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DaimlerChrysler Canada – Global Opportunities and Challenges

Thank you, and good afternoon to all of you. I know it's a bit cliché to begin a speech by saying, "I'm glad to be here."

In January I had the honor of taking over this job from Ed Brust, who retired after 26 years of service with the Company. Before he left, Ed told me that this may well be the best job at DaimlerChrysler. He was right! And I'll tell you why.

First, I feel privileged to work here at DaimlerChrysler Canada, a company with a proud tradition that is supported by a superb and dedicated team of employees. (Our employees, by the way, never cease to amaze me in their generosity and strong personal commitments to the community. We just announced our joint donation of $2,012,322 that DCCI and our employees, in partnership with the CAW contributed to the United Way of Windsor-Essex County. That alone could be the topic of a future speech!)

Second, my wife, three children and I are absolutely thrilled to make our home down off of Riverside Drive. Although our 7-year old daughter is still a long way from talking, she's already enjoying his strolls along the riverfront. The view is hard to beat, even from a stroller! Windsor is a vibrant community in so many respects. I've found everyone here has been unbelievably welcoming! We feel right at home here.

Third, I've stepped into this job during what are proving to be the most interesting of times ... times that are sure to be marked by tough challenges and new global opportunities for DaimlerChrysler Canada, and, in turn, for Windsor, Ontario, and Canada as a whole. And it's those global challenges and opportunities that I'd like to talk about today.

Let me begin by framing the environment in North American auto industry, as it's critical to understanding the scope of what it takes to compete here. As many of you know, the North American auto market today is about as close to a "free for all" as you can get. The level of competition we face on a daily basis is unmatched in Europe, Asia or in anywhere else in the world.

This market is virtually overwhelmed with product and becoming increasingly fragmented. There are more cars, trucks, minivans and sport-utilities chasing buyers here than ever before. Consider that there are now more than 50 automotive brands available to consumers today. 50! And the number of nameplates is now approaching 300 – having doubled in the past 30 years.

And while the total annual demand for vehicles in North America is roughly 19 million units, we have 100 auto assembly plants in North America with a combined capacity to produce 20 million vehicles a year. On top of that, there are another two million more vehicles that are imported into this market every year. I can almost hear one of my old economics professors defining a market like this with a very technical term, something along the lines of "really scary!"

But the good news for consumers is that they have unprecedented choice –albeit with some confusion – as they also face a barrage of seductive financial incentives that take the form of rebates, subvented leases, low-interest loans and the like. That's what happens when supply exceeds the "natural" market demand.

Now, we've always had imports. And that's great for competition. But the import brands, over the past five years in particular, have made a strong push beyond what were once considered to be their "traditional" positions in the market. For example, you can now buy a full-size pick up truck made by the Japanese brands Nissan or Toyota. You can buy a sport-utility vehicle from German BMW or Porsche, and a full-size sedan from Korean Hyundai.

Looking down the road, we are likely just five years or so away from seeing Chinese-built vehicles sold here. That's no stretch. Honda already has built a plant in China to assemble vehicles for export. Today V-6 engines destined for use in the Chevy Equinox sport-utility vehicle are being built in Shanghai, China, and then will make a 35-day, nearly 18,000 kilometer trip to Ingersoll (Ontario) for final vehicle assembly.

It doesn't take a rocket scientist to imagine the relentless pressure that global overcapacity and competition is putting on the North American auto market and industry. It's pressure that's felt all the way down to the local level here in Windsor. It drives us to get an edge wherever we can just to stay in the game. We have to constantly become more productive; improve quality; reduce costs; and innovate.

We have to build exciting products under highly-differentiated "aspirational" brands that the customer wants to buy (versus products customers are seduced to buy because of "a great deal").

Suffice it to say that the alternative to not doing all of the above is grim. And that goes for the North American based automakers, our employees, and for the substantial economic contributions we make. Like it not, we're in the thick of a global bench-clearing brawl here in North America! For all of us connected to or affected by the auto industry that leaves us with two choices. Either we fight back, or we hang on the ropes and take a pounding (I suppose, until we can't take it any more). Clearly, the only choice is to fight back.

