Testimony of Alan R. Mulally
President and Chief Executive Officer, Ford Motor Company
House Committee on Financial Services
November 19, 2008

Thank you Chairman Frank, Ranking Member Bachus, and members of the Committee. I appreciate the opportunity to be here with you today representing Ford Motor Company as you consider issues that are absolutely critical to this venerable American company and to the nation.

In my judgment, there are two fundamental questions on the table today:

- Is there a competitive and sustainable future for our domestic automotive industry?

- Is the provision of government assistance to help bridge the domestic auto industry through these difficult economic times more favorable to our nation than the costs of inaction?

I respectfully submit that the answer to these questions is a resounding yes. The domestic industry is increasingly more competitive and sustainable and is in many respects on par with our foreign competitors. A decision to make government assistance available makes much more sense than taking the tremendous risks to our already-fragile economy that come with inaction.

Ford's Competitive Transformation

As you are well aware, we face serious problems in our economy, and the auto industry has been among the most heavily affected by the turmoil in the financial markets and the impact that turmoil has had on spending for consumer products. As public attention has shifted from the credit and financial institution crisis to larger economic issues, we in the auto industry find ourselves at the center of a national debate on the future of our industry. Much of the commentary I've read in the last few weeks is highly critical of our industry, and a common refrain is that our companies "need a new business model."

I completely agree. What many of the commentators and critics fail to recognize, however, is that we at Ford are on our way to realizing a complete transformation of our company – building a new Ford that has a very bright future.

The reason I came to Ford two years ago after 37 years in the aerospace industry working for Boeing was because of my confidence that the incredible talent and resources of the Ford Motor Company could and should be redirected into an effort to transform Ford so it can be one of the strongest competitors in today's global automotive market. Inspired by the compelling vision outlined by our Executive Chairman Bill Ford, Ford had already begun its transformation from a company focused in this country largely on trucks and SUVs. All of our efforts over the last two years have been directed toward speeding up the transformation of Ford to a global profitable business based on the highest quality, sustainable, fuel-efficient, safe, fun-to-drive and best-value world class vehicles.

With that in mind, I'd like to take a few minutes to tell you about the transformation under way at Ford to give you a vision for the future that we are creating today.

Our plan for the past two years has been consistent.

- We have been aggressively *restructuring* to operate profitably at the current lower demand and changing model mix.

- We have been accelerating development of the safe, fuel-efficient, highest-quality new *products* that customers want and value.

- We have been working to *finance* our plan and improve our balance sheet.

- And we have been *working together* as one team – with our employees, dealers, suppliers and union partners – leveraging our global assets like never before.

Our goal has been and remains to create a viable, highly focused, fully integrated Ford Motor Company – a lean enterprise delivering profitable growth for all over the long term.

Restructuring. Few companies in the history of our country have restructured more aggressively. I can tell you that in my experience, the union under Ron Gettelfinger is working with us as part of the solution.

In a very short period of time, working together, we have reduced excess capacity, closing 17 plants in North America – including more than one-third of our assembly plants – in the past five years. We have also reduced our workforce by 51,000 employees in the past three years, shrinking our hourly workforce from 83,000 to 44,000 and reducing salaried headcount by around 12,000 from a base of 33,000.

We negotiated a new contract with our UAW partners to begin a path toward competitiveness and offset some of the massive legacy costs that come with doing business in America for more than 100 years. Most significantly, that contract established a trust that funded our retiree health care obligation and removed the liability from Ford's balance sheet effective 2010. Ford has fully met the funding requirements associated with that agreement, including setting aside an initial $4 billion contribution in January of this year.

Our agreement with the union also established an entry level wage that reduces future costs and will make us more competitive going forward longer-term. And, for the first time ever, it included no base wage increase during the four-year period covered by the agreement.

We have also been engaged in a broader effort to cut our costs, and in North America alone have reduced our costs by $5 billion compared with year-end 2005. We also plan further cost and cash improvements to offset the increasing weakness in the global automotive industry.

Product. We are not simply on a journey to cut and shrink our way to profitability. Instead, we very much recognize the need for a product-led transformation, and believe we have the products to achieve just that. We have dramatically accelerated the introduction of new vehicles; 43 percent of our vehicles will be new or refreshed in 2009, and 100 percent of the Ford, Lincoln and Mercury lineup will be new or refreshed by the end of 2010 compared with 2006 models.

Keenly aware that the world is changing as we transform our company, we are shifting from an emphasis on large trucks and SUVs to a more balanced portfolio that also emphasizes smaller and more fuel-efficient vehicles here in the U.S. – the same world-class small vehicles that have been so successful for us in other high-fuel-cost markets. By the end of 2010, two-thirds of our spending here will be on cars and crossovers – up from one-half today.

