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“Successfully Maintaining Production in the Midwest”
“The Automobile Producers, Suppliers and the Economic Model”

Thank you. It’s a pleasure to be here. I want to thank the Chicago Federal Reserve for putting on this terrific program. The insights that have been shared by my distinguished colleagues from the Federal Reserve, the automakers, suppliers, labor and other experts have given us much to think about as we work together through this transformation of the auto industry.

Make no mistake – it is a transformation on a scale we have not seen before. And it is not optional. It is a necessary and critical transformation that will lead us to a new business model that will redraw boundaries geographically, politically, economically and socially. It will change our business, our technologies and our relationships. Those who don’t get on board ... companies, unions and regions ... will wither.

This transformation is the result of globalization. It’s not the globalization we knew in the 1980s and 1990s when the mature automakers and their suppliers began to build more plants in emerging countries ... and in the southern U.S. This globalization is the 21st century kind ... where the convergence of technology and a shrinking world have created a global supply chain tapestry like that one Tom Friedman talks about in “The World Is Flat.”

This flat world means we are connecting all the knowledge centers in the world ... those in Bangalore, Tokyo, Shanghai, Detroit, Frankfurt, Chicago ... you get the picture. That connection will bring new innovation and creativity but it’s also changing the playing field. New regions ... and companies ... are being superempowered to become superpowers of industry.

In his book Tom Friedman tells a rather poignant ... and scary story. He recalls how he wrote a column about playing the computer geography game “Where in the World Is Carmen Sandiego?” with his then nine-year-old daughter.

He tried to give a clue by suggesting Carmen had gone to Detroit so he asked her, “Where are cars made?” Without missing a beat she answered, “Japan.”

That was a decade ago. Today she might have said Korea or Mississippi or Tennessee. Tomorrow the answer might be China or India.

The auto industry has flattened along with the world. Our once tightly knit Midwest community of the Big Three and their supply chain has “splattered.”

That’s not all bad. I contend that the auto industry had to go splat before it could go flat.

This transformation has been in the offing for more than 25 years, ever since the first oil crisis in the early 1970s. Since then Chrysler has teetered on the brink of bankruptcy ... three times. Chrysler, Ford and GM have closed more than 150 plants. The UAW has almost a million fewer members. The former Big Three have lost more market share than K-Mart ... I tend to wonder if they could hit the rewind button if the UAW and the Big Three would have so forcefully told the Japanese automakers back in the 1980s they needed to build plants in the United States if they were going to sell here.

The truth is the auto industry as we know it in the Midwest has been teetering on the edge of the cliff for a quarter of a century only to be drawn back by the deceitful business cycle of improved sales, better profits and the promise of diversification success we’ve come to expect over and over again

Well, cycles are programmed, splats are not ... and this transformation is a splat.

I believe this splat, this transformation, is good and necessary ... for the industry and the Midwest. When things splatter the original item is replaced by many pieces, all of which can be picked up and turned into something creative and innovative.

Remember the term “Creative Destruction” from economist Joseph Schumpeter? Ladies and gentleman this is creative destruction in all its glory! Creative destruction is, according to Schumpeter, the process of replacing good things with better things.

This creative destruction has shaken the auto industry and this region to the core and instills a sense of urgency to change ... to find and embrace new, more innovative business models and technologies that require working together. This splat was not generated by some evil capitalist, or a power hungry premier or president. It was created ... as they always are ... by the consumer.

The consumer...he is a difficult villain to name, so those that seek scapegoats to explain away their dilemma conveniently look elsewhere. But, it is the consumer...and his partner in "crime"...the investor...who have controlled...and will control the fortunes of companies and the people who work for them.

The consumer and the investor...Adam Smith's invisible hand...the dynamic of enlightened self interest...that is what moves markets...that is what determines the fate of companies...that is what determines value...that is what has brought Detroit to its knees.

And the consumer and his pal the investor don't care about your legacy costs...your glorious history...your duplicate product lines...your good intentions...or the promises you made...because they didn't make them. The consumer says, "show me the value", the investor says, "show me the money." And if you can't play their game...go away...they have other options...numerous other options.

