



## *Weekly Car Dealers Newsletter*

December 3, 2007

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This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources. For more information please call our Edmonton office.

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**CHRYSLER LOOKING FOR MORE CUTS  
IS THE VOLT REALLY COMING THAT SOON?  
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CAFE CHANGES HIT FAST TRACK**

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**CHRYSLER LOOKING FOR MORE CUTS** Despite deep cuts in production numbers and plans to trim between 8500 and 10,000 blue-collar jobs through the first half of 2008, Chrysler LLC is still looking for more cost savings. The automaker is prepared to push its suppliers for new concessions as it moves forward with efforts to reduce costs. Robert Nardelli, Chrysler chief executive officer, recently told the company's purchasing office the company needed to reduce its bill for materials by almost \$400 million, sources said. Meanwhile, Bob Schott, the company's former vice president of procurement, has moved to a new position inside the company, leaving the post of head of purchasing vacant for now. Chrysler has been relying on consultants provided by Cerberus Capital Management, Chrysler's parent company, for advice on purchasing matters, sources said. The word inside the company is that Nardelli has also gone outside the company to look for a replacement for Schott. Chrysler spokesman Mike Aberlich confirmed Schott had moved to another assignment but said he could not comment on the reports the purchasing job would now go to an outsider. Cerberus has already brought in other top executives, such as vice chairman Jim Press, to help manage the company's turnaround.

The overall cuts sought by Nardelli are relatively modest, considering that Chrysler spends better than \$40 billion annually on purchased material, but it is still unwelcome news for suppliers, who are struggling with chronic financial problems. Chrysler, like other automakers, has spent millions of dollars in the past two years to help prop up ailing supplier companies such as Collins & Aikman. Chrysler traditionally made fewer components in house than either General Motors or Ford and over the years it has developed a productive working relationship with many suppliers both large and small. It also leans heavily on many of them for critical research and development.

Over the years, Chrysler and its customers also have benefited from innovations promoted by suppliers. However, Chrysler's purchasing department has pressed for cost-downs at a time when suppliers maintain they cannot afford to make additional financial concessions. The company's cost-cutting also appears to be at war with Chrysler's efforts to bolster the overall

image and quality of its vehicles. Vehicle reviews have consistently noted that the interiors of cars such as the new Chrysler Sebring and Dodge Avenger have been hurt by the company's push for the least expensive material solution. While it's secretive about many of its financial objectives, Cerberus, according to its own executives and former employees, emphasizes maintaining a strong cash flow at all of its properties, regardless of market difficulties. Since investing in Chrysler last summer, Ceberus has faced significant challenges at some of its other investments, particularly at GMAC, the automotive and real estate financing giant. Cerberus acquired a majority stake in GMAC from General Motors in 2006 just as the real-estate and new home business began to soften. During the third quarter, the losses of GMAC real estate unit continued to mount, forcing GMAC to post a \$1.6 billion loss. Fritz Henderson, GM's chief financial officer who is bound by Cerberus' secretive culture, also said it's possible the real-estate losses will continue. In addition, the soft housing market has shown signs of slowing the overall economy.

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**IS THE VOLT REALLY COMING THAT SOON?** What's the deal with lithium-ion batteries for electric vehicles? Are they really coming as soon as Chevy's Volt would seem to indicate-or are they still too pie-in-the-sky to gamble on? GM is racing full-speed ahead with suppliers to develop them for volume production of the Chevy Volt plug-in hybrid in about three years. Toyota is saying they're still too expensive and potentially dangerous, but is still working on them for the next Prius. Aspiring independent maker Tesla is promising fast, expensive Li-ion-powered sports car EVs available any day now and luxury sedans following soon after. Ford, Chrysler, Nissan and others are toying with Li-ion-powered EV concepts while working on the technology with battery suppliers. "The card we have up our sleeve in terms of advanced technology and propulsion," GM Global Product Vice Chairman Bob Lutz told a large audience of auto executives, engineers, and media at the Aug., 2007 Center for Automotive Research Management Briefing Seminars, "is our E-Flex architecture and electric propulsion system. But before we get to play that card, we need further advancement in battery technology. And we're making great progress there." Then he announced a new agreement with A123Systems to "co-develop" A123's nanophosphate Lithium-ion chemistry for a long-lasting, safe and powerful battery for plug-in hybrid and other E-Flex variants. "This is a great strategic agreement," Lutz said, "and it will help us get E-Flex, and vehicles like the Volt, on the road sooner. Breakthrough battery technology will drive future automotive propulsion, and the company that aligns with the best strategic partners will win."