We are delivering the best or among the best fuel economy with every new vehicle we introduce. This is possible through affordable, fuel-saving technologies like EcoBoost engines, which use gasoline turbocharged direct-injection technology for up to 20 percent better fuel economy, up to 15 percent fewer CO2 emissions and superior driving performance versus larger-displacement engines. We are doubling capacity for four-cylinder engines here to meet the consumer trend toward more efficient powertrains and vehicles. We also are doubling the number of offerings and volume of our hybrids in the next year alone, and we have a plan for delivering new electric vehicles and plug-in vehicles.

Ford is taking advantage of our scale and global product strengths. We are delivering a balanced portfolio of small, medium and large cars, utilities and trucks, with a sharp focus on the Ford Blue Oval brand across the globe. Going forward, this balanced portfolio will provide the flexibility to adapt more easily to changes in our environment and to begin to grow profitably as the global economy rebounds.

Our new products will be assembled in plants featuring lean manufacturing techniques, and, in nearly all facilities, flexible body shops will make them competitive with the best in the business. A number of our powertrains will be built in plants that can flex among the I4, V6, V8 or diesel engines. As we make these changes, we are fixing the fundamentals of the business, including a further significant reduction in structural costs next year. We also will continue the ongoing consolidation of our dealer and supplier network. Our plans call for reducing our supplier network by more than 60 percent and thereby improving supplier capacity utilization and financial viability.

We have continued to improve quality with four consecutive years of marked progress. This is another area where much of the recent commentary has not yet caught up with reality. Most recently, Ford, Lincoln, and Mercury vehicles collectively reduced what we call "things gone wrong" – a metric used to assess quality – by 7.7 percent compared with last year. That puts Ford's quality on par with Honda and Toyota.

We achieved a leading number of top safety picks from the U.S. Insurance Institute of Highway Safety, with the 2009 Ford Flex and the 2009 Lincoln MKS recently earning top honors. This builds on Ford's achievement of having the most U.S. government five-star safety ratings in the automobile industry.

The speed and breadth of our product-led transformation is demonstrated by significant actions taking place just this week.

- Today at the Los Angeles Auto Show, we unveil two all-new hybrids, the Ford Fusion Hybrid and the Mercury Milan Hybrid. Both beat the Toyota Camry Hybrid in fuel efficiency by at least five miles per gallon. The conventional versions of these new vehicles also beat the Camry in fuel economy.

- These vehicles are from the same Fusion family that is being recognized on the cover of one of the nation's most prestigious consumer magazines for outstanding reliability and quality – quality that respected third parties now agree is on par with Honda and Toyota.

- Yesterday, Ford submitted our application to the Department of Energy for direct loans authorized by Congress last year in section 136 of the Energy Independence and Security Act of 2007. We appreciate Congress' support for these loans, as they will provide access to lower-cost capital for retooling plants for more fuel-efficient vehicles. While no company has yet received funding through this program, we believe it will be important in the long term in deploying advanced technologies.

- On Friday, we end large SUV production at our Michigan Truck Plant and begin converting the facility to build fuel-efficient small vehicles. It is one of three large truck plants that we are converting to small vehicle production in the next two years.

Financing our Plan. To fund our transformation, we have taken many steps to protect Ford's liquidity position, including:

- Raising $23 billion of available liquidity through an enterprise-wide secured credit facility, going to the capital markets at the right time in 2006 to secure that financing.
- Selling Aston Martin, Jaguar, and Land Rover, and as announced earlier this week, a partial sale of our Mazda interest so that we could have an absolute laser focus on growing the Ford brand.
- Selling other businesses such as Hertz to aid our liquidity and to focus on our core business.

Similarly, Ford Credit, our captive finance company, has consolidated abroad to preserve capital to support U.S. consumers and our Ford dealers here.

The consolidation efforts alone have not been sufficient to overcome the financial market disruption which has significantly diminished our access to traditional funding sources.

Unsecured financing has declined dramatically during the past 12 months and impaired our ability to fully support dealer and consumer needs, or to achieve our growth objectives. Such funding is either non-existent or available today only at uneconomic terms.

Securitization markets, our primary funding source, have likewise been frozen. The asset-backed commercial paper and public term securitization markets also have declined significantly, greatly impairing the company's ability to support dealer and consumer financing needs. Accordingly, many of our low-volume financing products have been eliminated or curtailed as we wait for the credit and financial markets return to some state of normalcy.