They are looking at Detroit and saying...get real...quit your crying, work together to fix your problems or get out of the way.

We can no longer afford to simply give lip service to collaboration, cooperation and co-optation or to standardizing processes or to truly developing products our customers want today and in the future.

While there are pockets of collaborative excellence ... like the Global Engine Manufacturing Alliance or Metaldyne's own New Castle plant ... the truth of the matter is, the auto industry has never walked the talk on the collaborative business model. But we better start walking in double time because today collaboration will save the industry.

It will be a model based on realistic relationships that will meld cultures, philosophies and technologies and prepare us for a new future that will be nothing like we've seen before.

There are solutions to build from ... solutions that will help keep production in the Midwest. One of those is the innovative labor agreement Metaldyne, DaimlerChrysler and the UAW negotiated at our New Castle, Indiana, plant.

It all started back in 2001 when DaimlerChrysler decided it had to shed non-core component business to focus resources on its core business ... designing, building and selling cars and trucks. It was a smart move that's paid off in great new product for DaimlerChrysler. But it was a difficult, politically charged move for the UAW and any company that agreed to take over the plant.

Workers at New Castle made OEM wages and benefits and had OEM work rules ... two things a Tier One supplier like Metaldyne could not remotely afford.

At the same time Metaldyne was winning more business than we could keep up with and we needed to add capacity. We looked at several options including building a new plant in the Midwest. Then we realized New Castle would be a great fit. It complimented our chassis and suspension product business and would let us produce complete assemblies and modules by adding more content to our product portfolio. Our challenge was to make the plant competitive.

To do that we had to maintain the same output with one-third fewer employees, change the wage and benefit structure to Tier One levels and turn the plant from a cost center into a profit center. We needed a new business model. That meant a new labor agreement with the UAW and changing the plant's culture from one that lived and breathed Chrysler to one that embraced Metaldyne.

That was difficult since we needed the New Castle employees to reduce their pay and benefits by 50 percent and diversify the customer base to make the plant competitive.

Let me take a second and tell you a little about New Castle so you'll get a better idea of the plant's heritage. It was built in 1907 and is one of the oldest continuously operating manufacturing facilities in the United States. It was one of the six original plants Walter P. Chrysler had when he formed his company in 1925.

New Castle had been building parts for Chrysler for more than three-quarters of a century. The Chrysler name is so ingrained in New Castle's heritage that the local high school is named Chrysler High and more than half of its residents still drive Chrysler vehicles. In fact, not long ago, only Chrysler vehicles were allowed to park in the lot.

But even with those challenges we wanted New Castle. We were pretty sure we could make it successful but we knew couldn't do it without the UAW's buy-in and Chrysler's help. We got both.

Just a little less than four years ago, in November 2002, Terry Thurman, director of UAW Region 3, and I stood in front of those 1200 New Castle employees explaining the economic realities of the plant's future ... unless the changes were made it had no future and would die. We answered every question ... and believe me this was not a laid-back group. There wasn't an easy question in the bunch. For these employees, their world was changing ... forever.

On January 1, 2003, Metaldyne and DaimlerChrysler entered into a one-year joint venture at New Castle. This was a test period for us to see if we could make things work. DaimlerChrysler held the majority interest and we were responsible for day-to-day operations.

At the same time we worked with DaimlerChrysler and the UAW to negotiate a new labor agreement that followed the supplier model, not the OEM. The contract reduced wages to \$12 - \$15 an hour ... the same as everywhere else in the U.S. ... and introduced Japanese-style work rules.

We understood how difficult these changes were for many employees and wanted to be fair to those who had worked at New Castle for years so we offered three options:

- Early retirement
- Flow back to Chrysler facilities in the area
- Stay with Metaldyne for lower wages and get a buyout incentive of \$10,000 for every year of service with Chrysler

In the end about 200 people stayed with Metaldyne, which allowed us to hire about 550 new workers. When we advertised those jobs more than 5,000 people stood in line outside the Henry County YMCA to apply ... from seven states, some with their belongings in their cars ... ready to go to work.