The foundation of our global strategy was formed by the merger of the former Daimler-Benz and Chrysler Corporation into DaimlerChrysler back in 1998. It provided us with the business model and staying power to face off with global competition. It created a unique global enterprise that includes a long list of car and light-truck brands, including Chrysler, Dodge, Jeep, Mercedes-Benz, smart and Maybach, as well as leading heavy truck brands.

As a result of the merger, DaimlerChrysler Canada became part of the DaimlerChrysler AG family of companies that includes: Mercedes-Benz Canada, DaimlerChrysler Services, Sterling Trucks, Freightliner, Western Star, American LaFrance, Thomas Built Buses, and Eurocopter Canada Limited. (These companies combine to serve DaimlerChrysler's third-largest vehicle market in the world – Canada.)

However, as solid of a foundation as this global structure provides, it alone is not enough. Competition still dictates that our North American operations meet or beat global benchmarks. And there was no more sobering reminder of that urgency to do just that when the Chrysler Group reported a loss of more than $1 billion (U.S.), in the second quarter of last year, largely driven by incentive costs. I don't know if we needed a wake-up call, but we got it.

Our Chrysler Group President and CEO, Dieter Zetsche, now joined by Windsor's own Tom LaSorda, Chrysler Group's Chief Operating Officer, are leading the effort to transform our North American operations. Our goal is to equal or exceed the best in the world in productivity, quality and costs in 2007. And we're on track to get there.

In productivity, according to the benchmark Harbour manufacturing survey, we achieved the leading rate of improvement in the industry – about 8 percent annually -- two years in a row, passing our rival Ford in productivity for the first time ever! And much of the thanks for that effort here in Ontario go to our partners in the CAW! (But we're still not where we need to be in productivity. For example, we're currently in discussions with the CAW on operational improvements that would allow us to add a third shift in our Brampton plant.)

In quality, our new vehicle warranty costs were down more than 25 percent over the last three years, and cut in half since 1996. We've achieved a double-digit rate of improvement in quality, with an 11 percent increase in the annual J.D. Power and Associates Initial Quality Study released at the end of April of this year.

In cost reduction, on the strength of our global sourcing strategy we've been able to accelerate our material cost savings, driving them down at twice the rate of our competition.

So, on the strength of a solid global foundation and, as a result of our ongoing transformation (and we still have our work cut out for us), we've been able to stay in the fight in North America through the past three difficult years in the market and economy.

But just staying in the fight isn't enough. We're in it to win. And, in this environment, that takes a lot more than it used to. Winning in the market always begins with product. And that's where we've put major emphasis.

We're now about one-third of the way through bringing 25 all-new vehicles to the market in the 36 month period during calendar years 2004 through 2006. It's the most aggressive product program in our company's 80-year history. We launched nine all-new products, and did major "refreshings" on four major products this year alone. DaimlerChrysler Canada is on the front line of this product offensive, as two-thirds of the volume of those new vehicles is manufactured here in Ontario.

We're going after every segment of the auto market with:

- the Chrysler Crossfire Roadster and PT Cruiser Cabrio;
- the new Dodge Durango sport-utility and Canada's best-selling mid-size truck, the Dodge Dakota;
- the new Jeep Wrangler Unlimited, Jeep Grand Cherokee;
- our new Windsor-built minivans with second and third rows seats that fold flat into the floor (By the way, Dodge Caravan is the number two selling vehicle in the country and dominates the segment with a 35 percent share of its market);
- and the Brampton-built red-hot Dodge Magnum sport wagon and Chrysler 300 sedan. (In its first year the 300 is already dominating the luxury full-size segment in Canada with more than 40 percent share!)

We know that Canadians, much like Europeans, have a love for small cars. So, we'll strengthen our presence in the small car market in the future, and continue our investment in our industry-leading minivans.

