up in price, though, against Japanese cars at the bottom, and new U.S. FWD cars?

A. If you take GM's X-car and Chrysler's K-car, our Concord is about \$600 less. On the other hand, as far as the Japanese go, we really don't have a car of the size and price at their lowest level. But if you go up one step, the Japanese probably hover at \$200 less than our small cars. They're ranging \$4,800-\$5,000, and we have Spirits in the \$5,100 price range.

Q. What about the new wave of small U.S. cars with FWD, high fuel economy, all new 4-cylinders?

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LEE IACOCCA
Chrysler Corp. chairman

Chrysler

Q. There's confusion over your fourth-quarter earnings results. You said in September Chrysler could make money this quarter, anywhere from a dollar to \$250 million. Can you return to the black this quarter?

A. Nobody knows. I've had qualifications on that a long time. There are things you can control in plants, but things are pretty much out of control in the country, and getting worse. I've never been as pessimistic as I've been lately. I think the public mandate of early November (Ronald Reagan's landslide win) indicates we need a change. Economically, things are really rotten. Without getting into a lot of garbage, I've said very consistently that our forecasts are qualified by how the economy goes. We're damned if we make forecasts, damned if we don't.

Q. Is the Federal Reserve Board's tight-money policy really hurting?

A. Small business is being decimated, wiped out. You can't carry inventories, you can't do a damned thing. You can't do anything, because you can't tolerate these kinds of interest rates. Dealers are not ordering cars.

Q. With high interest rates, it costs them too much to maintain inventories?

A. They don't want to carry cars with snow on them at rates they pay, about 3 percent over prime. A dealer said to me, "I've got an Imperial sold, but I don't want any Imperials in stock. At \$20,000 a copy? Are you crazy?" We're talking big money — \$500 or \$600 a car for a three-month period. He says, "No way. I would like 20 percent interest for three months. You get lost."

Q. Car buyers also get hit.

A. Yeah. The consumer says, "I wouldn't say I need a new car, but I want to save on fuel bills, so how about a K-car?" And I say, "How would you like 20 percent interest for three years, plus the insurance?" and the consumer says, "Holy cats, my monthly payment will be over \$200. I could maybe go \$150. I was at \$100, but I can't go \$200. My wife raises hell about getting a K-car. I'd like to chicken out, but we did in the Great Depression." I've been sounding off so long about this I'm tired, really tired.

Q. Will the Reagan administration have any effect on the outlook?

A. Yes. I think they could try to tie things together and maybe help. They might ask what it would take to get people to think they may want to buy a car. An indication inflation may be halted or going down would help. More important, people have got to have confidence in the government. What the hell can Reagan do in his first year to break the back of inflation?

Q. He could go to work on interest rates.

A. The president of the United States, only one man, can really do it. He can have lunch with Volcker, chairman of the Federal Reserve Board, which sets interest rates, and he can have lunch with the Japanese. All this stuff that we're powerless is B.S. The ITC says we're not really being hurt (by imports), or that we are being hurt, but for different reasons. Technically, that's their charter. But technically this country's got a problem, and to serve the interest of this country, to hell with technicalities, to hell with them. The Japanese were jubilant and said, "Thank God they didn't restrict us because then we would have had to file antitrust action using U.S. antitrust laws." Use our laws against us while everybody's out of work? We're out of our minds in this country?

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PHILIP CALDWELL
Ford Motor Co. chairman

Ford

Q. What's your reaction to Mr. Reagan's election and what it may portend for the economy, import policies and regulation?

A. The American people, I think, have made it very clear they're very worried about inflation and their economic well-being. The important thing about the election is that it's an opportunity for a new start on some very basic problems. This will encourage people to have a sense of confidence.

Q. What does it mean to Detroit?

A. The needs of the automotive industry fall along three lines: tax policies, regulatory policies and trade policies. I think it's pretty clear the auto industry shares the same need as industry in general throughout the U.S. for accelerated depreciation, and I think under certain circumstances, refundability is an appropriate plank in any new tax program.

Q. Will federal regulations ease up?

A. The opportunity exists for more selective use of regulatory power so that the basic objectives of clean air, clean water, safety and other laudable objectives can be achieved with less government involvement in execution of the programs.

Q. Ford has been very outspoken for restrictions on imports. Mr. Reagan apparently is a free trader. Mr. Carter has opposed restrictions on imports.

