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#8:

REFERENCE MATERIAL FOR THE TRUCK MANUFACTURING INDUSTRY OUTLOOK

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NOISE EMISSIONS STANDARDS

#8

House working on truck safety bill

The House Public Works Committee is hard at work on a draft bill on truck safety. As FLEET OWNER went to press, it appeared that the bill would be essentially similar to one passed by the Senate in April, though the House still had problems with amendments that were added on the floor of the Senate. While the committee staff is anxious to have a bill passed before Congress adjourns in October, it now seems unlikely that the bill will pass.

The Senate bill basically sets out guidelines for the Department of Transportation to apply rules that better assure safe operation of motor carriers. Specifically, it protects employes who complain about unsafe conditions from firing or reprisals, and it sets up an enforcement mechanism for safety and rules through the states.

Staffers for the Subcommittee on Surface Transportation, chaired by Rep. James J. Howard (D-N.J.), are reportedly in agreememt with the Senate on those points but are still trying to resolve differences on the following:

- Intrastate trucking. The Senate will make no distinction between intra- and interstate trucking, but there is some question if the House will do the same.
- Vehicle size. The Senate bill sets the minimum weight of trucks that must be in compliance at 10,000 lb. The House remains undecided.
- Uniform weight and truck limits. The Senate bill establishes a uniform weight limit of 80,000 lb. across the country, thus by-passing state weight limits in the so-called "barrier states" that have lower limits to minimize wear and tear on their highways. The House Subcommittee members have not decided what to put in the bill.

The last point is the most controversial one that the House Subcommittee will have to wrestle with, and its position could determine the future of the bill. However, some of the states involved are beginning to change their positions.

Pennsylvania, for example, has been a problem for many trucking companies because of its strategic location in the Northeast. After years of opposing higher weight limits, the state legislature recently approved an 80,000-lb. limit. But ATA lobbyists won a mixed victory in Pennsylvania when the weight proposal was tied to an increase in truck user fees.

Truckers hear of future regs at ITS

New heavy truck noise-emission regulations will significantly increase the weight and purchase prices of new vehicles, said Larry Strawhorn, engineering director, American Trucking Assns., as he discussed new and proposed federal regulations with fleetmen at the California Trucking Assn.'s 23rd annual Safety Congress and Maintenance Institute.

The three-day CTA program was held in conjunction with the International Trucking Show in Anaheim, Calif., on July 23-25.

Strawhorn went on to say that the 75-dBA exterior-noise-emission level that will be required of new trucks in 1985 is expected to add an average of 410-lb. to the over-all weight of the vehicle, and $1,300 to its purchase price. In addition, he said, the quieter trucks will cost $300 to $400 a year more to operate because noise-suppression devices will make maintenance more difficult.

New trucks currently must meet the 83-dBA noise level requirement that took effect in 1978. In 1982, that requirement will tighten to 80 dBA for

(continued on page 16)

High dereg-bill insurance requirements worry truckers and underwriters

Sen. Howard Cannon's (D-Nev.) Committee on Commerce, Science & Transportation is discussing ways to change the insurance provisions in the trucking-deregulation law, and staffers now say they plan to hold hearings at the beginning of the next session of Congress. Trucking-industry and insurance-industry officials pressed for changes and are pleased with Cannon's responsiveness.

The trucking-deregulation law sets up the following insurance requirements: The general trucking industry must have a minimum of $750,000 insurance per incident, with the proviso that during the first two years after passage of the legislation the Secretary of Transportation can lower that to $500,000 per incident. Further, trucks transporting hazardous materials must be insured for at least $5-million per incident, although in the first two years that could be reduced to $1-million.

However, the insurance industry is worried not only about being able to write so much insurance, but also about the extremely high premiums if it could. The industry could pass them along to the truckers, or it may have to increase rates across the board—something it doesn't want to do.

In addition to problems with the insurance side, carriers of hazardous materials have investigated the Environmental Protection Agency's listing of these substances—which are stipulated in the law—and found such items as rock salt listed. "The Department of Transportation is very concerned," says one Cannon aide.

#8

Teamsters are losing grip on U.S. trucking

A combination of deregulation and the recession have weakened Teamster power, as more and more union drivers are laid off and carriers face bankruptcy

by Harlow Unger

Deregulation of the United States trucking industry may succeed in doing what years of efforts have failed to do: loosen the grip of the International Brotherhood of Teamsters on the U.S. trucking industry.

Although Teamster power has spread well beyond the confines of trucking, over-the-road transport has remained the union's primary source of power. As long as trucking firms held exclusive rights to carry specific goods over specific routes, Teamster members had little trouble winning concessions from the carrier.

That power is now diminishing, however. Last July 1, President Carter signed a deregulation law that will gradually free the trucking industry from most federal regulations and open American highways to all trucks—non-union as well as union.

