

Fiat to Chrysler: Cut costs or we walk

CEO says auto maker prepared to scrap last-chance merger unless unions agree to match competitors' low labour costs

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Fiat CEO Sergio Marchionne.

ROME and TORONTO — Fiat SpA will abandon Chrysler LLC, leaving it to fend for itself in bankruptcy court, unless Chrysler's Canadian and American unions agree to substantial labour-cost reductions by the end of the month, Fiat CEO Sergio Marchionne says.

For Chrysler, which is subsisting on cash borrowed from the U.S. and Canadian governments, the deal with Fiat is the last chance to avoid a bankruptcy filing and possible liquidation.

But Fiat is prepared to scrap the deal and look elsewhere for an international partner if the unions do not agree to match the lower labour costs of Japanese and German plants

in the United States and Canada, Mr. Marchionne said in an exclusive interview with The Globe and Mail at the Italian auto maker's headquarters in Turin.

“Absolutely we are prepared to walk. There is no doubt in my mind,” he said. “We cannot commit to this organization unless we see light at the end of the tunnel.”

Mr. Marchionne, 56, said Chrysler workers on both sides of the border have to end their sense of entitlement if the wrecked auto maker is to have any chance of repairing itself.

“The minute you talk to me about historical entitlement in an organization that is technically bankrupt, it's a nonsensical discussion,” he said.

“There is no wealth to be distributed.”

The administration of U.S. President Barack Obama has given Fiat and Chrysler until the end of the month to negotiate partnership terms.

If the deal is done, the U.S. and Canadian governments would prop up Chrysler with about \$7-billion(U.S.) in loans to sustain its operations while Fiat overhauls the company and fills its dealerships with Fiat-derived models.

Because of the lack of progress on labour negotiations, especially on the Canadian side, there is only a 50-50 chance the partnership will be formed, Mr. Marchionne said.

“From what I can tell from a distance, the CAW may have taken more rigid positions,” he said.

“The dialogue is out of sync. I think they need to see what state the industry is in. Canada and the U.S. are coming in as the lender of last resort.

“No one else would put a dollar in. This is the worst condemnation of the viability of this business.

“We are not anti organized labour. No one wants to remove the UAW or the CAW from the table. But it will happen if a bankruptcy process drags on. ...The UAW and the CAW have a unique opportunity here to change the framework of the discussion.”

Hourly labour costs vary among the plants operated by Japanese and German auto makers in the United States – mainly in such southern states as Kentucky, Alabama, Georgia and Tennessee.

At a mature plant such as the Toyota Motor Corp. assembly operation in Georgetown, Ky., hourly labour costs are in the high \$40 (U.S.) range, Toyota spokesman Mike Goss said yesterday.

Costs at Honda Motor Co. Ltd. and Nissan Motor Co. Ltd. plants in the United States are estimated to be about \$40 an hour.

Chrysler has already demanded that the CAW trim hourly labour costs by \$19 (Canadian) to \$55 to match what it pays UAW workers at its U.S. plants.

The CAW has refused to go that far, offering Chrysler the same \$7 to \$7.25 an hour it has already given General Motors of Canada Ltd. in overall cost cuts, plus agreeing to reduce break times at Chrysler plants in Brampton, Ont., and Windsor, Ont., which would reduce hourly costs by what the union says is several more dollars an hour.

Fiat, with the backing of the White House, has proposed taking a 20-per-cent stake in Chrysler, which is currently 80-per-cent owned by Cerberus Capital Management LP and 20-per-cent by Daimler AG of Germany, owner of Mercedes-Benz.

Upon reaching certain milestones, such as the rollout of Chrysler vehicles based on Fiat platforms, Fiat's ownership would rise in stages by 5-per-cent increments to 49 per cent.

Fiat could raise its stake above 49 per cent only if Chrysler repays its bailout loans to the U.S. Treasury.

At the end of March, the U.S. auto task force gave Chrysler 30 days to complete an alliance with Fiat or face a cut-off of its government funding that could force its liquidation.

Yesterday, Mr. Obama said it is his “fervent hope that in the coming weeks, Chrysler will find a viable business partner.”

Mr. Marchionne, who was educated in Canada, started his career here and holds dual Italian-Canadian citizenship, has vowed to put no Fiat money into Chrysler and plans to save the company through technology transfers and a corporate overhaul modelled on the one that rescued Fiat from oblivion in the middle part of this decade.

Short of injecting funds into Chrysler, Mr. Marchionne said Fiat will do whatever it takes to revive Chrysler, including offering himself up as CEO. “Fundamentally, that's possible, but the title isn't important,” he said. “What's important is that they hear me. It's possible that I will have to divide my time between running Fiat and running Chrysler.”

As the April 30 Fiat-Chrysler partnership deadline approaches, the chances of Chrysler's failure appear as high as ever.

Earlier this month, Moody's Corporate Finance said Chrysler's risk of a bankruptcy filing was greater than 70 per cent.

Mr. Marchionne would not offer odds on a Chrysler bankruptcy, other than to say that a Chapter 11 bankruptcy-protection filing “is an option” in the absence of a partnership agreement. He wouldn't rule out a Chapter 7 filing – liquidation – meaning 85 years of Chrysler history would come to an end.

In the short term, some of Chrysler's 30 plants would be closed – the Fiat boss would not say which ones would be targeted. Chrysler's headquarters in Auburn Hills, Mich., would be thinned out.

“Fiat has an incredibly flat management structure,” he said. “Chrysler needs a flat management structure.”

A deal with the UAW and the CAW would mean substantially lower labour costs. Chrysler as a brand might be downgraded so the stronger Dodge and Jeep brands could be developed.

Mr. Marchionne said the Fiat Cinquecento (Italian for 500), the hot-selling car launched in 2007 and credited with ensuring the revival of Fiat, would be introduced in North America as early as next year.

It would be built in North America, but would probably carry the Fiat badge because the company considers the Cinquecento a brand in its own right.

Chrysler would launch its own small car based on the Cinquecento platform, as Ford has done in Europe with the new Ka. “Chrysler needs its own Cinquecento, meaning a model that is the remaking of Chrysler,” Mr. Marchionne said.

Alfa Romeo, Fiat's sporty, upscale brand, would produce Alfas in either Canada or the United States, Mr. Marchionne said. Last year the Ontario government tried to convince Mr. Marchionne that he should build the Alfa in Ontario. He said Ontario Premier Dalton McGuinty tried to “sell” him an auto plant. The new Alfa 149, to be unveiled next year, would be built in North America, as would the successor to the larger Alfa 159.