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SERGIO MARCHIONNE, "Automotive: Prosperity Amid Uncertainty," 2011 CAR Management Briefing Seminars, Traverse City, Mich.

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"Automotive: Prosperity Amid Uncertainty"
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Good morning, everyone.

It is a pleasure to be here this morning with so many industry leaders at this annual gathering which has helped shape automotive sector thinking over the course of its 46 years.

This conference has helped chronicle one sea change after another over the years.

While Chrysler's history traces back four decades further than the conference, the current Chrysler Group LLC goes back less than 26 months.

It was born as a less than riskless response to a traumatic crisis and linked, since inception, to a strategic global alliance with Fiat.

Some of you who regularly attend this gathering may recall that Chrysler sent no speakers to the conference in 2009.

It's not that we had anything against the Center for Automotive Research, or the conference, or the beautiful community of Traverse City.

President George Bush Senior used to answer people who accused him of being born with a silver spoon in his mouth that he had no choice in the matter: he told them he was rather attached to his mother at the time.

And so it was for us.

We had no choice.

We did not come because we had nothing to say.

We were completely immersed in a brutal self-assessment of our strengths and weaknesses. We were charting a future course, having lost all our traditional points of reference that, throughout the crisis, had proved out to be of little or no use.

Nothing less than our survival was at stake.

The French philosopher Albert Camus wrote:

“At the beginning of a pestilence and when it ends, there’s always a propensity for rhetoric. In the first case, habits have not yet been lost; in the second, they’re returning. It is in the thick of calamity that one gets hardened to the truth.”

Without a doubt, the unprecedented combination of conditions that led to a recession that ultimately shook our global industry has forced us to confront our predicament in all its unpleasantness.

But now, as we emerge from the events that almost wiped us out, we must heed Camus’ warning: we need to stay away from the rhetoric that usually follows a crisis; we need to resist the tendency to let old habits return.

A crisis, as unnecessary as it may seem at the time, is a terrible thing to waste. The truth of the matter is that the auto sector was already sick before the economic crisis forced it into intensive care.

We had been suffering from chronic problems, but had managed to either ignore or deny their existence for far too long.

Persistent problems such as industrial inefficiency, production overcapacity and value-destroying market strategies went unchecked.

The industry’s corporate culture, especially in North America and Europe, was marked by unaccountability.

As long as markets maintained their relative equilibrium – precarious as it may have been – U.S. and European automakers managed to operate beyond their means and hide the true extent of their structural deficiencies.

When the global crisis shattered that precarious equilibrium, however, it became undeniable that things had to change and that finding solutions to those problems could no longer be postponed.

In the U.S., industry, government, labor unions and financial institutions have worked together side-by-side to do more than merely save the auto sector.

I thought about this collaboration recently when I observed a flock of geese flying in their traditional “V” formation.

The interesting thing is that each bird, as it flaps its wings, creates an uplift for the bird that follows.

As a result, the whole flock gains an estimated 70 percent greater flying range than if each was flying on its own.

This sort of teamwork helped create what was dubbed “The New Green Deal,” the focus of a leaner, restructured and competitive auto industry which is seriously targeting a significant reduction in greenhouse emissions and fuel consumption.

Today, the automotive sector in the U.S. is on a more solid foundation for sustainable growth.

It is an example of what can be done when all parties honestly and openly come to grips with the inefficiency of an economic model and realize that ultimately the realities of competition go beyond national borders.

It proves that when we all come together in good faith, we can achieve something solid and long lasting.

Our relationship with the UAW is crucial to our future, and I want to recognize UAW President Bob King, who is also a part of today’s program.

Chrysler and the UAW recently began contract talks.

It is not my intention to engage in public negotiations, but my general observation is that the tone of dialogue has been very productive.

The leadership teams of both Chrysler and the UAW are committed to crafting a future path that rewards employees for the success of the company while ensuring Chrysler will be able to remain competitive.

Given our experience over the past few years, our near-death experience, we have a duty to acknowledge our responsibility to the American public, to the Obama Administration, and to all employees whether hourly or salaried.

The obligation that sits squarely on our shoulders is to craft a responsible agreement that preserves and safeguards the ongoing competitiveness of Chrysler while allowing our people to share in the potential wealth that a viable carmaker can ultimately yield.