The new law makes certification of new competitors much easier and faster—virtually routine, in fact. Hundreds of non-union trucks already carry goods across the U.S.

Deregulation will also make collective rate-setting illegal, beginning in 1985. So rates are expected to drop sharply in the face of increased competition and leave unionized trucking firms in a much weaker economic condition.

Teamster leaders who seek excessive wage and benefit gains may wind up forcing many unionized carriers into bankruptcy, and their drivers into the ranks of the unemployed.

Even without deregulation, the Teamster grip on trucking has been weakening in recent months in the face of the worst recession in the U.S. since the Great Depression of the 1930s.

New car sales are down 30%; construction of new homes is off 50%; steel production is down 30%—and the net result for truckers has been a whopping 30% drop in tonnage. An estimated 20% of the union's drivers and warehouse workers have been laid off.

Several major truckers, including Wilson Freight Co., have been forced into bankruptcy, and those still operating are only keeping their trucks rolling by offering shippers discounts of 15% to 20%.

Unless the U.S. economy manages to stage a quick recovery, a wave of mergers and bankruptcies is expected to deplete the ranks of major, unionized trucking concerns even further. And that will force thousands more

Florida trucking in chaos after state deregulation

Havoc has spread through Florida's transportation industry in the wake of deregulation—not the United States government's deregulation, but the Florida state government's.

U.S. truckers, of course, are subject to two sets of rules and regulations—one from the U.S. Interstate Commerce Commission, affecting *inter*state trucking across state lines; the other from each state government, which controls *intra*state trucking within its borders.

Earlier this year, the U.S. Congress passed legislation ordering the ICC to deregulate interstate trucking gradually, to permit freer competition, without endangering shipper rights.

In Florida, however, a quirk in the state law has produced total local deregulation of trucking. Under state law, regulatory power must be renewed periodically. When the state legislature failed to renew the regulatory powers of the Public Service Commission's Transportation Division, that bureau became extinct at 12:01 a.m. on July 1.

Since then, truckers and shippers have been on their own, and the result has been near-anarchy. Fly-by-night operators have invaded the industry *en masse*. Without a motor carrier law, truckers no longer need to carry cargo insurance or even guarantee delivery.

"The only law governing transportation in Florida is standard contract law and anti-fraud regulations," explained a top state official. "It's up to each consumer and shipper to write an air-tight contract with his carrier."

Among the horror stories emerging from Florida's transportation chaos is that of the woman who watched movers roll her piano off the rear of the truck and speed away as it crashed to the sidewalk.

Deregulation has provided dramatic shifts in service and consequent changes in rates. Shippers in many rural centres are finding it's more difficult and costly to get service from

Teamster drivers off the roads.

But even if the recession were to end tomorrow, deregulation would remain a major determinant of things to come in the trucking industry—"and the union will be the big loser," according to Harvard Business School assistant professor David H. Maister, an expert on the U.S. trucking industry.

Northeastern University professor of transportation Robert Lieb agrees. He predicts the union will lose 10% to 15% of its trucking industry membership because of the expected consolidation of carriers specializing in general freight, or less-than-truckload shipments.

LTL traffic accounts for about 10% to 15% of the freight carried by U.S. truckers. Because LTL business requires networks of terminals in which to consolidate small loads, only the strongest companies will be able to survive the stepped-up competition that deregulation will produce in this end of the business.

Industry analysts agree that rate cuts and fierce bidding wars will force weaker carriers to merge or go out of business. Survivor firms, in turn, will consolidate their operations, eliminating duplicate runs and redundant terminals. Thousands of Teamsters will lose their jobs.

Still another factor certain to weaken Teamster control on the trucking industry is the expected expansion of captive fleets. Under deregulation, company-operated fleets can now carry freight from other companies on their return runs—to eliminate having to operate empty trucks. Captive fleets with non-union drivers will undoubtedly expand operations, while those with union drivers are expected to abandon their fleets and turn to non-union contractors.

Ultimately, then, deregulation and the unfettered competition it will produce will mean lower rates and more competition—and, therefore, less money in trucker coffers to meet union demands for increased pay and benefits. □

intrastate truckers, while major distribution hubs—Miami, Jacksonville, and Tampa—have become competitive battlegrounds.

"We've noticed some improvement in service," says Howard Jones, director of transportation at General Foods Corp.'s coffee distribution and roasting plant in Jacksonville.

Service and rates are also improving for shippers with northbound freight. One patio furniture manufacturer reports truckers offering to carry merchandise to northern department stores for $8 per hundredweight—$4 to $7 less than the company now pays. "It would be a substantial saving if they were reputable carriers," says the company's traffic manager.

The company has refused to gamble on such savings, however, because "we ship on deadline—the furniture must arrive no more than a week before a department store advertises a lawn furniture sale and not less than one day before."