We're starting to see the results from the past years of hard work at the throughout our North American operations. In the second quarter of this year the Chrysler Group achieved a $628 (U.S.) million profit. We've now turned a profit in nine of the last ten quarters.

Now, you may think of Chrysler, Dodge and Jeep vehicles solely in the context of the North American sales. But we're now stepping our efforts in markets outside of NAFTA. Product honed in this market makes for a very worthy competitor anywhere! Chrysler, Jeep and Dodge now sell vehicles in more than 125 countries around the world. In 2004 we'll approach 180,000 vehicle sales outside of North America. That's roughly the assembly capacity of one good-sized plant.

DaimlerChrysler Canada plays a major role in those export and international plans. Traditionally, you might think of our assembly plants in Ontario building exclusively for the domestic and U.S. markets. That's changing. International demand for the Brampton-built Chrysler 300 is already outstripping our planned volumes.

The 300's new stable mate, the Chrysler Touring sports wagon, is a car that we developed exclusively for markets outside of North America. And it was a big hit with European journalist when it made its press debut in Munich earlier this month. We anticipate building over 10,000 units of the Chrysler 300C vehicles, Sedan and Touring combined, for sale outside of North America next year. And in 2006 we'll start to ship left- and right-hand drive versions of the Chrysler 300C and SRT-8 outside of North America.

An emerging role that DaimlerChrysler Canada has to play in our global "mindset" and product offensive is as what you might call "a market proving ground." In terms of buying patterns, gas taxes, consumer tastes and market segmentation, the Canadian market much more reflects that of Europe and other international markets (with the exception of a greater emphasis on light-duty pickup trucks) than does the U.S. market.

This is one reason that we'll be closely tracking demand and consumer response to our 2005 Jeep Liberty Diesel. It's available with a proven 2.8L common-rail turbo diesel that is currently available in some Jeep vehicles outside of North America. As more customers experience the "drive-ability" of Liberty's modern diesel engine, market demand just may open the door to more widespread diesel applications in Canada. Liberty Diesel achieves a fuel economy gain of about 30 percent over our 3.7 liter V-6, with a reduction in CO_2 emissions of about 20 percent. With the torque of a V-8; the performance of a V-6; and the economy of a 4 cylinder, diesel is a great proposition for Canada. In the words of the *Toronto Star* it's (quote) "Hard to resist."

So, we've had success getting our operations in shape to compete, and our new products are being well received in the market. But none of that is a guarantee of long-term success. The bar for performance in this industry just keeps getting raised higher and higher. And our competitors are coming right back at us with new product of their own.

This global competition is cut throat. And, in the case of competitors from Asia (specifically Japan, Korea and China), we're talking about aggressive, hungry and capable competitors ... competitors who have the added advantage of protected home markets and strong support from their national governments that put a high priority on their auto industries and economic interests.

We don't advocate protectionism.

But we need to recognize the reality that other nations are taking decisive action to ensure their competitiveness in the automotive sector. The stakes are much too high to do otherwise. Consider that the auto industry accounts for roughly 12 percent of Canada's manufacturing GDP and 23 percent of merchandise trade. And that more than 150,000 Canadians are directly employed in manufacture of vehicles and components.

There are an additional 250,000 more people employed in auto wholesale, retail and leasing, plus hundreds of thousands of additional jobs from multiple input and purchasing power of industry's employees.

Detroit-Windsor is the hub for an economic cluster that spans from Chicago to Toronto, and from Michigan to Ontario, Ohio, and south to Tennessee. It includes OEMs, suppliers, and universities. We need to make investments that promote innovation and productivity. We're certainly willing to do our share. The Automotive Research and Development Centre (or ARDC), the joint initiative of DaimlerChrysler Canada and the University of Windsor – stands as a great example of our commitment.

To date, we've invested more than $540 million in ARDC – among the largest investments of its kind in Canadian history – to support its mission of automotive research, development, and education. ARDC now provides R&D that is benefiting DaimlerChrysler worldwide.

