

Backseat Driver By Jerry Flint

Hydrogen Bomb

A FEW WEEKS AGO THE BUSH ADMINISTRATION SAID IT would stop funding a ten-year-old research program with the auto industry to build an 80-mile-per-gallon family-size car. Nothing of import was discovered during that time and a dumb program was halted with only \$1.5 billion of our money wasted. That's the good news.

The bad news is that Washington is going to waste more on trying to develop cars powered by hydrogen fuel cells. Nothing will come out of this program, either.

We've been on the alternative-fuel road for a quarter-century, through the research for the steam engine and the electric car, the turbine engine and the Sterling cycle engine, the hybrid engine, the natural gas engine, the alcohol engines (ethanol and methanol), the hydrogen fuel engine, the diesel, the rotary and a few more.

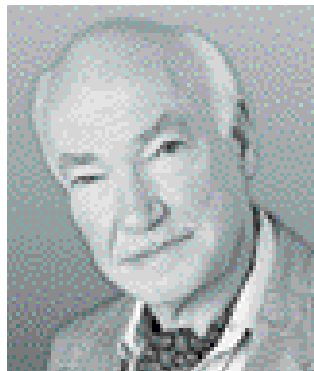
With government funding, a good part of the money goes to folks who can't do anything: research centers, professors, anyone with the knack of filling out a government grant application. This pays for lots of assistants, secretaries and copying machines. It doesn't seem to get to people who know anything about cars.

The money that goes to the people who can do something, the auto companies or a few specialized outfits, pays for research they were doing anyway but allows more rides into blind alleys that they otherwise would have skipped.

Naturally, while failing they will say they made valuable progress. Baloney. They say the research on the 80mpg dream car brought progress on hybrid (gas-and-electric) systems. Well, Toyota and Honda created hybrids without consuming \$1.5 billion of your tax money.

People think that just because I say government intervention won't work I am against fuel economy. Wrong. I am for fuel economy; it's a good thing. But it's not because I don't trust Saudi Arabia or think Los Angeles will be underwater because of global warming. I just don't like to spend any more than I have to at the gas pump.

The key to higher mileage is less weight and thus smaller engines to pull the lower weight. But to replace steel with high-cost light material would result in a \$150,000 car, and it still wouldn't get 80mpg.



Seventy miles per gallon is possible in a very small car using aluminum instead of steel, with a technically advanced turbo-diesel engine. This vehicle would cost \$25,000 but wouldn't sell because it would be too small. In fact, they exist in Europe (Volkswagen Lobo and the Audi A2) and don't sell well, despite \$5-a-gallon petrol. Too small and pricey.

The hydrogen fuel cell engine works: Hydrogen meets oxygen and they make water (the exhaust), and there's a spark left over that is the electricity that runs the electric motor.

But it's not a mass-production technology. Hundreds of millions of dollars are being spent to research it by every major auto company and by companies like Ballard in Canada. A few research fuel cell vehicles are running around, and fuel cell buses might go into test use sometime in 10 to 15 years.

But I also know that just pouring money into fuel cells won't speed up research. And that a fuel cell engine will be terribly costly and an unlikely source of car power for anyone old enough to read this page.

Few people realize the difficulty of building an engine that must drag 3,000 or 4,000 pounds over all kinds of terrain in all kinds of weather, Arctic cold to Death Valley heat, and will always, always, always work.

Should we ever run out of oil—and I don't expect that to happen in the lifetime of anyone reading this page—alcohol will work fine in car engines. It costs more than gasoline, but it works fine.

So when you read in a few years that Washington is abandoning hydrogen fuel cell research, don't say I didn't tell you.

And don't worry, fuel economy will improve. **F**

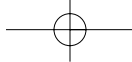
Pouring money into fuel cells won't speed up research. In fact, they won't be a source of car power for many years.



Fantasy? GM's fuel cell concept car.



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Horror Story

THE HEADLINE IN THE TRADE JOURNAL READS: “GM prepares to save Fiat.” Saints preserve us! General Motors is in the midst of saving itself and doing a good job of it. But the General is just terrible when it comes to saving foreign partners. Just look at the disasters at Isuzu and Saab.

GM got into its Fiat jam two years ago. That’s when it exchanged 5.3% of its stock for 20% of Fiat Auto (the auto business is 42% of the Fiat Group). Under a provision of the contract Fiat has the option to sell the rest of its auto business to GM starting in 2004.