As a result of our new agreement we were able to win new business with Ford, Toyota and grow the business with DaimlerChrysler. Productivity improved by more than 30 percent the first year and we now have \$500 million in annual business ... \$100 million more than the plant did with Chrysler in its last year ... with one-third of the workers on the plant floor.

This experience has been a five-fold win. The UAW gained 550 new workers and protected its existing membership. Chrysler got competitive pricing on non-core products plus improved quality and technologies. The city of New Castle maintained its tax base and is home to a plant with a long-term future. Metaldyne grew its business as did its suppliers. And, yes, we make money there.

Collaborative relationships like this are the future. They are part of the transformation of our industry. They will be essential as we move into future technologies that will define the auto industry as we approach the second decade of this century.

There is another catalytic event that will ... and needs to ... shape our industry ... another force of "Creative Destruction."

We must find an alternative energy source to ensure the financial future of the U.S. auto industry, the national security of the nation and the long-term health of the earth.

The world is hooked on oil. It's a life-threatening addiction that is driving countries, companies and individuals to try and kick the habit. This dependence not only threatens to further weaken profits and cost jobs among the U.S. automakers, it is a national security risk to the United States and is wreaking havoc on the global environment.

The U.S. is currently struggling with how it will maintain its superpower status and our status as the largest consumer of energy and oil is making it more and more difficult. The only way we are going to gain a competitive advantage is if we solve the energy issue before others do.

It's no secret I am a strong supporter of moving the United States toward a hydrogen economy. Right now, the U.S. government is intrigued by hydrogen. Washington has committed \$1.2 billion to its Hydrogen Fuel Initiative, with the goal of producing commercially viable fuel cell vehicles by 2020 and a major dent in domestic oil usage by 2040. Guess what folks ... that \$1.2 billion Washington committed is about a fifth of what it costs to build one new Nimitz aircraft carrier and operate it for a year.

That's not good enough. We can't be a superpower if we're out of power. The current plan outlines a timetable 10 times longer than the Manhattan Project and four times longer than putting a man on the moon.

I recently spent a day in Washington talking about the need to move more quickly toward alternative energy. I was pleased that there seems to be a growing sense of urgency among some senators and representatives such as Senators Lindsay Graham of South Carolina, Lamar Alexander of Tennessee and Evan Bayh and Richard Lugar of Indiana as well as Representative Bob Inglis of South Carolina to develop a robust, realistic, well-funded energy policy that allows us to thumb our noses at gas stations in the not too distant future.

Such a play is essential as the globalization march continues. As China, India and other developing countries embrace free markets and foreign investment, they're producing hundreds of millions of newly minted middle-class car buyers. Between now and 2020, the number of vehicles worldwide likely will rise from 750 million to more than a billion.

China is already the second largest importer of oil. It's accounted for 40 percent of the world's oil demand growth over the past four years. China's continued growth promises to put an even tighter stranglehold on oil production and raise prices.

Boone Pickens says worldwide production is 84 million barrels a day and is never going any higher. Add another 300 million vehicles to the mix, and the result could be a “super spike,” with the price of a barrel of crude, at least for a time, exceeding \$100.

That \$100 a barrel price tag would have a devastating impact on the Midwest.

A recent study by the Office for the Study of Automotive Transportation, the University of Michigan Transportation Research Institute and the National Resources Defense Council called “In the Tank” says that at \$80 to \$100 a barrel ... the equivalent of \$2.86 to \$3.37 at the pump ... Detroit’s Big Three automakers would see their sales fall 9-14 percent, a decline of 1.9 to 3 million vehicles. That would mean an industry-wide drop of \$11.2 to \$17.6 billion in pre-tax profits.

In addition, 16 factories, mostly in the Midwest, could close and at least 297,000 jobs would be on the line, 37 percent of which are in Michigan, Ohio and Indiana.