A. I personally haven't talked to Mr. Reagan about any of this, and I don't know what his views are. All we've ever said is we recognize each government is sovereign and has the right to establish its own ground rules for participating in its markets. Almost every other country in the world has regulations. Sometimes these take the form of paying tariffs, sometimes quotas, sometimes local content requirements and sometimes they relate to exports to import. In many cases, there's a combination of all those factors.

Q. But the U.S. doesn't have these kinds of protection?

A. The weakness of the U.S. situation, as I see it, is that we have come to grips with trying to determine our national interests. Once we've done that and have set up the proper ground rules, then it's up to foreign producers to decide whether they wish to participate in our market. We don't have any ground rules right now. Everybody has them. The Japanese have ground rules. For 25 years after World War II, the Japanese prohibited foreign investment in Japan. Therefore, the very people who now are criticized for talking about restrictions on imports have been the ones who have had the opportunity to invest in Japan, whether it was European or U.S. producers.

Q. In short, it's too lopsided?

A. Definitely, it's too lopsided. That most important thing in my book is that the three industrial power centers of the free world — Japan, western Europe and North America — must find a way to work together because we have much more in common than we have in conflict. But you can't do that if you have one partner, if you will, bugging the other partners. This problem is not unique to the U.S. The Europeans are having to cope with it, but they're much more pragmatic. Some of their government representatives go to worldwide conferences and talk about following free-trade principles, then come home and participate in developing ground rules. They don't seem to think there's anything wrong with that, but we as a nation are troubled doing it.

Q. Ford has recorded its worst losses in history this year. How badly off is Ford right now from a financial standpoint?

A. This might put it into perspective. The book value of Ford common stock as of Sept. 30 was \$73.8 a share. On Dec. 31, 1979, it was \$48.46. GM's book value on Sept. 30 was \$59.29 a share, and on Dec. 31 last year it was \$44.61. Chrysler's book value on Sept. 30 was \$1.96 a share, and on Dec. 31, 1979, it was \$23.49.

Q. But Ford also lost money overseas in the third quarter.

A. That's a momentary, not a fundamental issue. The economic situation overseas is not at the top of a boom as it was in '78 and '79, but it's not a disaster, either.

Q. The high cost of money — isn't that having an exacerbating effect on Ford's problem?

A. Probably the most fundamental problem is its impact on dealer-inventory carrying

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ROGER SMITH
General Motors chairman-elect

GM

Q. You're on the threshold of taking over as chief executive officer of General Motors and you'll probably be in that job for many years. What are the most important opportunities and problems confronting GM and the U.S. auto industry over the next several years?

A. In the near term, of course, we've got to get out of the red — get the corporation back to a good profit position, because that's important to our entire product program. We're spending \$40 billion through 1984, and you're not going to open the front door and find it laying there.

Q. How will problems of the 1980s differ from the '70s?

A. That \$40 billion alone is an enormous figure to spend and get your money's worth. We're going to have new plants, we'll have an opportunity to really do things right. The big drive for quality and everything else is going to give us the impetus.

Q. To pay for everything you want to do in the next four years will take volume increases that may not come.

A. I think the possibilities are there in '81. I feel better about '82 than I do about '81, obviously, because I don't know any economist who says we shouldn't be well on our way by then. A lot of economists aren't even sure that the recession has ended.

Q. Most experts don't see a significant upturn until the second quarter of '81.

A. We don't need a great increase in the industry's volume. I think domestic competition is going to do better. The products we've got coming all around are going to improve domestic penetration, and we hope to improve ours, too.

Q. What share of the U.S. market will imports take this year?

A. I would expect it to go down, what with our J-car (subcompact) coming next spring, Chrysler's K-cars and Ford's Escorts. We know we can do it with Chevrolet and Citation, the two largest selling cars in America today.

Q. Are you making money on these cars?

A. You look at your overall perspective. You shouldn't think we can't make money on small cars because that's a misnomer. People want small cars, but they don't want a cheapie. They want power steering, power brakes, power windows, air conditioning and the things that do make money for us on smaller cars. I think we've got a good chance, particularly as we increase volume and as we get into a world car (J-car is GM's first world car). Where we get worldwide volume, that's going to bring our costs down. I'm optimistic about that. I think we know how to do it.

Q. Is GM going to become a bigger exporter than in the past?

A. We have the opportunity to do it. We never have before. When we wanted a car for Germany and England, we had an Opel to do it for us. I'm hoping now that with J-car and other small cars coming along, we'll be a much stronger force in world markets than we were before.