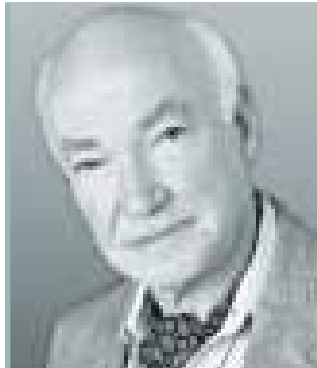
Urgent message to GM: Get all those lawyers of yours to work proving the contract is invalid. The “i” wasn’t dotted, the *ipso* wasn’t *facto*, whatever, but bust that contract.

It’s one thing to lose billions of dollars mismanaging Isuzu or Saab, but you guys can sink the ship mismanaging Fiat. I know the GM thinking: Put two losers together and you get a winner. GM of Germany (otherwise known as Opel) plus Fiat would be the biggest automaker in Europe. We’ve been through this before. Putting Willys and Kaiser together will create the biggest automaker in Toledo. Merging Nash and Hudson will make the biggest automaker in Kenosha, Wis. and Studebaker plus Packard will be the biggest automaker in South Bend. More accurate arithmetic: Put two losers together and you get a smaller loser with bigger debt.

When the trade was made it was a \$2.4 billion deal. On paper Fiat has lost \$380 million on the 32 million GM shares it owns, as the stock dropped from \$75 to \$64—as of this writing—(only \$268 million lost if you count the dividends GM paid to Fiat). I’m guessing GM has already lost \$1.25 billion (Fiat Auto is not a listed stock).

The premise in this deal is that GM will use similar parts in German Opels and Italian Fiats and save all sorts of money. The company claims hundreds of millions in savings already. But the losses are growing faster than the “savings,” and I think these “savings” are fiction.

If General Motors is forced to buy Fiat it'll be a terrible move. It's one thing to lose billions of dollars mismanaging Isuzu or Saab, but executives could sink the ship mismanaging Fiat. Bust the contract at all costs.



Also, Italians don’t buy many GM German Opels now, and they are buying fewer Fiats all the time. Why should they want to buy more Fiats simply because they are half Opel? And Germans are buying few Fiats, and the Opels are losing popularity. Why should they want to buy more Opels when they are half Fiat?

When the deal was made Fiat’s honorary leader, Giovanni Agnelli, said control would never be given to GM. But he is 81 and ill, and younger members of the family are willing to take the money and run.

And business isn’t good. Between January and April its Alfa and Lancia lines sold 18% fewer cars in western Europe than the year earlier, while industry sales were down only 3%. And even those Fiat sales may have been padded by registering cars twice. Last year the company ran an operating loss of \$500 million on its auto business (most of the other parts of Fiat were profitable) and probably lost almost as much in just the first quarter this year.

Not that Opel is any profit center. Opel car sales in western Europe were down 14% for the four months. The GM Europe net loss last year was \$765 million and the first-quarter loss was a bit more than last year’s.

You can see we have two troubled companies. And Fiat’s outside-Europe capacity is centered in Brazil, a sinkhole of too much capacity.

What is wrong with Fiat? Its cars are good, and its Alfa Romeos are beautiful. Fiat was always huge in Italy, but now Italians want a change. I recall when 60% of Italian car sales were Fiat. Now the proportion has fallen to 35%. With all that Italian business, Fiat didn’t push hard enough in other western Europe countries and quit in America. It also didn’t understand that the big money was in fancy cars, like Alfas and Lancias, and concentrated on the low end.

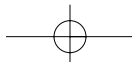
If this GM management had a record of turning sows’ ears into silk purses the Fiat acquisition might be worth the risk. But this management turns big sows’ ears into smaller sows’ ears.

Now GM is “war-gaming” the situation, according to its chief financial officer, and the story going around the industry is that GM wants to speed up the acquisition before Fiat sinks beneath the sea.

My advice: Remember what they sang in *Little Shop of Horrors*, “Whatever you do, don’t feed the plants.” **F**



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Money Isn't Everything

GENERAL MOTORS IS THE ONLY DETROIT AUTOMAKER with its head well above water, yet the company keeps flooding the market with rebates. It has just gone back to 0% financing for most of its vehicles. Everyone spends on incentives, but the numbers for GM, Ford and Chrysler, better than \$2,000 a unit, are well above some of the best of the foreign brands: Honda's average through May was \$470 a vehicle, Toyota's \$572, according to Merrill Lynch.