While the U.S. focused on restructuring the auto industry to provide it a solid base for the future, in Europe things went in a very different way.

The lack of a common vision hampered and continues to hamper efforts to address deeply rooted structural problems.

Every member state followed its own course of action, some even providing direct aid to domestic automakers, in what some have viewed as a blatant contravention of the treaty of Rome.

This interventionist attitude put some national players in a more advantageous position than others, distorting the equilibrium of the European common market and artificially preserving unproductive capacity.

These responses underscore the reality that Europe is living in a kind of halfway house, combining a peculiar notion of a monetary union with limited economic, fiscal or political convergence amongst the member states.

The Financial Times contrasted the U.S. and European approaches in a recent editorial.

“Carmaking is plagued by chronic overcapacity: manufacturers today have the means to make 94 million cars a year, but can sell only 64 million. Any intervention to tide a company over a short-term crisis must in return address this oversupply.

The U.S. rightly let Chrysler and General Motors file for bankruptcy before issuing loans to help with a necessary restructuring. That gave the government the freedom and the power to shake things up ... At the same time in Europe, politicians deflected by special interests were unwilling to close unproductive plants.”

There appears to be no immediate, obvious answer to the European conundrum. But time is running out for all European carmakers.

The industrial and political leadership of Western European countries must jointly find the will and determination to address the uncompetitiveness of the overall system.

I have no doubt it will happen.

I, unfortunately, just do not know when.

I do not want to stand here and sound like a Eurosceptic.

Europe is still today a large repository of technology and leading edge capabilities in car making.

And Chrysler’s global alliance with Fiat is an example of a positive, international creative response to our new realities.

It offers the opportunity for efficiencies in development, engineering, purchasing, manufacturing and distribution.

This urgency for this partnership came from the global economic crisis that erupted toward the end of 2008, which closed capital markets and forced Chrysler to seek government assistance in order to survive and restructure.

The common opinion at the time was that Chrysler was doomed, and that government assistance amounted to throwing good money after bad. For a while, there seemed to be a competition to write the most clever obituary before the body had turned cold.

I don’t want to dwell today on the factors that brought Chrysler to the edge of extinction.

I prefer to talk about what we have done to change the conversation.

The governments of the U.S. and Canada gave us a second chance and the opportunity to build a future. They showed leadership and political courage by demonstrating faith in the people of Chrysler, even though it was not a universally popular decision.

For nearly two years, we lived every single day mindful that we owed a debt of gratitude to those who allowed us to survive and conscious of the moral responsibility to repay not just the loans but the faith placed in us.

I remember how analysts and the press reacted when we announced that within a very short period of time we would fully renew our product range and get our financials back into shape.

I remember the skeptical and patronizing looks on their faces.

Well, we didn't give up.

Those of you who had the good fortune to discover Alice in Wonderland as children might remember the dialogue with the Queen in *Through the Looking Glass*.

Alice said, "There's no use trying. One can't believe impossible things."

"I daresay you haven't had much practice," said the Queen. "When I was younger, I always did it for half an hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."

And that is exactly the exercise we went through.

We dared to dream, and we delivered on that dream.

In just 19 months, we presented 16 all-new or significantly refreshed products to the market.

We have undertaken a profound transformation of our organization, introducing a new culture, based on meritocracy and accountability.

This transformation goes all the way to the manufacturing plant floor, where our processes are designed to free up employees to use their abilities and experience to eliminate waste.

The people that work at Chrysler today have acquired the courage to strive for greatness.

They have embraced the challenge of competition.

It is a notion that is cherished and nurtured.

It is a mindset that has produced results.

On May, 24 we paid back, with interests, all the loans given to us by U.S. and Canadian Governments, six years ahead of schedule.

We are achieving consistent, solid share gains in all of our markets, driven by consumer acceptance of our rejuvenated product portfolio.

Last week, we announced our second quarter results, which show a continued improvement in our operational and financial performance.

After achieving a net income of \$116 million in the first quarter of the year – which was our first quarterly net income since the Company began operations in June 2009 – we ended up with a net income for the second quarter of \$181 million, excluding a non-cash, non-recurring charge of \$551 million from the repayment of our government loans.