Our Ford Credit team is optimistic that government assistance in the form of a purchase program for future term securitizations will allow us to continue financing consumers and dealers. The CPFF has been successful in this regard for providing liquidity to our asset-backed commercial paper program.

In addition, it is important that the FDIC approve Ford Credit's industrial loan bank application as another way for us to be able to offer automobile financing to credit-strapped consumers. First filed in June 2006 and refiled in February after an 18-month FDIC-imposed moratorium, Ford Credit's application for an industrial loan bank is still pending further review by the FDIC. We believe that the application and business plan meet the statutory requirements for approval in every material respect. During this extended period, Ford Credit has operated and will continue to operate at a significant competitive funding disadvantage to its competitors. Both domestic (GMAC) and foreign competitors (Toyota and BMW) benefit from FDIC-insured industrial banks and access to stable, low cost FDIC-insured deposits.

Financial Results and Economic Climate

The bottom line of all of our efforts is that we are now competitive with the best in the world – and it has shown in our financial results. In each quarter of 2007, we delivered year-over-year improvements, excluding special items, and on the same basis posted a $100 million profit globally in the first quarter of this year. We appeared to be well on our way to returning to sustainable profitability next year.

As this year has progressed, however, our companies, dealers, suppliers and customers have faced an unprecedented economic crisis and a severe credit crunch. I know that the Committee is all too familiar with the circumstances of our economy, but just a few statistics put the situation we face in sharp focus.

While the domestic auto industry has made mistakes in the past, the current problems have been exacerbated by one of the worst economies in nearly three decades. The mix of the housing crisis, credit crunch, wildly fluctuating gas prices and major spikes in commodity prices has lead to an unprecedented reversal in the business environment that is driving not just the U.S. but markets around the world into a synchronized economic downturn.

Spending by consumers fell at an annual rate of more than 3% in the third quarter (as compared to the second quarter). According to the early November 2008 reading of consumer confidence from the University of Michigan Survey of Consumers, this is the first time in the 50-year history of that survey that consumers were unanimous in their view that the economy is in recession. Consumers' assessment of their economic and financial conditions is the worst since the early 1980s, when the U.S. economy encountered two consecutive recessions. The unemployment rate of 6.5% is well above the low point of 4.4% in March 2007 and likely will rise significantly in coming months. Job losses are over 1.1 million in the first 10 months of this year, and further reductions in employment are expected.

The auto sector is highly reliant on well-functioning credit markets – from manufacturers and suppliers to dealers and consumers. Our industry is one of the first to suffer from bad economic conditions – indeed, spending on new vehicles historically represents about 4% of GDP and therefore will predictably be closely tied to those conditions. The early evidence of weak economic growth began to set in during the first half of this year, with consumers facing a weaker job market at the same time that rising food and energy prices were taking up an increasing share of their disposable incomes. As the financial crisis persisted, both credit availability and consumers' weakened confidence contributed to a drastic decline in vehicle sales. There has been a broad-based tightening of origination and underwriting standards for automotive financing, spreading beyond the sub-prime arena to affect many prime borrowers as well. The Federal Reserve Senior Loan Officers' survey shows that banks' willingness to extend consumer installment loans has only been weaker at one time in the past 30 years, and that was in June of 1980. More than 60% of banks have tightened standards for consumer credit in the most recent survey.

During the last six months, light vehicle sales fell at a 45% annualized rate, the worst slide since mid-1980. In October, the annualized sales rate for the US industry was only 10.5 million units – compared to over 16 million units just last year. This means the industry has lost over 5 million vehicle sales – the equivalent of two companies the size of Ford in North America – in a single year.

October was the worst auto sales month the U.S. industry has seen in 25 years, and we expect it will not be the weakest result we see over this economic cycle. Total industry volumes in 2009 are expected to be weaker than in 2008 on a full-year basis, with significant pressure in the first half of next year.

This is not just a case of the domestic auto industry failing to anticipate changing economic conditions. Very few in any industry, of course, predicted the kind of economic headwinds we face today. Certainly our foreign competitors have not been immune from the downdraft. Toyota, Honda, and Nissan each reported a decline in sales of more than 23 percent in October. Importantly for Ford, we have held or slightly increased our market share in the midst of this declining market.

The decline in the overall market has been the result of two problems – economic uncertainty that discourages Americans from making major purchases, and a lack of available credit so even some people who want to buy a car are unable to secure credit. But importantly, despite our best efforts, our industry's ability to weather this storm has been directly affected by the external financing environment.