DaimlerChrysler Canada alone employs more than 12,000 people in facilities in nine cities, including our 500 retail operations. (Furthermore, a recent study on the auto industry shows that for every direct manufacturing job it provides there are roughly ten related "spin off" jobs.)

We'll build more than one-half million vehicles here in 2004 (up significantly from last year). And we'll generate gross revenues of more than $20 billion (CDN) – including $13 billion in exports. We've also invested $2.6 billion in Canada over the last three years (more, by the way, than any manufacturer). Here in Windsor, where we've made our home since 1925, we remain the city's single largest employer with more than 7,000 people on our payroll.

We simply can't discount the auto industry's importance to employment, international trade and investment, not to mention the economic stimulus it provides to an incredibly diverse range of related industries nationwide. It affects so many of us!

I'd be a master of understatement to suggest that a strong Canadian auto industry is well worth keeping. And well worth fighting for. (Again, this is why national governments in developing nations such as China and India are working so hard to develop an auto industry of their own.)

A few weeks from now the Canadian Automotive Partnership Council, or "CAPC", will issue its report and recommendations on how to increase the competitiveness of the Canadian auto industry. For those of you who aren't familiar with it, CAPC is the joint initiative of government, labor, industry (OEMs and suppliers) and academia to help formulate a comprehensive auto industry policy for Canada. This approach recognizes that there's no one factor – no silver bullet – that determines a nation's competitiveness, it's an entire package.

And, much like the players on any successful team, every player has a specific role to play. That includes DaimlerChrysler, our workers, the CAW, the national, provincial and local governments and communities.

From a corporate perspective we are restructuring and investing in our business, and developing exciting new products at competitive prices (our new Chrysler 300C and Dodge Magnum are just two examples). We won't let up. And we have to work with the CAW to continue to adopt new practices and embrace flexibility in ways we've never done before – helping to build job security through increased competitiveness.

As a team at all levels, we have to look at ourselves and our colleagues, in light of global competition and ask if we are being as efficient as possible.

The government will have to put together competitive support. And the community of Windsor has to look at its own key issues, especially the transportation infrastructure, and ask some tough questions. Canada will either put itself in position to win as a team, or risk falling behind. Yes, the Canadian automotive industry has long enjoyed production strength disproportionate to the sales market it represents. But, as many in the financial business like to say, past performance is no guarantee of future success. That's especially true in the face of today's fierce global competition.

In the coming weeks, CAPC will publish its strategic recommendations to enhance the Canadian auto industry's competitiveness. I urge you all, as leaders in government and industry, to join us in taking a hard look at CAPC's report this fall and to seriously consider its recommendations and their implications for Canada. Critical areas that add cost, time – anything that adversely affects productivity and competitiveness – need to be addressed.

For example, we need to coordinate and harmonize regulations between Canada and the United States and within Canada, including those pertaining to vehicle safety, certification and emissions.

Or take the border. At DaimlerChrysler we ship and receive over 1,400 trailers per day through Windsor. Imagine, some parts of our vehicles cross the border six times before reaching their end consumer in final form! Yes, we have to ensure security. And we support the efforts that have been made and the need to continuously improve security measures. But we also can't afford wasteful bottlenecks.

So, while the new global challenges in this industry are great, I know that DaimlerChrysler and DaimlerChrysler Canada are up for the fight. With a global structure; rapidly improving operations; a full pipeline of products; and a dedicated workforce; we're in the game. And I hope that our actions prove that we're going to do everything we can do – and everything we must do – to stay in it. I believe that's a good thing for Windsor, Ontario and Canada.

But we're going to need some support.

We have to earn a competitive advantage every day. Unlike a marathon, there won't be a finish line that we can set our sights on, knowing that we can collapse after the race. We have to keep right on running. That sentiment is critical for DaimlerChrysler and our partners in government, research, labour, and so on.

The forthcoming CAPC report will provide a framework for a national dialogue on how we – as an industry, province and a nation – can stay in the race to meet the global challenges and fully exploit the opportunities.

Thanks again for inviting me to speak to you. Have a great afternoon!

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