### **No two are alike**

The hugely important message here is that not all Li-ion battery chemistries are alike, and this one is looking so promising that GM believes it may well emerge the winner in the race to market with auto-capable Li-ion cells. And the fact that GM and A123 are *co-developing* the cells hints that a production-ready pack may be fairly close. The contract calls for delivery of vehicle-size battery packs in running test vehicles by early 2008, and Lutz says he expects plug-in Volts in Chevy showrooms by late 2010. "Believe me," he concluded, "electrically driven vehicles represent the next great paradigm shift in the automotive industry." A123Systems, of Watertown, Mass., is a forerunner in nanophosphate-based cell technology, which it says provides higher power output, longer life and safer operations over the life of the battery compared to other lithium-ion chemistries. The world's largest producer of batteries with nanophosphate chemistry, it currently manufactures more than 10 million Li-ion cells annually, primarily for rechargeable power tools. "We're talking today about the Volt and implications that

it will have on the electrification of passenger vehicles," said A123Systems CEO Dave Vieau, "but the technology goes a lot further than that. The weight, size, safety and performance of these batteries have implications on all transportation, including hybrid buses, trucks and aircraft." He added that A123's batteries will also be less expensive than others, since they use no precious metals or rare materials, and they will degrade more slowly over time. "We start with the premise that not all Li-ion batteries are created equal," Vieau told us in an exclusive interview. "They're all different. The flow of ions back and forth between the anode and cathode, the tremendous energy density with light weight and small size, the design of the batteries and the manufacturing processes are essentially the same. But there are a variety of chemistries, the actual ingredients. In our case, [the major difference] is on the cathode side, which is a dominant element of the performance of a battery."

A typical Li-ion laptop or cell phone battery uses a cobalt oxide or lithium cobalt oxide cathode material based on particles between five and ten microns in diameter. A123 uses a nanophosphate less than 100 nanometers in diameter. For perspective, a typical human hair is about 75 microns in diameter, and a nano is 1000<sup>th</sup> of a micron. "There are mechanical expansions and contractions as the battery cycles, and larger particles can fracture over time," Vieau continued. "With a traditional Li-ion battery, you might expect to get 500 full charges and discharges before it begins to lose its capacity. With our technology, we've experienced 7,000 full charges and discharges. Our system has less mechanical strain for longer life, and its greater thermal stability over a broader temperature range improves the safety of the cell and predicts much longer calendar life - how many years it will last -- which is different from cycle life. We've done accelerated life testing that predicts more than 10 years."

### **Li-ion on the charge?**

Hedging its bets, GM also has contracts with Continental Automotive Systems, which will integrate A123's cells into vehicle-size packs for vehicle-level testing, and with Troy-based Compact Power, Inc. (CPI), which will make competing packs with cells developed by its Korean parent, LG Chem. "A123Systems and LG Chem are both top-tier battery suppliers with proven technologies," said Denise Gray, GM's Director of Energy Storage Devices and Strategies. "We're confident one or possibly both of these companies' solutions will meet our battery requirements for the E-Flex system." Meanwhile, Toyota says media reports that it has delayed introduction of Li-ion batteries for its next-generation Prius and other hybrids are false. "We've said we're developing the next-generation Prius and that we're developing Li-ion batteries," Toyota spokesman John Hanson said, "but we've never linked the two. [To report] that there is a delay on something we have never announced is troubling. We are heavily involved in lithium battery technology, and we think it has great potential for a battery system that will have the power density required for plug-in hybrids. But we have also said that there are huge obstacles ahead, not the least of which is cost and whether or not consumers will want to pay that extra cost." Said A123's Vieau of his claim of lower Li-ion battery cost: "We looked at the price of the Prius battery system over the last few years, compared it to the system we're developing, and found we'd be favorable. We also believe that by investing in research in the core ingredients over the next five to ten years, we'll be driving cost out of these systems. Volume drives cost, and continuously increasing the volume will bring its cost down."

As we have learned over decades of on-again, off-again industry EV effort, there are no guarantees in the vehicle battery business. But at this point, GM just may have a solid leg up.

**DODGE CHALLENGER STARTS AT US\$37,995** You can satisfy your craving for some Dodge-style musclecar love, but it will cost you - US\$37,995, to be precise.

Dodge says the new 2008 Challenger will be priced from that point. And more importantly, for those flush with cash, is that the Challenger will go on sale next Monday, December 3, qualifying the Challenger as a 2008 model. Deliveries will happen in spring 2008. The first Challengers to roll out of Chrysler's Canadian factory will all be SRT8 models, with a 6.1-liter HEMI V-8 pounding out an unnamed level of horsepower (we're betting it's not 200). Each of those first Challengers will get a special plaque to commemorate its status, guaranteeing an eBay auction of epic proportions starting next week. Three colors will be offered-black, silver and HEMI orange-all decorated with dual hood stripes. Dodge promises that the Challenger will have resonant styling, a racing-inspired interior, a world-class ride and handling set, benchmark braking, and a standout powertrain.