This unprecedented pressure on our industry, which is the result of a financial crisis that was not of our industry's making, is coming just at the time when our efforts to restructure Ford have finally begun to bear fruit. The real challenge for this nation is to find a way to allow our successful restructuring efforts to continue despite these challenging times. To do otherwise would be a disservice to the millions of employees at our plants, suppliers, dealers, and customers who are depending upon our success as well as to the American public.

As quickly as these changes have been occurring, of course, we at Ford have been taking fast and decisive action to deal with them. We reduced our production levels dramatically in the face of a shrinking industry demand. In the third quarter alone, we reduced North American production by 219,000 units from the 637,000 vehicles we produced in the third quarter of 2007. Our fourth quarter plans call for production decreases in excess of 210,000 units from the fourth quarter of last year, leaving the company with a full year reduction of over 600,000 units in 2008. We are firmly committed to managing production carefully rather than simply producing units we know the market cannot absorb.

We have announced plans to further reduce employment and cut benefits and compensation at all levels. In addition to further salaried personnel reductions, we have already announced the elimination of merit raises and bonuses in 2009. We support including reasonable limits on executive compensation if we borrow from the federal government. However, we hope that you will take into account our need to retain and attract top quality talent to ensure our future competitiveness. As a high-skilled research and development focused company, arbitrary and broad limits on compensation would harm our competitiveness going forward.

Even as we take these steps, however, we continue to protect our investment in the fuel-efficient new vehicles that we believe will secure our future. Operating under our "One Ford" principle, we intend to deliver more vehicles worldwide from fewer core platforms, further reduce costs and allow for the increased use of common parts and systems. The result will be a lineup of highly acclaimed, smaller vehicles in global segments (sub-compact, compact, and mid-size vehicles, and commercial vans) beginning in mid-2009. About 40% of Ford's entries in these segments will be shared between Ford North America, Ford Europe, and Ford Asia Pacific by 2010, with 100% alignment achieved by 2013. And, as I mentioned earlier, we are committed to deliver every new product with the best or among the best fuel economy in its segment, driven by the most extensive powertrain upgrades ever for Ford.

The Bridge to Transformation

What I have outlined so far is the dramatic transformation taking place at Ford and the intense economic headwinds we now face as we attempt to continue and complete that transformation. The question remains whether we as a company and collectively as an industry will have time given the unprecedented short-term economic conditions to complete our transformation for the long term.

Speaking only for Ford, we are hopeful that we have enough liquidity based on current planning assumptions and planned cash improvement actions, but we also know that we live in tumultuous economic times in which rapid and unexpected change seems to be the norm rather than the exception. While we are cautiously confident, we must also be prudent, and prudence at this point requires that we prepare ourselves for the prospect of deteriorating economic conditions in 2009.

We also know that at least one of our competitors has reported that, absent the ability to secure additional funding, its estimated liquidity will fall significantly short of the minimum required to operate its business in the first two quarters of next year unless conditions rapidly improve – which we don't expect.

You have requested that we address the role of government-provided debtor-in-possession financing for a prepackaged Chapter 11 reorganization. The difficulty with this approach, in our view, is that Chapter 11 will not facilitate successful restructuring in our industry but would actually impair it by severely damaging sales in an already weak market. A Chapter 11 reorganization requires lengthy negotiations and potential concessions from suppliers, bondholders, the UAW, and the PBGC among other stakeholders – and the industry would be unlikely to survive, even in Chapter 11, during the time it takes to accomplish all of these steps. In short, Chapter 11, even prepackaged, makes no sense for us or for the industry.

Ours is in some significant ways an industry that is uniquely interdependent – particularly with respect to our supply base, with more than 90 percent commonality among our suppliers. In addition, we share an extensive minority and women-owned business supply base which, at Ford, represents $4 billion of the approximately $40 billion that Ford spends annually with U.S. suppliers. Should one of the other domestic companies declare bankruptcy, the effect on Ford's production operations would be felt within days -- if not hours. Suppliers could not get financing and would stop shipments to customers. Without parts for the just-in-time inventory system, Ford plants would not be able to produce vehicles.

Our dealer networks also have substantial overlap. Approximately 400 of our dealers also have a GM or Chrysler franchise at their dealership, and we estimate that as many as 25% of our top 1500 dealers also own GM or Chrysler franchises. The failure of one of the companies would clearly have a great impact on our dealers with exposure to that company.

In short, a collapse of one of our competitors here would have a ripple effect across all automakers, suppliers, and dealers – a loss of nearly 3 million jobs in the first year, according to an estimate by the Center for Automotive Research.