Our worldwide vehicle sales were up 19 percent versus the same period last year, and our sales growth is outpacing the market. In the U.S., Q2 market share was 10.6 percent, up from 9.4 percent the year before. And in Canada, market share climbed to 14.9 percent in the second quarter, compared with 12.9 percent in the period in 2010.

The results we announced yesterday for July are further confirmation of the progress we have made thus far.

We are changing both the image and substance of our group and are regaining the faith of the public at large and, even more importantly, of our customers.

You probably remember the commercial that we aired during this year's Super Bowl. It caused quite a stir, and at last collective count had attracted close to 19 million on-line video views.

It also won four Gold Lions, including one for best automotive commercial, at the international advertising festival at Cannes, France. And we have just been notified that the commercial has been nominated for an "Emmy".

What I would like to share with you this morning is another video, one which has its origins in the Eminem commercial.

We showed it in public just once, at the New York Auto Show, to launch the Chrysler 300.

This video is homage to the culture of action and commitment, and to our industrial roots.

It speaks about hard work and results achieved through resilience and tireless efforts.

About people that are not resigned to their destiny but redesign the future for themselves, day after day.

People like those who have rebuilt Chrysler.

They are men and women free to venture beyond the ordinary and the expected, free from prejudices and the limitations of habit, free to express their creativity and break convention.

It is thanks to them that our company, one that has been to hell and back, still dares to dream.

Those people are the best guarantee for our future.

Although the auto sector has survived the recent recession, there are many remaining issues to test our mettle.

I am going to focus on two that I consider the more salient or relevant.

One of the greatest challenges our industry faces over the next few years is to find technological solutions that will enable us to reduce our dependence on oil.

Contrary to commonly held beliefs, environment focused product innovation doesn't necessarily mean inventing something radically different.

In our view, it means adopting a different approach, ceasing to look at the auto in isolation and beginning to see it as a component of a larger system.

Viewing the product in terms of its function within the system not only enables us to address the contingent issues, but also provides us a more solid foundation for future development.

The automotive industry has already done much in the area of developing more fuel-efficient engines and other solutions that are more respectful of the environment.

But to achieve a quantum leap of progress, the entire system – political, economic and industrial –

needs to work on this together with the same kind of collaborative spirit that enabled the U.S. to revitalize the automotive sector.

And it needs to be done with a sense of realism.

There is no magic recipe that will provide an overnight solution.

It will require hard work, concrete objectives, and a balanced approach that explores all available technologies.

For many years, hydrogen was presented as a panacea to our environmental problems.

Our sector was accused of not putting enough effort into developing these alternative propulsion systems.

It could be that in the future – in my view, the distant future – we will all use hydrogen-powered transport.

But until we find a sustainable solution to storage and distribution, it will remain an illusion.

We will be doing nothing other than shifting the problem elsewhere.

It may provide us with super-clean cars, but we would also have enormous quantities of energy and polluting emissions linked to the production of the hydrogen itself on our conscience.

Now that hydrogen has fallen out of fashion, it is electricity's turn to be viewed as a panacea.

Judging from the recent debate, particularly in Europe, there is a risk that regulatory focus will shift to this as being the sole technological solution.

Electric propulsion could be a promising long-term solution.

But if regulators focus on promoting this solution alone, the outcome is absolutely predictable: capital overspend and sub-optimal results.

I am not saying development of the electric car is not a worthwhile project.

At Chrysler we are putting a lot of energy into this technology and next year Chrysler will launch an electric version of the Fiat 500 for the North American market.

But if we are to achieve any serious reduction in emissions levels now, it is far more practical to leverage all available technologies in a coordinated manner.

For example, there is a substantial supply of Compressed Natural Gas here in the United States. CNG is eco-friendly, economical, and can be part of a readily available, technically proven solution to substantially reduce CO₂ emissions.

And there are still many unexplored opportunities to substantially improve the efficiency of internal combustion engines.

It is for these reasons that we believe government regulations will have the greatest positive impact if they are technology neutral.

This neutrality will ensure a rational allocation of capital – one that will drive the highest possible fuel savings and reductions in greenhouse emissions.