But the benefits being reaped by shippers in major Florida cities are being offset by losses for shippers in smaller, more rural areas. Even consumers are suffering. Greyhound Bus Lines, which is also affected by deregulation, has cancelled all service at 45 locations.

One company profiting from the chaos, however, is Ryder Truck Rental, which sees deregulation "as a definite factor in moving companies into their own fleets of trucks." Small firms in out-of-the-way areas may have no choice but to lease their own trucks in the face of deregulation.

Total deregulation may not last too much longer, however. Fifteen Florida truckers have filed a class-action suit against the State of Florida charging that the legislature's failure to renew its motor carrier law in effect wiped out the value of common-carrier operating certificates, for which truckers paid small fortunes.

Such certificates had been used as collateral in obtaining loans, and, indeed, one Florida bank holding such a certificate as collateral on a $100,000 loan threatened to foreclose. Deregulation had made the certificate worthless, the bank claimed.

No state, of course, has the right to deprive any citizen of his property without due process, and many lawyers believe the truckers have a solid case. At presstime the Florida court of appeals was to hear the case in a few days. —*Harlow Unger*

Diesel truck engine from Caterpillar

A new diesel truck engine model, the 3208 T, has been introduced by Caterpillar Tractor Co. The turbocharged, direct-injection V8 engine is rated at 225 hp (2,600 rpm) and 250 hp (2,600 rpm).

The 225-hp and 250-hp 3208 T truck engines have torque rises of 26% and 27% respectively. Peak torque is 640 lb ft for the 250-hp model and 560 lb ft for the 225-hp model, with a wide operating range of 1,200 rpm for each. Their high torque is claimed to provide responsive acceleration, excellent lugging ability, and reduced shifting for easier driving.

The 3208 T is recommended for city, suburban, and local rural service. Potential applications include short-radius line-haul tractors, dump trucks, mixers, transit buses, severe-service refuse operations, and 1,500-gpm pumper fire trucks. Recommended maximum gross weight for the 250-hp model is 75,000 lb.

The 3208 T Engine features many engineering design changes from the naturally aspirated model. They include oil-cooled pistons; low-mounted turbocharger lubricated by engine oil; larger oil filters, sump, and oil cooler; steel camshaft and roller followers; hard-faced exhaust valves; intake-valve inserts; and larger fuel pumps. These changes meet the higher structural loads and performance requirements of the turbocharged 3208 T.

The resulting benefits help meet upcoming governmental regulations with lower noise levels, and they are said to provide excellent fuel economy, altitude capability to 5,000 ft before deration (7,500 ft for 225-hp version), and higher horsepower in a compact, lightweight V8 diesel.

Servicing of the 3208 T is similar to the naturally aspirated 3208. The same rebuild options available to 3208 NA owners are also available to 3208 T owners, including in-frame and out-of-frame overhauls, remanufactured short blocks and remanufactured engines.

acknowledged that industrial development could be curtailed in that area for some undetermined length of time. In International Falls, MN they recorded a level of particulates in one day that was twice the normal *yearly* level.—*John McElroy*

GM Breaks More Ground

Construction has begun on a 50,000-ft² (4645-m²) expansion of Fisher Body's manufacturing facilities in Belfast's Kennedy Way Industrial Estate. An additional 70,000 ft² (6503-m²) is being added to the plant at Dundonald, a former Rolls-Royce factory. Completion is due in late 1981.

"Ultimately, the two plants will make seat belts, door latches, window regulators and other automotive hardware for GM's European-built cars and possibly for some vehicles made in other parts of the world," notes Robert Bownes, managing director of GM's Fisher Body Ltd.

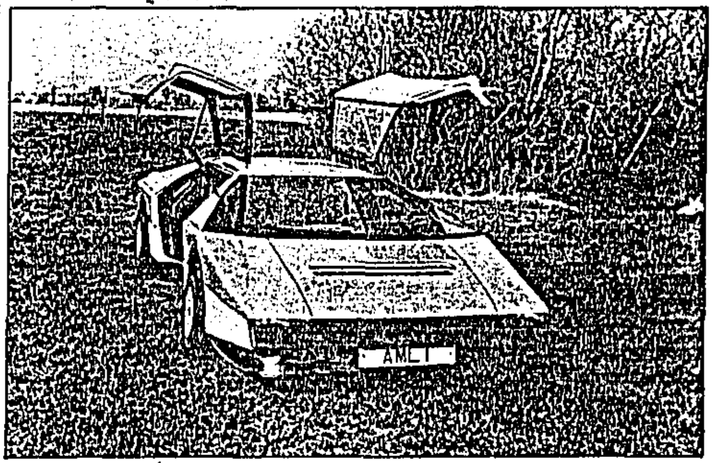
Total GM investment in new manufacturing plants is currently running at $2.4 billion. The bulk of this is going into a new metal stamping and subassembly plant in Zaragoza, Spain and an engine plant in Austria.—*Peter J. Mullins*

IH Builds Tech Center

Groundbreaking will begin later this year at Burr Ridge, IL, where International Harvester will build an $80-million Science and Technology Laboratory. The lab will be the heart of a science and engineering center which will consist of six additional facilities to be built over the next two decades and three buildings already in existence.