Depending on fuel prices and consumer incentives, sales of hybrids and advanced diesels are likely to go from about 100,000 units this year to as many as 1.8 million by about 2010. Initially, most of these vehicles will be imported. Since advanced diesel engines under about 5 liters will displace many gasoline engines, and since full hybrids don’t use conventional transmissions, Michigan and Ohio – and to a lesser extent Indiana – stand to be major losers unless production of these vehicles, or at least their powertrains, are produced in this area.

Specifically, if 1.8 million “HADs” ... that is hybrids and advanced diesel vehicles ... are sold by the end of the decade, these three states stand to lose more than 66,000 jobs, nearly one-third of the U.S. total of 207,000 potentially lost jobs, according to Fuel-Saving Technologies and Facility Conversion: Costs, Benefits, and Incentives.

These statistics should get the Midwest off its collective you know what, to develop a collaborative strategy that attracts not only hybrid technology but ensures future alternative energy powertrains and vehicles are developed and manufactured here.

Those alternative energy sources can be ethanol, clean diesel or clean coal out of the shoot but if the Midwest truly wants to be player in 2020 there must be a strong, doable plan for hydrogen. It is the way of the future.

Hydrogen is the most abundant, environmentally friendly fuel source in the universe. We need to find ways to better harness it, store it and distribute it but believe me hydrogen and hydrogen-powered vehicles are coming. The Midwest needs to get its collective act together if it hopes to be the epicenter of that movement.

The Midwest has the brainpower, the technology and the R&D to make it work. More than 85 percent of North American automotive R&D is conducted in this region today. However, other states such as North and South Carolina, Florida and California and others as well as some regions are already on the alternative energy bandwagon and working collaboratively with all stakeholders.

We can harness our collective innovative spirit and roll up the sleeves of Midwestern practicality to help us make this transition and follow a four-step plan to reduce our dependency on oil. The first two we can do in the industry. The second two require political action.

First, establish a well-funded and powerful industry consortium made up of all the major stakeholders ... automakers, suppliers and labor. Second, establish a hydrogen-powered vehicle design team to set industry practice and design rules. We are making progress on both those fronts.

We are in the early stages of developing a consortium that brings all the parties to the table – the automakers, the suppliers, universities, government, labor and national labs.

These last two require political action.

They are ... set a target that 80 percent of the vehicles sold in the United States and 100 percent of the imported vehicles are hydrogen-powered by 2025.

Fourth, provide federal customer incentive, research dollars and funding for infrastructure issues by imposing a gas tax.

Yes ... raise the price of gas to fund the process to convert to hydrogen.

As I've outlined this hydrogen strategy, you're probably asking yourself, why is this guy who heads a nuts and bolts company pushing hydrogen? The answer is simple.

The industry and the hydrogen movement need the engineers at Metaldyne and other suppliers to address the tactical issues of hydrogen vehicles. Suppliers are often the inventors of technology and I believe hydrogen is no different. I am a capitalist ... there is money to be made here.

As GM's head of research Larry Burns has said, "the biggest risk of all is to sit on the sidelines and not try to create this future." There's plenty of precedent, he noted, for a society-wide effort. The Panama Canal, the Manhattan Project and the moon missions of the 1960s all involved public funds and private partners. And all produced dramatic results.

So call it the Hydrogen Project, and begin building a national consensus for its necessity. Then fund aggressive research programs aimed at moving the relevant technologies toward commercial viability, and bring them to the Midwest.

The challenge in the Midwest now is to take its heritage to the next level. Competition today is fierce and unforgiving. The world moves too fast to sit back and relax.

There is simply no future in the status quo and no status quo in our future.

There is a great African proverb I think many of you have heard. It goes like this...

Every morning in Africa, a gazelle wakes up.
It knows it must run faster than the fastest lion or it will be killed.

Every morning a lion wakes up.
It knows it must outrun the slowest gazelle or it will starve to death.

It doesn't matter whether you are a lion or a gazelle.
When the sun comes up, you better start running.

This is the rebirth of our industry, a rebirth of our nation's infrastructure, and the rebirth of our region, the Midwest. It's where the action is. So strap on your pedometers and we can talk while we walk and run because we have a lot of ground to cover in very short order.

Thank you.