In the face of incredibly fragile economic conditions and the interdependence of our industry, we believe it is appropriate at this time to join our competitors in asking for your support to protect against an uncertain economic future that threatens all of the progress we have made to accomplish a goal that serves the interests of this nation – creating a strong and viable American automotive industry. I know we can achieve this goal because we at Ford are implementing the transformational changes that are required to achieve it – as long as we can survive the present economic turmoil.

Our request today is to gain access to an industry bridge loan that would provide all of us with an available tool to navigate through this difficult economic and financial crisis. We would suggest that the loans only be drawn as needed so that the exposure to the taxpayer would be limited – and, if used, we would repay with interest.

The Public Interest

It should come as no surprise that we who are testifying before you today believe the domestic automotive industry should be supported and preserved as it transforms to meet the new challenges of meeting changing consumer demands and environmental imperatives in a difficult economic environment. The question before you, however, is one of the public interest – is the public interest better served by offering aid to the industry at this time or by letting market and regulatory forces work to whatever future they might bring?

I respectfully submit that the public interest is clear – this industry merits your support. I have already detailed at length the ways in which our iconic American Ford Motor Company is transforming itself for the future, and I know my colleagues from General Motors and Chrysler are equally confident of presenting a compelling vision of the future. We all believe that future is worth supporting.

But perhaps the most compelling reason for you to support our industry comes upon consideration of the consequences that would be visited on our already fragile economy if this industry should collapse.

At the end of 2007, Chrysler, Ford and General Motors directly employed about 240,000 American workers and indirectly supported more than 4.5 million other workers in the U.S. The Detroit Three are among the nation's largest purchasers of U.S.-manufactured steel, aluminum, iron, copper, plastics, rubber, electronics and computer chips. Last year, they provided health care to nearly 2 million Americans and paid pension benefits to 775,000 retirees or their survivors.

One recent study estimated that in the event the Detroit Three were to cease operations in 2009, employment loss would be nearly 3.0 million jobs, personal income would be reduced by over $150 billion, and the loss to the government in tax revenue would be more than $60 billion – in the first year alone. Even a 50 percent reduction in our operations would result in devastating losses to the economy, according to this study.

Many more statistics are available. Each would demonstrate that the collapse of the U.S. automotive industry would be a calamity for the entire economy. This is not a claim that any individual company is "too big to fail," although of course that sort of claim seems to have been at work in some recent – and far more costly – actions taken in other sectors in response to the economic crisis. Rather, ours is a claim that a large swath of the industry rises and falls together, and that the industry collectively is too big and too important to fail. The linkages we have through our suppliers, dealers, workers and customers mean that there are very few isolated events in our industry. I would therefore urge you as you consider our request not to think of individual companies but rather of the industry – and the economy – as a whole.

Of course, more than mere economics are at play. It would not be overstating the case to observe that our nation's ability to engage in heavy manufacturing is very much at stake and is a matter of national security. No less an authority than former NATO Commander General Wesley Clark eloquently made that point in a column in last Sunday's *New York Times* that I commend to the Committee:

> More challenges lie ahead for our military, and to meet them we need a strong industrial base. For years the military has sought better sources of electric power in its vehicles — necessary to allow troops to monitor their radios with diesel engines off, to support increasingly high-powered communications technology, and eventually to support electric propulsion and innovative armaments like directed-energy weapons. In sum, this greater use of electricity will increase combat power while reducing our footprint. Much research and development spending has gone into these programs over the years, but nothing on the manufacturing scale we really need.
>
> Now, though, as Detroit moves to plug-in hybrids and electric-drive technology, the scale problem can be remedied. Automakers are developing innovative electric motors, many with permanent magnet technology, that will have immediate military use. And only the auto industry, with its vast purchasing power, is able to establish a domestic advanced battery industry. Likewise, domestic fuel cell production — which will undoubtedly have many critical military applications — depends on a vibrant car industry.

Our industry is proud of the role we have played through the years in meeting our national security needs, and we believe that role will continue to be critical in the years to come.

Conclusion

We live in difficult and challenging times, and have discovered in recent weeks and months that both old solutions and new must be re-examined and adjusted to meet rapidly changing conditions.

At Ford Motor Company, we remain committed to constant examination and response as we face new challenges. With each of those challenges, however, I become more convinced than ever that we have the right plan to transform Ford and that our best days are ahead of us. The reality is that Ford already is well on our way to realizing a complete transformation of our company – building a new Ford that has a very bright future.

With your help, we will together ensure that bright future for Ford and the entire American auto industry. With your help, we will create a safeguard to deal with the current unprecedented economic uncertainty, while all of us at Ford continue to deliver on our plan. And, as we continue to be an important part of communities across America, we look forward to working with you to be part of the solution on the road to economic recovery.

Thank you.