It is this understanding that ultimately convinced the preponderance of US carmakers to support President Obama and sign the agreement last Friday with the various federal and state regulators on the 2017-25 CAFE standards.

An agreement that was reached, by the way, in record time.

As we look to the future, we should recognize one of the greatest challenges that Americans and Europeans need to prepare to confront as soon as possible.

That is the challenge presented by China.

China is the largest producer of cars in the world.

They produce almost entirely for the enormous domestic market, but their future plans for the export market are significant.

Even assuming China were to export only 10 percent of what it produces, the risk we face in our home markets is enormous.

We cannot afford to be unprepared for the ascent of China, reassuring ourselves of our invincibility. The excuse that we did not understand or that we underestimated the scale will serve no purpose.

Rather we need to continue to work to make our industrial base more competitive, because the day of reckoning is inevitably coming.

For most global corporations, it has become fashionable these days to place greater and greater reliance on the performance of our Asian subsidiaries and ventures.

Riding the wave of economic growth in those markets has provided a natural offset to the underperforming nature of our European and American businesses.

I hear from a lot of automotive corners that China is a big part – if not all – of our future. And there is no doubt our Asian prospects will provide a great economic opportunity, an invaluable learning platform, calling upon all of our resources, especially in terms of culture and innovation.

But none of us can forget, Chrysler for one, the commitment we made when we accepted financial support from the government to give new life to the automotive industry.

It is important that we keep in mind the key elements of that social contract and the long-term nature of the joint commitment we made, both automakers and organized labor, to establish the foundations for a lasting renaissance of the automotive industry in America.

For Chrysler in particular, a big upcoming challenge involves speeding up the industrial integration with Fiat.

Because of their respective characteristics, capabilities and even their unique traditions, Fiat and Chrysler are perfect partners for integration.

In the product area, sharing know-how will enable both to expand their offering with new products

based on proven experience and technologies.

Chrysler will be able to expand its offerings to include A and B segments, where it was not previously present; it can rely on Fiat's newly developed and state-of-the-art C/D architecture. And Fiat will be able to enter the larger segments, filling a gap in its portfolio that it could not have filled on its own.

The match-up in engine technology is also a win-win combination.

Fiat is recognized for its technological know-how and commitment to sustainable mobility, as well as its ability to introduce fuel-efficient powertrain technologies, including diesel and CNG, to the North American market.

These advanced fuel-saving technologies will provide Chrysler a significant advantage in developing solutions to meet future regulatory standards, with a fleet-wide improvement in fuel economy of at least 25 percent expected over the five-year period that ends in 2014.

On the other side, Chrysler will be the global center of expertise for larger displacement engines, such as the new Pentastar V6, and it also brings to the partnership a wealth of experience in hybrid and electric engine technologies.

Development of new models on common architectures will also give us greater flexibility in allocating production, optimizing the utilization of manufacturing capacity for both partners, and significantly improving overall efficiency.

In addition, the opportunities to leverage synergies to contain costs and increase economies of scale are enormous, particularly in the purchasing and engineering areas.

Within three years, we will be capable of producing one million units or more on each of our three principal architectures.

Together our two groups will be able to achieve the necessary critical mass to compete on a global scale, achieving sales of six million vehicles by 2014.

The achievement of these objectives represents an enormous challenge at all levels, including cultural.

We are bringing together the best of the two groups, but this doesn't mean eliminating differences or canceling the identity of either Fiat or Chrysler.

Rather than viewing the partnership as a merger, with all the component pieces blended into a homogenous entity, we should perhaps view it as a mosaic, with each piece contributing to a whole while retaining its distinct attributes and identity.

This approach to diversity preserves the unique perspectives and strengths of each culture, while encouraging acceptance and appreciation of the other.

It is the approach we are applying as we develop our alliance.

The differences between Fiat and Chrysler are, in fact, the strength of the partnership.

Working together, we will chart a future that builds on the tradition of each yet also boldly welcomes challenge and opportunities to express our identities in new ways.

There is no room for either party to be nationalistic or seek to be master over the other.

The alliance between our two groups is based on mutual respect and humility, on the willingness of each partner to learn from the other.