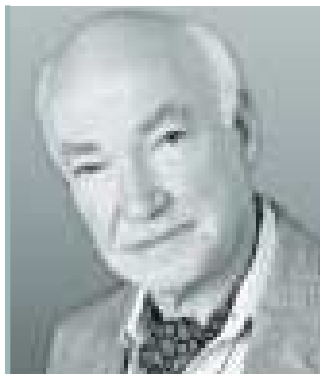
So why should GM, which is building more vehicles this year than last and operating in the black, mar its image by running the equivalent of a permanent end-of-the-month sale?

The first part of the answer is that GM has excess capacity. It can still build many more vehicles than it can sell without discounting. GM lost a fifth of its market share under the regime of Jack Smith (now chairman) and Rick Wagoner (now chief executive). Today, with rebates and cheap financing, GM can hold about 29% of the market. My guess is that its share without incentives would shrink to 25%.

Eventually GM probably will accept a lower market share and shut down more capacity, unless the excess is covered by growing industry sales. But not now. The company makes a good profit on its trucks, something like \$5,000 apiece on 1.5 million big pickups and big sport utilities. So giving away some of that gross profit to keep truck plants running full tilt seems acceptable.

In June GM sold 450,000 cars and trucks, each carrying better than \$2,000 in giveaways. You could argue GM gave up \$1 billion in profit for one month. But, of course, without those incentives GM wouldn't have sold as many cars and trucks. Without the rebates, I calculate, GM would have been \$250 million poorer. The reason is that closing factories, especially car factories, is expensive. During a shutdown of a few weeks the assembly-line workers, the salaried staff, the property taxes all still get paid, and the advertising doesn't stop.

Besides, most of the GM cars don't sell without rebates because they are old—old designs, old engines, old interiors. But I recall a GM manager—he later became the chief executive—who told me, "There's no way you lose money on a car you've been building for six years." If you don't make money on the car itself, you make it on the accessories.



After six years the great costs of building that car, such as the tooling, are paid off. So a rebate is painful on a moneylosing car model, true, but the GM cars have been in production for so long that the losses can't be much to start with.

The other reason for discounting is to maintain a certain market share. The company seems to desperately want

to hold the line and climb back to 30%. It just doesn't want to fall back to 25%. For years I criticized GM for ignoring its failing market share, but now I'm not worried. The company is on the right track to rebuilding its fortunes—the trucks are hot, and the car team, Vice Chairman Robert Lutz and his two musketeers, Mark Hogan on new models and Mark Reuss on engines, is the best.

Will this discounting make sense forever? No. It's not even good for the buyers. A better product at a higher price is better for the consumer than a poorer but cheaper vehicle. Profitable businesses are better for the consumer than bankrupt companies. Price isn't everything. General Motors proved that back in the 1920s when it kept improving its cars and charging more while Henry Ford stayed with his old Model T and kept cutting prices. But customers wanted the better cars and GM dethroned Ford as the world's largest carmaker. Personally, I'd rather GM took its beating on car volume and made more profit on its trucks, even if it sold fewer.

But there's nothing wrong with fighting desperately, giving up profit, to hold the line until better products come. And I am sure they are coming, with Lutz, Hogan and Reuss driving. The Cadillac Escalade may be the first of this new breed. A huge 345hp SUV with its "in-your-face" design is not my cup of tea, but it is hot, and making good money.

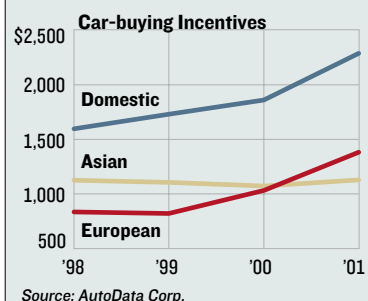
That's why GM rebates so heavily; it's fighting to hold what it's got—until the better stuff comes.

That's why GM rebates so heavily; it's fighting to hold what it's got—until the better stuff comes. **F**

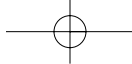
General Motors sales are fairly good, and operations are in the black. Then why is the company sticking to its heavy discount strategy?

Make a Deal

The Big Three's incentive spending rose to an average \$2,288 per car, well above competitors'.