Scheduled for completion in 1982, the lab will house 21 laboratories covering areas from composite material, metallurgy and painting to environmental, biological and agricultural disciplines.

Aston Martin



Aston Martin, James Bond's carmaker, has created the latest 'ultimate' prototype vehicle, a dramatic gullwing two-seater, the Bulldog. Capable of 190 mph (306 km/h), the car is powered by a twin-turbocharged Aston Martin V-8 engine mounted amidships. Features include a five-speed ZF gearbox, Pirelli P7 tires and fuel injection by Bosch. The turbochargers are from Garrett AiResearch in the U.S.

Toyota Leads Investments

In a bid to substantially increase productivity, the Japanese auto industry is investing $3.5 billion, mostly aimed at designing new, lighter, more fuel-efficient cars—many with front wheel drive. The investment table runs like this:

Toyota	$750 m
Nissan (Datsun)	$650 m
Isuzu	$300 m
Toyo Kogyo (Mazda)	$270 m
Honda	$270 m
Mitsubishi	$210 m
Daihatsu	$105 m
Fuji (Subaru)	$ 90 m
Suzuki	$ 30 m

Total investment is up 20% from 1979. Not surprisingly, Toyota is investing most heavily—the main effort going to the new Tahara No. 2 plant, where capacity is increasing to 20,000 units per month in two stages—at a cost of about $150 million. Also included in this investment plan is an increase in small truck production at Tahara No. 1 plant from 5000 to 10,000 units per month. When finished this will be one of Toyota's biggest factories, with an annual capacity of 360,000 units a year.

Much of the investment is in Unimate robots—generally the new 6060 arms for welding. Over the next twelve months, 200 are to be

automotive Industries July 1980

of an elderly and handicapped transportation policy adopted in 1978 by Seattle Metro Council. It called for all future bus purchases to include wheelchair lifts for fully accessible service.

The lifts, which were developed by Lift-U-Inc. of Seattle, have a solid steel platform and grab bars. The outer part of the lift platform, when in the stowed position, acts as the lower step of the entry stairwell. The other steps and risers remain unchanged. All of the lift and support-mechanisms fit in a space 9 in. deep under the bus entry floor.

New horizons for Vancouver transit

VANCOUVER—The Greater Vancouver Regional District's Board of Directors has approved a conceptual plan which outlines the area's future transit service objectives.

Called "Directions for Transit in the 1980s... A Conceptual Plan," it predicts that overall ridership on transit will grow at about 4% a year. Currently, states the report, about a quarter of the people travelling during rush hour in Greater Vancouver do so in public transit. However, it says that service has not improved significantly in the last five years even though ridership has grown by about 4% a year.

The Regional Board has also approved a five-year $166.7-million capital budget for essential improvements in the transit system to meet the plan's objectives.

These improvements include: more buses, including articulated ones; additional park-and-ride stations; better traffic management to give transit vehicles high priority on the road; improving transfer connections and re-routing some bus lines; and a system of pre-paid bus passes and self-service fares.

Fuel shortage plan for London

LONDON—The Transit Commission (LTC) has adopted contingency plans for diesel fuel shortages. However, the plans will not be ready until the winter of 1981-82 because they require extensive schedule and personnel changes.

LTC general manager Gord Arblaster cautions that the contingency plans may never have to be imposed but he notes that in the event of an especially harsh winter, refineries may have to concentrate on producing heating oil at the expense of diesel fuel.

"We should not take the position that it could not happen here. I don't think we're going to get an awful lot of advance warning. The cuts should come in the areas in which we are least fuel efficient."

Arblaster says the contingency plans are based on making the most efficient use of available fuel. This fuel would be concentrated on the times of service when the LTC serves the most passengers.

New executive for APTA

WASHINGTON, D.C.—The American Public Transit Association has announced that Jack R. Gilstrap, general manager of the Los Angeles-based Southern California Rapid Transit District, has been named the APTA's new executive vice-president.

As SCRTD general manager since 1970, Gilstrap has headed the largest all-bus transit system in America and the fourth-largest transportation agency in the U.S.

Gilstrap has long been associated with the APTA serving as its first vice-president for government affairs and as chairman of its government affairs committee. He was also vice-president of the American Transit Association, a predecessor of the APTA.

Suppliers News

White says "business as usual"

MISSISSAUGA, Ont.—In the wake of the cash-flow problems and subsequent legal moves of its Ohio-based parent company, the White Motor Corp. of Canada Ltd. has entered into temporary voluntary receivership.