Pricing for the rest of the Challenger lineup will be announced later.

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**CAR TRIVIA: NOVEMBER 29, 2007 (Answers at the end)**

1. For which 1960s TV series did Dean Jefferies create a radically customized Pontiac GTO?
  2. Which company made the 1982 to 1986 Chevrolet Chevette's optional diesel engines?
  3. Which GM division adopted the ad slogan "It's all good" in 2001?
  4. In which model year did Chevrolet build the final Impala convertible?
  5. What term is given to a throttle-induced, automatic-transmission downshift?
  6. Which singing group had a hit in 1964 with "Hey Little Cobra?"
  7. Which Big Three carmaker introduced "Knee Action" front suspension in 1934?
  8. What car used the 1960s ad slogan "America's most carefully built car?"
  9. What name is given to a car salesman's tactic of overstating a vehicle's trade-in value?
  10. Identify the make and model of Warren Oates' car in the movie *Two Lane Blacktop*.
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**CAFE CHANGES HIT FAST TRACK** The auto industry and its long-time champion, Rep. John Dingell, have bowed to the inevitable and agreed to proposals that will increase passenger-car fuel economy to 35 miles per gallon by 2020. The legislation will raise fuel economy standards for cars and trucks to 35 miles per gallon by 2020. The devil is in the details but it will require big changes in all kinds of vehicles, including trucks and SUVs. It sets up separate categories for cars and trucks during the transitions but the final goal is a fleet rating of 35 miles per gallon for all vehicles by 2020. It will also require 15 percent of electricity to come from renewable sources like wind, solar, and biomass; mandate a substantial increase in America's production of homegrown biofuels; and will provide billions in funds for clean energy.

The legislation still faces formal votes in the House and Senate but the agreement between Dingell (D.-Mich.) and Speaker of the House Nancy Pelosi (D.-Calif.) appears to set the stage for passage of the legislation before Congress' Christmas holiday later this month. David McCurdy, president of the Alliance For Automobile Manufacturers, said the carmakers were willing to go along with the compromise, which was reached only after some difficult negotiations. He also noted the industry had gotten some concessions from legislators, which will ease the industry through the transition. "As we understand the agreement, these tough,

national mileage standards merge provisions of both the Senate and House CAFE proposals. The agreement includes a number of necessary measures to help make the overall regulatory program more realistic and reasonable. Automakers are pleased that Congressional negotiators ultimately accepted the need for practical provisions like separate car and light-truck standards and incentives for building more autos that run on non-petroleum-based fuels. The bill also provides mechanisms that help automakers balance the natural ups and downs of the product cycle," he said. "Importantly, this agreement establishes nationwide fuel economy requirements for the next 12 years and beyond. Upon adoption of this legislation, Congress will have established aggressive, nationwide fuel economy requirements, concluding a longstanding debate," he said.

Meanwhile, GM chairman Richard Wagoner said the industry faces a difficult challenge in meeting the new standards, which have been fixed at current levels since the late 1980s. Only last week, GM vice chairman Robert Lutz had said in a radio interview the only realistic way to meet the standards is to make vehicles smaller--substantially smaller. Nevertheless, the automakers had little choice but to go along with the legislation. With the price of oil from the Middle East hovering near \$90 per barrel and the U.S. dollar taking a beating on global markets, the fuel economy standards had become linked to national security. Democratic Presidential candidates such as Hillary Clinton and Barack Obama have called for tougher standards and Republican candidates also have been calling for better fuel economy. In addition, the image, already tarnished, of Detroit's Big Three automakers was undermined by the long fight against the tougher standards, industry officials have acknowledged privately.

Toyota, for example, has been able to seize the label of being most technologically advanced car company in the world because it offers hybrid vehicles, Lutz noted recently. Dingell, who has done the auto industry's bidding on House floor for more than half a century, also was under pressure to go along with Pelosi's desire to deliver an energy bill to President Bush before Christmas. Pelosi had made her position plain last month when she hailed a new report from the UN on global warming. Environmentalists, meanwhile, hailed the pending legislation, which ended nearly two decades of efforts by America's green activists to raise fuel economy standards. "After two decades of being stuck in neutral and with oil prices in overdrive, Congress is finally on the verge of raising fuel economy standards. We applaud our leaders in Congress for taking on polluters, special interests, an army of cynical industry lobbyists, and the most hardened foes of clean energy to forge this historic agreement," noted Carl Pope, Sierra Club Executive Director.

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Trivia Answers:

1. "The Monkees"
  2. Isuzu
  3. Buick
  4. 1972
  5. Kickdown
  6. The Rip Chords
  7. General Motors
  8. Chrysler Imperial
  9. Highballing
  10. Pontiac GTO
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