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Falling in Love

THE OTHER DAY MY FRIEND FRED MACKERODT SAID TO me, “We’re in the golden age of automobiles.” The trouble with being in a golden age is that it’s hard to know it at the time. But I think Fred is right. This is a golden age, and our love for the car has never been stronger—notwithstanding what you may have been hearing from Bill Ford, chairman of the Ford Motor Co., and the *New York Times*.

Ford said in a speech that our love affair with cars is stale, maybe even dying. For proof he says that in California people used to write songs about cars but now they write regulations.

The *Times* quoted him at length and went on about how hard it is to fall in love with sport utility vehicles. Falling in love with such big vehicles is like falling in love with a tank, said another *Times* “expert” and, besides, he had never heard anyone call a sport utility vehicle “my baby.” A bit light on the proof, I’d say.

First Ford: He’s got the wrong station on. Californians still are putting vehicles in their songs, but it’s not the Beach Boys anymore. Maybe Bill Ford never heard J. Lo plugging the Cadillac Escalade in “Love Don’t Cost a Thing.”

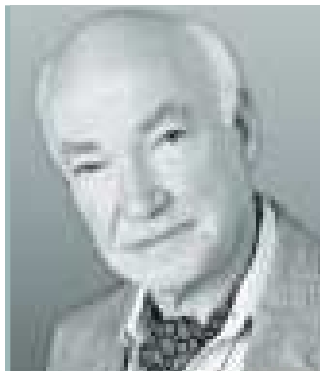
And I hear that Jay-Z, Big Tymers and Da Brat put the Escalade in their lyrics. Or, Bill, go see *Austin Powers in Goldmember*, which includes an Escalade song.

As to the *Times*’ wonderment about who could love something big, I guess today’s *Times* man never saw Humphrey Bogart love up his tank in the movie *Sahara*. My wife, Kate, loves, really loves, her extended cab GMC pickup and its V-8 engine, all 5.7 liters of it. She loves it as much as she loved her Mazda Miata sports car (which I unfortunately crashed).

Now let’s prove that we’re in a golden age.

Never in the history of the self-propelled vehicle have we had such product variety. I can count 24 different sports cars on sale or being readied—from those you know, like the Miata, BMW’s Z4, Chevy’s Corvette and Ford’s Thunderbird, to those you haven’t seen yet, such as the Chevy SSR, the Cadillac XLR, the Chrysler Crossfire, the Ford G40 and the Nissan 350Z. There have never been so many.

We have little retro cars like the VW New Beetle



(and a convertible is coming), the Mini from BMW and the Chrysler PT Cruiser.

We have superluxury cars like Daimler’s Maybach and soon the new Bentleys (from VW) and the new Rolls-Royce (from BMW).

We have the finest family vehicles ever built in the Toyota Camry, Nissan Altima and VW Passat, and the new-for-2003

Honda Accord.

We have bargain models from Korea that are pretty good.

We have minivans, the most practical vehicles in the world. We have great big and small pickup trucks and a growing array of big and small sport utility vehicles and the “crossovers,” which look like sport utilities but ride more like cars and are still evolving. Think about it—from the cute Honda CRX with the pullout tailgate table to the climb-anything-anywhere Jeep Liberty to the blot-out-the-sun Chevy Avalanche.

The technologies are just as wondrous.

Five-speed automatics and six-speed manuals are common, and there’s the new fuel-saving, infinitely variable transmission. We have stability control to stop spinouts and rollovers, and satellite radio with 100 stations and fresh programming. We have hands-free telephones, voice-activated controls, xenon headlights and four-wheel steering to make towing easier, and I’ve just heard of rear-seat air bags built into the seat belt. We can get warned if the tires need air, and Onstar tells the police if we’ve had an accident, where and how bad.

Amazingly complex internal-combustion engines give great performance and clean air, while new hybrids (gasoline and electric) go 50 miles on a gallon. And on West Coast buses we’re testing hydrogen-fuel-cell engines, designed to replace today’s oil-burning engines.

We love it all and bought 50 million vehicles in this country in the past three years. There have never been three years like it before.

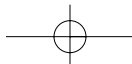
Go beat 0% interest. New-car prices are so low that used-car salesmen can’t compete. Companies like Toyota and Honda and BMW are rolling in profits, while General Motors and Nissan are turning around and moving up.