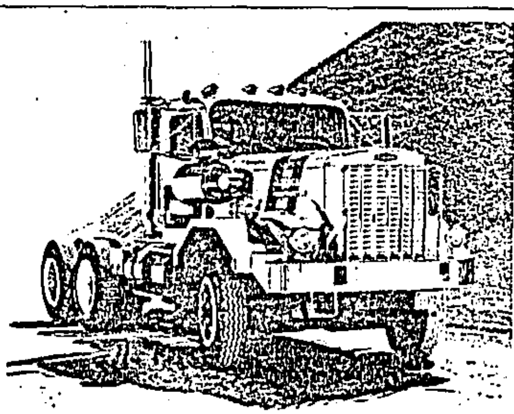
White Canada includes both heavy truck and farm machinery divisions, with factories in Kelowna, B.C. and Brantford, Ont. respectively.

White Canada's board of directors on September 10 asked the Supreme Court of Ontario to appoint the Clarkson Co. Ltd. as interim receiver and earlier this month the firm's creditors were asked to agree to a moratorium on payment of bills until January 31, 1981.

But as an indication that it will be "business as usual", one of Clarkson's first moves as White's "supervisor of operation" was to recall about 400 workers at the Kelowna truck plant. They had been laid off after the U.S. parent sought the protection of the court under the U.S. Bankruptcy Code.

However, about 900 farm equipment workers are still out of work as the Brantford plant has been closed since August and will remain so for the time being.

White's U.S. operations have been feeling the effects of a badly depressed truck market and an even worse farm machinery market. As a result, the company is continuing



This Autocar Construcktor was one of the first off the production line at White's plant in Ogden, Utah, where Autocar manufacturing was recently consolidated.

its operations under the supervision of the courts until refinancing can be settled with creditors and banks.

It was originally thought that White Canada would come under the same U.S. bankruptcy laws, being a wholly-owned subsidiary. This led to frenzied activity by

White Canada management as they sought to unravel the law, the end result of which was White Canada's separate entry into temporary receivership.

In a sense, however, the Canadian bankruptcy situation is artificial because White Canada is essentially solvent. While farm equipment sales are badly down here as well, the truck operation is in relatively good shape.

"We just don't have any problems," White Canada truck operations vice-president Brian Holgate told BUS & TRUCK. "The Canadian operation is very sound indeed."

The Kelowna plant had been going "flat out", with production at the rate of 12 to 13 trucks a day. In fact, it was the only North American heavy-duty truck factory working at full capacity.

Both the assembly plant and the White dealer network had been expanded in the last year, Holgate said. Partly as a result of that, White's market penetration is very healthy in Canada—about 13% of the heavy-duty segment, the majority of most sales being Western Stars. On paper, this Canadian market penetration is much superior to White's U.S. performance.

White's other Canadian subsidiary, The White Motor Credit Corp. of Canada Ltd., is not affected by the temporary bankruptcy situation.

Holgate was very positive when asked his opinion of the firm's outlook for the near future.

"I'm very optimistic," he said, "and I see a very bright future for White Canada, as well as steady improvement in the U.S." Part of the reason for that optimism is a faith in both the product and its dealer network. "I don't think any corporation has a more loyal dealer organization than White," Holgate declared.

DeVilbiss has spray finishing course

TORONTO—DeVilbiss Ltd. is presenting a series of five-day training courses in the theory and practice of spray finishing at the firm's Technical Training Centre in Barrie, Ont. The course will be held for one week in every month, beginning Sept. 8 through to June, 1981.

Tuition is free. Students pay only accommodation and travel expenses. This is the 20th consecutive year that DeVilbiss has offered the training course. And it's estimated that more than 7,000 people have received this training.

Instruction is provided in both English and French. Courses are also available at user locations for large enough groups. The course covers all methods and systems of spray painting, including electrostatic liquid and powder, exhaust systems, automatic coating machines

IH to shift marketing office to U.S.

BURLINTON, Ont.—International Harvester will move its regional marketing office from Burlinton, Ont., to Chicago next year as part of a major North American reorganization.

Nick Penner, IH manager of agricultural marketing, says the closing will not affect any other IH operations in the Burlington and Hamilton areas.

Penner says most of the employees of the Burlington office will be offered positions in the new office. But he adds: "A limited number of employees will face separation when the office closes."

IH spokesman Ed Laba says the firm does not yet know how many employees will be affected by the change. However, The Hamilton Spectator quoted an anonymous source as saying the change would involve 125 to 150 jobs.

The company has also announced the opening of a centralized distribution office in Kansas City where all orders and shipment for North American dealers will be processed.

TBEA has new truck equipment handbook

WASHINGTON—The Truck Body Equipment Association has prepared a new pocket-sized handbook designed to be used by manufacturers, dealers and buyers.

The handbook provides basic information on truck and equipment selection; load distribution; chassis selection; horsepower and torque requirements, performance considerations; drive train selections; axles, suspensions, frames, brakes, tires and chassis modifications; auxillary and power equipment selection; and techniques for reducing operating costs.