You can find an example of the mosaic concept, and our commitment to preserve the identity of each company and each brand, in the Chrysler video you saw several minutes ago.

I would like to show you another short video now.

It's the new Fiat 500 ad that we began airing this week.

The 500 is an iconic car, with a very strong heritage.

It carries the history of a whole country; it accompanied the construction of the industrial profile of Italy, and gave Italians not just a means of transportation but also the idea of freedom and an open and brighter future after World War II.

Those are values very well known here, in the U.S., a country built on a belief in freedom and making opportunities available to all members of society.

The modern Fiat 500 is a symbol of optimism – a reminder that practicality and fuel efficiency are attainable without settling for a bland product in a world that longs for individuality and fun.

This is the very spirit of the video you'll see.

It's not simply a commercial.

It embodies our vision of the distinct qualities and attitudes that Fiat contributes to the partnership.

It shows the values that guide our choices and inspire the creation of every Fiat we make: passion, innovation and attention to details.

It enshrines our idea of life and things that are worth it.

The world has completely changed in the last half a century and it keeps changing every day, faster than ever today.

Our cultures, in the U.S. and Italy, can be different.

Our countries and our habits are different.

But, wherever we come from, whatever the history behind us, we all are united by the same desire: to live life to the fullest.

And only those who appreciate the simple and genuine things in life can do that.

These are the things that make life worth living, and they are not limited by space or time.

They simply endure.

We are very conscious that the Fiat-Chrysler alliance is still in its infancy.

Most of the paint is still on the palette and we still have much work ahead of us.

We just announced last week a new leadership structure in order to ensure speed, clarity of direction and unity of purpose.

When two enterprises integrate, they share everything.

Industrial resources and know-how, projects and targets, challenges and ambitions.

But the most important thing is that we share a common spirit and values.

We share a sense of responsibility that comes with running a global enterprise, an awareness that our choices have an impact that goes beyond the walls of the office or the gates of the factory.

We share the idea that building a better future, respecting and contributing to the well-being of society as a whole is not something that can be left to others. It is a commitment that we ourselves must deliver on each and every day, both inside and outside the organization.

When we repaid the government loans on May 24th of this year, I reminded my colleagues at Chrysler that it was more than a moment of celebration.

It was also an occasion to reflect on how we got here, and why.

As always happens in life, the hardest, the most difficult moments – when you feel lost and believe there is no longer hope – are also the most meaningful and most character-forming moments, moments that change you forever.

Those who survive, who find the strength and courage to stand and fight, will never be as before.

Survivors are different people, they are special people.

My colleagues and I at Chrysler are survivors.

We have collectively found the strength to fight against the death sentence placed on our company from the very beginning.

We found within ourselves the courage to act and reverse our fate.

And now we are living, day by day, a new life based on what we have learned from that experience.

For that reason, we are special people.

Because we have learned to look at the future in a way different from others.

We have a level of awareness and understanding of the world that is different from anyone else's, that makes every moment rare and precious.

And we should never forget the experience we have been through, but rather we must treasure it every day.

Being survivors has not only empowered us to pull out the best in ourselves, in our work and for the company, but it also has had an impact on our personal lives and, in the end, made us better people.

There is an untold story in what we are living.

One that in a sense is too early to tell, and that involves the transformation of the people who have led the revival of Chrysler's fortunes, and of the people whose lives they hold in their hands.

There are dozens of similar and probably more valid and powerful examples out there: Lou Gerstner's resurrection of IBM, Robert Oppenheimer's experiences with the team that built the atomic bomb in the Manhattan project, Bill Clinton's remarkable victory in the 1992 presidential race.

But the common element with all of them is that they leave an indelible mark on the formation and growth of leaders.

They are changed forever.

We have changed forever, because we now know that ultimately, regardless of the circumstances, we have the power to refuse our consent.

We have an obligation to refuse our consent to decay, to disengage from competition, to industrial neglect, to wasteful activities, because ultimately, consenting to these things is a denial of our right to live and to our obligation to protect the welfare of our people.

Thank you all.

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Additional information and news from Chrysler Group LLC is available at:

<http://www.media.chrysler.com>