Chrysler's CEO says auto industry ripe for mergers

by Tom Krisher
AP Auto Writer

DETROIT—Chrysler LLC Chief Executive Bob Nardelli said October 16 that a steep decline in US auto sales has created an environment for industry consolidation, but he would not comment on reports that talks are accelerating for General Motors Corp. to acquire his company.

Speaking on the CNBC cable channel, Nardelli said Chrysler has been open about looking for partners and creating alliances, but he would not address the GM discussions.

However, he said the US auto sales slump has set the stage for industry consolidation.

"It certainly creates an environment for consolidation where you can get synergies of productivity that will allow you to be more competitive, not only here in the US market, but on a global basis," he said.

GM has discussed a merger or acquisition with Cerberus Capital Management LP, the New York private equity firm that owns 80.1 percent of Chrysler, a person familiar with the negotiations told The Associated Press last week.

The *Wall Street Journal* reported on its web site Oct. 16 night that potential lenders are eager to see the deal finished, and that GM wants it done as early as the end of October.

GM is trying to raise additional capital as it faces potentially huge losses when it reports third-quarter earnings in the coming weeks.

A major player in the deal is J.P. Morgan Chase & Co., one of the largest holders of Chrysler bank debt and one of GM's key lenders, the *Journal* said.

General Motors employees leave the GM plant during a shift change Monday, Oct. 13, 2008, in Janesville, Wis. GM announced Monday it will shut down its Janesville sport utility vehicle factory in two phases beginning on Dec. 23, sooner than the company had expected.

AP Photo by Andy Manis

Another person with knowledge of the talks told The Associated Press on Oct. 16 that no deal is imminent. Also, GM's board reportedly has been cool to the idea.

Industry analysts also are skeptical of how GM would benefit, but Chrysler has said it has about $11 billion in cash, and GM may be interested in gaining access to that.

Analysts say cash would be the only reason for GM to be interested in taking over Auburn Hills-based Chrysler, a privately held company that doesn't have to report earnings.

It lost at least $510 million in the first quarter and $1.6 billion last year. Its sales are down 25 percent so far this year, the worst drop of any major automaker.

Detroit-based GM is burning through than $1 billion in cash per month, with several analysts predicting it will reach its minimum operating cash level of $14 billion sometime next year. Sales are down 18 percent, and the company has lost $57.5 billion in the past 18 months, largely because of tax accounting changes.

All of this comes as US sales have slowed to their lowest point in 15 years, making bankruptcy possible for all of the cash-strapped Detroit Three if things don't turn around soon enough.

Nardelli also said it's possible the US industry could end the year selling around 13 million vehicles, more than 3 million below last year's level. Chrysler has had to reduce factory capacity by 1.1 million vehicles due to the slump, he said.

He said a million people are depending on Chrysler's success, including 66,409 employees, as well as those who work for parts suppliers, dealers, transportation firms and other companies.

"I hope the general public, I hope the leaders in Washington understand the implications of the pressure the industry is under right now," he said.

He said it remains to be seen whether Chrysler will need government help again like it did in the 1970s, and said a reduction in gas prices has been eclipsed by problems for consumers gaining access to credit.

Cerberus bought its stake in Chrysler in 2007 from Daimler AG in a $7.4 billion deal. Cerberus and Daimler confirmed last month that they are in talks for the private equity firm to acquire Daimler's remaining 19.9 percent Chrysler stake.

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