The handbooks are available from TBEA, 5530 Wisconsin Ave., Suite 1220, Washington, D.C., 20015. Single copies cost $3.00 for members and $3.50 for non-members.

AMF, Bandag reach settlement

MUSCATINE, Iowa—The settlement of a pending civil action between AMF Inc. of White Plains, N.Y., and Bandag Inc. of Muscatine, Iowa has been reached.

Originally, AMF filed an anti-trust case against Bandag in connection with AMF's attempts to market its newly-developed FlexCure tire retreading process to Bandag dealers. Bandag, then, filed a contract interference counter-claim against AMF.

Under the settlement, both parties have dropped their suits. In addition, Bandag has been ordered not to interfere with the marketing of the FlexCure.

Name change for brake manufacturer

OWOSSO, Mich.—To conform more closely to its marketplace identity, the Power Controls Division of Midland-Ross Corp. has changed it name to Midland Brake Division.

"Informally, our customers have always referred to us as 'Midland,' the trademark for many of our products," says S. P. Kaufman, MBD's vice president and general manager. The division manufactures brake actuation components and systems for heavyduty trucks and off-the-highway equipment, air horns, as well as zinc and aluminum die castings for automotive and other applications.

Bendix builds truck brake centre

SOUTHFIELD, Mich.—In an effort to expand Bendix Corp.'s share of the North American heavy truck foundation brake market, it has established a Heavy Vehicle Foundation Brake Program Centre in Elyria, Ohio. The facility will have worldwide responsibility for air actuated brake development and market support.

"The Program Centre will consolidate responsibility for air actuated S-cam, wedge and disc brakes," says T. J. Busch, group vice president, Bendix Heavy Vehicle Components Group.

status could well squelch IMF hopes of getting the Saudis and other major Arab oil producers to lend their surpluses to the IMF for relending to nations needing loans. IMF officials say the PLO issue contributed to Managing Director Jacques de Larosière's return from a late August Persian Gulf trip without even a preliminary commitment from Riyadh.

But along with other nations, the Saudis now expouse more lenient lending policies sought by the LDCs. IMF officials are already moving in that direction. That was strikingly evident last June in

Fears that Congress will cut U. S. contributions over the PLO issue

a $1.7 billion Turkish credit representing six times Turkey's quota, or basic borrowing authority.

Never before had the IMF lent more than four times a quota. A July line of credit worth $132 million to Guyana was four times that nation's quota and included funding for a hydroelectric project. Historically, the IMF has avoided lending for specific projects in favor of helping a nation to restore its trade or payments balances. Officials say the fund's annual meeting beginning on Sept. 30 in Washington could approve a new policy clearing the way for further sizable financing for individual development projects. The IMF may also express a new readiness to provide loans and stretch out repayment terms knowing that the borrowers will be back for more money when their initial credit line expires.

A different recession. The IMF's lending stance is changing largely because the problems presented by this episode of oil-induced payments imbalances is different from the 1974-75 experience, when commercial bankers managed to siphon money from the surplus nations to deficit nations. Commercial banks are becoming increasingly reluctant to pile more debts on top of the ones they already hold, and they welcome the entry by the IMF into the breach.

IMF officials add that the developing countries in most desperate need of credit are a different class of borrowers from nations such as Britain and Italy that accounted for the bulk of borrowing five years ago. The traditional medicine for countries tapping IMF coffers is quick and strong, usually involving a devaluation of the borrower's currency to dampen import demand and to make exports more competitive. That was part of the program required of Turkey for its latest credit extension.

But IMF officials say such devaluations have only limited value in commodity-based developing nations whose major import is capital to develop their resources. Commodity exporters typically cannot raise production rapidly even if their products become more competitive. Shoring up the economies of such nations becomes a long-term affair that must focus on building industry rather than dampening demand, officials feel. Guyana's hydroelectric project, for example, is intended to permit it to convert its bauxite into aluminum.

A political change. There is also a key political factor helping to reshape IMF policies. The fund still requires changes in a country's economic policies, sometimes demanding policy changes stringent enough that nations such as Jamaica will go to great lengths to avoid them. But observers say the change is real.