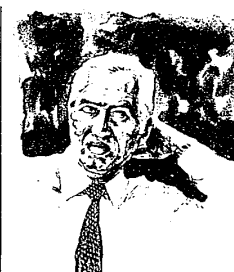
Q. With the nine-month losses GM reported, will you have to borrow money in the near future?

A. That's always a possibility, but I want to keep us free of debt as long as we can. Money in the bank being relatively debt-free so that you have access to the money markets. If you load up with debt, then where are you? Overseas, we want to finance with local borrowings and retained earnings to keep the money in relation to the currency that we intend to use and repay — keep that all in one nice little square package. You could really get in big trouble if you took a lot of money today from the U.S. and put it into Brazil or Argentina where you've got high inflation. You can hardly get to the bank in time to cash the check before all you've got left is a postage stamp to mail the envelope out, so you've got to watch that.

Q. What about price resistance? Are rising used-car prices helping offset your steep '81 price hikes?

A. Used-car prices have come up pretty good, Dave. But in looking at price comparisons, you've got to compare apples with apples. Our 1981 cars all carry C3s (computer engine-control systems) and they've got equipment adjustments that run about \$800 more compared with their 1980 counterparts. Why? Because the government, in its infinite wisdom

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JAMES McLERNON
Volkswagen of America president

VW

Q. How do you view new competition coming from U.S. and Japanese automakers, and what does Volkswagen have coming along?

A. We view competition with enthusiasm because it opens up our market substantially in the subcompact field. We recognized we were going to be in for a heavy onslaught of domestic and import competition by 1981, and that's why we made some substantial engineering changes for 1981 products. Probably most important is that the domestic industry is moving very rapidly to solve the problem of performance and fuel economy with vehicles they are beginning to offer. I think this will help our industry greatly in 1981, and most certainly by 1982.

Q. What's your opinion about U.S. automotive protectionism?

A. We're not considered to be a U.S. manufacturer, so if a content law comes out of this, we might not be in good shape. But we're rapidly approaching 75 percent (North American) content and intend to go beyond that. VW believes in free and open trade. Two of the last democracies in the free world — West Germany and the U.S. — do not have trade barriers. My personal feeling is the surest way for stagnation in an industry is to provide protective barriers — it's the first indication that industrial growth is going down. But we do think voluntary restraint or voluntary negotiation on the part of Japanese industry and our country might be the best way to solve the problem.

Q. VW is being hit hard now by Japanese imports in West Germany.

A. I wouldn't say VW. The European automobile market is feeling an increase in imports from Japan. Japanese cars are very well built, fuel efficient and, of course, they're tough competitors. I believe the Japanese have about 10 percent of the market now. So there's concern.

Q. Are you concerned about overcapacity for small FWD cars?

A. No, not a bit, Dave, because as you recall when we started this project, we felt our niche was about 5 percent of the U.S. market. Our total penetration this year, both domestic and imported, is somewhere around 4 percent, so we're about 1 percent away from where we'd like to be.

Q. Do the Japanese still make the best cars, and where do you stand now on quality of U.S. made Rabbits?

A. Japanese quality is still right up there. But we think our quality is very good. Our cars are audited on a worldwide basis, and sometimes they're better than us. We'd like to say we're the best, but we're not the best worldwide.

Q. What is VW's reaction to joint arrangements taking place on the world automotive scene? You have American Motors and Renault, and rumors about Chrysler and Peugeot, plus VW and Chrysler and Toyota and Ford are talking about producing 500,000 or 600,000 new units in the U.S. where VW is now expanding.

A. In the case of some companies, it might be a good thing for survival. In our case, we don't have a surplus of manufacturing capability throughout the world. Therefore, we need to expand on our own just to keep up. We don't reach from subcompacts up to larger vehicles, so we don't feel we need to merge or combine with anybody.

Q. So, categorically you can say VW is not talking to Chrysler about a merger?

A. I didn't say that. I just said I don't see how we have anything to gain in merging at this time.

Q. Well, is VW talking to Chrysler?

A. I talk to a lot of people every day. But no, there's nothing being discussed in any way. We've got enough problems running our own little company without worrying about somebody else's problems.

Q. With inflation and interest rates going up again and a lot of other uncertainties ahead, what's your view of the market for 1981?

A. Within reason, we see a 10-million car year, of which a larger percentage will be domestically produced — about 7.8 million — and 2.2 million imported. Imports will drop because there are more domestically produced vehicles in the compact and subcompact segments. The scrapage rate in 1979 and '80 has been equal to or more than the number of vehicles produced, so sooner or later the American public is going to come back into the market.