One day historians will look back and say this was truly a golden age and how much fun it must have been. And they will look at Bill Ford’s speeches and the *New York Times* and scratch their heads. **F**

The 24 sports cars here (or en route) include the Miata, Z4, Corvette and Thunderbird, plus some you haven’t seen: Cadillac XLR, Ford G40, Chrysler Crossfire and Nissan 350Z.



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A Death on Route 9

THERE'S AN UPHILL CURVE ON ROUTE 9, A STATE highway near my home in upstate New York. Along the side of the road is a patch of flowers. It's a memorial for a young woman who was killed on that curve this summer. She was returning from work and swerved out of her lane, head-on into a tanker truck. She probably dozed off at the wheel. It was late.

Car accidents are the greatest cause of death of young people, not abductions or whatever worries the media feed you. And in most cases the accidents are the fault of people, not of machines.

Safety has always been part of my reporting. I knew Ralph Nader in the early days, before he published his famous *Unsafe at Any Speed* in 1965. Decades ago I was the first reporter to test an air bag. I twice survived one-car accidents in which I totaled the car I was driving. So I know something about auto safety.

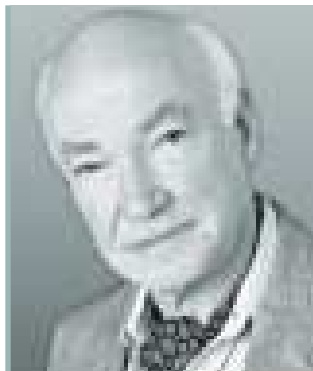
My view is that new cars are basically safe. They all have seat belts, they all have air bags, they all have good brakes, they all steer well and have good tires when they are new. Most have antilock brakes and some have antiskid or stability systems, side air bags, and we're beginning to see radar cruise control aimed at keeping some distance between cars. There isn't yet solid evidence that the newest technologies add to safety, but my hunch is that they do.

So why is it that 42,116 people died last year in motor vehicle accidents in the U.S.? It's uncommon that a car—unless it's an old one with failing brakes or bald tires—is to blame.

It is also uncommon nowadays to find that highway design is the main cause of a fatality. The country's roads have come a long way over the past century with the addition of guardrails and the removal of trees.

No, the fault is usually with the people inside the cars, and disproportionately with young people, about the time they graduate from high school. Last year 8,839 people died in accidents caused by a driver between the ages of 16 and 20—a group that speeds more than any other. One-fourth of those deaths involved alcohol.

Don't drink, don't speed. You have lectured your children about those things for years. Now here are two other things you can tell them that might keep them alive.



First, use seat belts. Train the kids from the earliest age to always wear them, even if you are just moving the car up the driveway. Maybe the habit will stay with them.

Do you think they already learned this in driver's ed? Not well enough. In August a 17-year-old was driving on Highway 9G in the county just south of mine when her sport utility

crossed the median line into the bank on the other side of the road. It appears that she dozed off. The car rolled over and threw her and her passenger out. He died immediately. She was taken away in a helicopter.

People on the warpath against SUVs will count this accident in their statistics. But this was a steep bank, and it would have flipped an old-fashioned station wagon. It would be fairer to blame the tragedy on the fact that neither the driver nor her passenger was wearing a seat belt.

I went through something like this, with a different outcome. I was driving a sports car too fast on a country lane and wound up upside down against a tree. I had rolled the car, but I was wearing a belt. I crawled away.

Second, send your children to a special driving school. I don't mean the traditional learn-to-drive-and-get-your-license school. I mean a real driving school, for one or, better, two days. Let them learn the horrors of an uncontrolled skid and how to get out of it. Let them practice panic stops and avoidance maneuvers. Why special schooling? Because our children get their licenses at 16 with just a few hours of driving experience. And they think they can drive, and they're young and they want to show off.

My wife took a one-day course at a Skip Barber school. Now she can talk about threshold braking, stopping distances, cornering, the skip pad and keeping watch far down the road. It made an enormous difference in her skills.

My eldest grandchild is 10. When he is 16 he'll probably get his license, and if his father is short of cash, then I'll pay for a day or two at one of these schools. If you don't have the money, then put in hours yourself with that youngster, 25 hours of driving before the license, 25 after, on all roads, city streets and freeways, at night and on wet roads (always dangerous).

Yes, small cars are more dangerous than big cars—it is just physics—but we're just not all going to drive Hummers. Sport utilities are not more dangerous, if you drive them right—and buckle up. **F**

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