"I think they have become more politically sensitive," says Executive Vice-President John C. Haley of Chase Manhattan Bank. "They seem to realize it makes no sense to bring about the collapse of a government and then have to begin the process all over again." ■

CORPORATE CASH

Why White Motor went over the brink

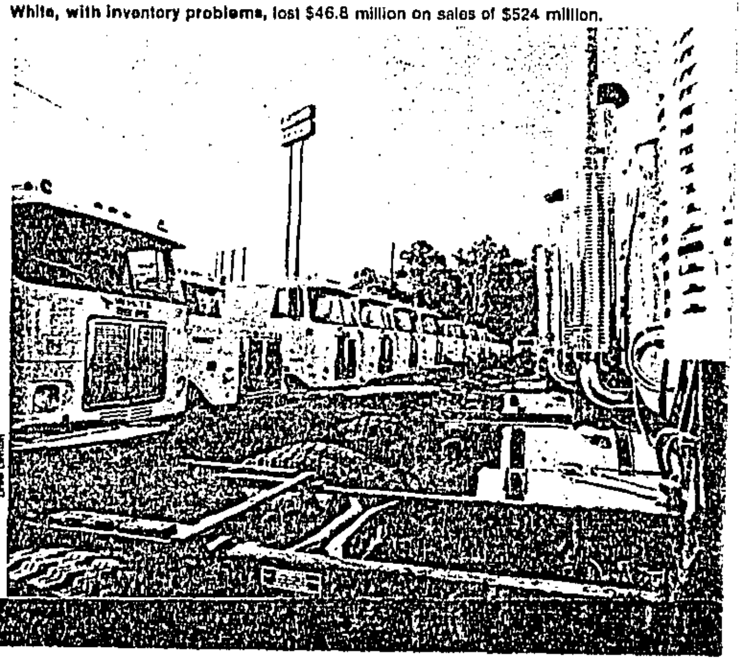
White Motor Corp., the truck and farm equipment maker that has limped along for years, surprised almost no one when it filed for reorganization on Sept. 4 under the Bankruptcy Code's Chapter 11. Although prospective pensioners are wondering what will happen to the company's $105.9 million in unfunded vested pension benefits, few of its creditors have been screaming too loudly. White has been ailing for a long time, so its court action was hardly unexpected. Remarks one analyst: "The inevitable happened."

White ran into severe troubles in 1975, when the last recession left it sitting with immense inventories of heavy-duty trucks. And the same problem struck again this year. As a small factor in both the truck and farm-equipment markets, White has never been able to become a cost-effective competitor in either. So when sales of both trucks and tractors sagged this year, White's share in the dwindling market slipped further. In the first half, the company lost $46.8 million on sales of $524 million.

In the end, White's Chapter 11 filing, for the parent and its subsidiary companies, came after it could not reach agreement with Citibank and 26 other institutions. They demanded security from White in order to renew $77 million in short-term debt expiring at the end of August. White believed it could not promise such security in the face of demands from other creditors and decided to file under Chapter 11 instead. In the meantime, two Cleveland banks seized White deposits they were holding. "It was simply a bargaining point to help them see the light," declares an executive at Cleveland's Ameritrust Co.

No takeover possibilities. For the moment, White is paying its bills and still turning out 185 trucks per week. Some 400 Cleveland-area employees whose paychecks bounced because of the banks' action have been paid through a company account at a bank in tiny Orrville, Ohio. But it is questionable whether the reorganization proceedings, set to begin with the appointment of a creditors' committee on Sept. 22, will ever result in White's becoming a successful long-

White, with inventory problems, lost $46.8 million on sales of $524 million.



term competitor. As a second-tier producer in businesses where even the giants are stumbling, White would need a big injection of capital to be viable.

Indeed, that is just what many observers expect. White does have three modern plants and a decent product. But it has been unable to make the sale in the past. Over the last decade it has been a party to a series of failed deals with prospective buyers, most recently with MAN, a West German truck maker (BW—July 2, 1979).

"We are not negotiating with White, and the general situation in the auto and truck market now isn't very conducive to expansion-mindedness," says a MAN official. Other foreign auto and truck makers, such as Daimler-Benz, and IVECO—the most logical buyers—are similarly negative. And Guardian Industries Corp., which recently talked of buying half of White Motor's credit arm for $50 million, has no further interest. Says Guardian Treasurer Richard Griffin, who now believes a takeover unlikely: "It's final as far as we're concerned, given the step they had to take."

'Just reorganization.' While White's long-term future is uncertain, its filing has evoked a relatively mild reaction from some of its chief lenders, at least those

'The inevitable happened,' says one analyst of White's reorganization

linked to White Motor Credit Corp. "We're not terribly alarmed about a huge loss," says Raymond A. Charles, senior vice-president of Prudential Insurance Co. of America, which, with $11.5 million loaned to White's financing arm, is the company's largest single creditor. As of July 31, White Motor Credit had $287 million in receivables, or $34 million more than its liabilities to unsecured creditors. The solvent position of White Motor Credit probably will lead the company's biggest creditors, who have loans to the credit subsidiary, to try to separate reorganization proceedings involving the parent company and White Motor Credit.

On Sept. 12, White's Chairman Cruse W. Moss and other top company officials are to set off on a week-long North American tour to try to reassure the company's 275 U. S. and Canadian dealers. As yet, there appears to have been no massive wave of order cancellations; indeed, says one major White dealer, the first customer reaction was, "Oh, hell, it's just reorganization—keep my order in." William J. McGuirk, owner of Kentucky Truck Sales Inc. in Louisville, is one of the unfazed. Says McGuirk: "We've been through three or four years of everyone in the industry thinking White was going to fold the next day." ■

ACQUISITIONS

Wheelabrator's edge in the fight for Pullman

McDermott Inc., the New Orleans-based offshore platform manufacturer, may yet mount a successful bid for Chicago-based Pullman Inc. But McDermott's initial low bid has put another suitor, Wheelabrator-Frye Inc., firmly in the driver's seat. Working closely with management and Pullman's investment bankers at First Boston Corp., Wheelabrator has put together a deal that presents difficult obstacles for McDermott. Among other things, Wheelabrator has won an option to buy Pullman's prized Kellogg engineering-construction subsidiary if Wheelabrator is outbid for all of Pullman.

CEO Dingman has the inside track over McDermott, which made a lower offer.

"McDermott started off with a wiseguy offer and it backfired," declares a top investment banker close to the parties. "If it had made an offer between $35 and $40 at the outset, McDermott would have gotten Pullman." Instead, McDermott in July decided to tender for Pullman shares at only $28 per share, some 30% below book value. According to the banker, a higher initial bid would have made it almost impossible for Pullman to attract a more friendly suitor because of the company's large potential legal liabilities and its reputation for uneven management. Now, he says, even if McDermott is successful it will end up paying at least $100 million more than was necessary.

Because of the low original offer in July, First Boston was able to assemble a list of 65 possible merger partners, finally narrowed to 10 serious contenders, to rescue Pullman. Among those, Wheelabrator emerged as the most popular choice with Pullman's board primarily because of Chairman Michael D. Dingman's decisiveness in negotiating terms of an agreement.

Shared directors. Dingman also gained an inside track with Pullman's board because of mutual ties with Pittsburgh's Mellon Bank. Not only is Mellon the primary bank for both Pullman and Wheelabrator, but both companies also share at least one director with Mellon. Dingman himself is a Mellon director, as is former Pullman Chairman Samuel B. Casey Jr. and Pullman director W. H. Krome George, chairman of Aluminum Co. of America. "The relationships were not critical, but they were helpful in making Wheelabrator comfortable with the risk," admits Bruce J. Wasserstein, a First Boston managing director who helped with the deal. Through a trust, Mellon also has links to First Boston.

Dingman says he never considered Pullman an acquisition prospect until First Boston approached Wheelabrator this summer. But he quickly realized, as McDermott did earlier, that Pullman's Kellogg Div. is well positioned to exploit an expected boom in construction of synfuel and other processing plants in the 1980s. Likewise, he says, higher energy costs will lead to stronger demand for Pullman rail-freight cars. "We believe that if one thing will be energy-efficient, it's the railroads, and we'll soon start to see more goods—especially coal—move by rail," he says.

But Pullman's transportation business is traditionally a feast-or-famine proposition. After earning $132 million on sales of $1.4 billion in 1979, Pullman this year has profits falling fast because of a recession-wrought 42% drop in Pullman's rail-car backlog. Although it is winding down its passenger rail-car operations, Pullman still faces lawsuits filed by the New York City Transit Authority, which is seeking $192 million in damages for alleged shortcomings in Pullman-built cars, and cost overruns of $100 million on Amtrak cars.

Dingman has overlooked these problems, however, because of his optimistic outlook for Pullman in the longer term. Wheelabrator's offer, which was raised from an initial $43 per share to $52.50 per share after McDermott raised its bid, provides for Wheelabrator to tender entrepreneur who founded the Benihana restaurant chain. Even "fast sushi" is coming. Kozo Zushi, Japan's biggest fast-food chain, will open its first U. S. raw-fish store next year in Los Angeles, the start of a chain of such stores.

Such plans could change if California's Beef Bowls do not prosper. So far business is good. At lunch, the new Los Angeles restaurant is as jammed as the McDonald's a few doors away. The Beef Bowl looks for all the world like a McDonald's, except for the kimono-clad help and the soy sauce on every table. Customers get a plastic fork but can ask for chopsticks.

"It's an interesting concept," says Jay B. Schloemer, marketing vice-president of Wendy's International Inc., a fast-growing hamburger chain. He thinks Yoshinoya has a good chance of success if it sticks to sophisticated urban areas. "Cincinnati or Springfield, Ill.—that's another story," he says. "They have trouble even with Mexican fast food." ■

EXECUTIVE SUITE

What turned White's German suitor off

White Motor Corp. has been forced back into the trenches. As recently as a month ago, the future had finally brightened for the struggling manufacturer of heavy trucks and farm equipment. But when the Cleveland company's plan to be acquired by MAN, a West German truck company, collapsed on June 3, White returned to independent competition with giant rivals in a fickle marketplace, with a recession possibly ahead as well.

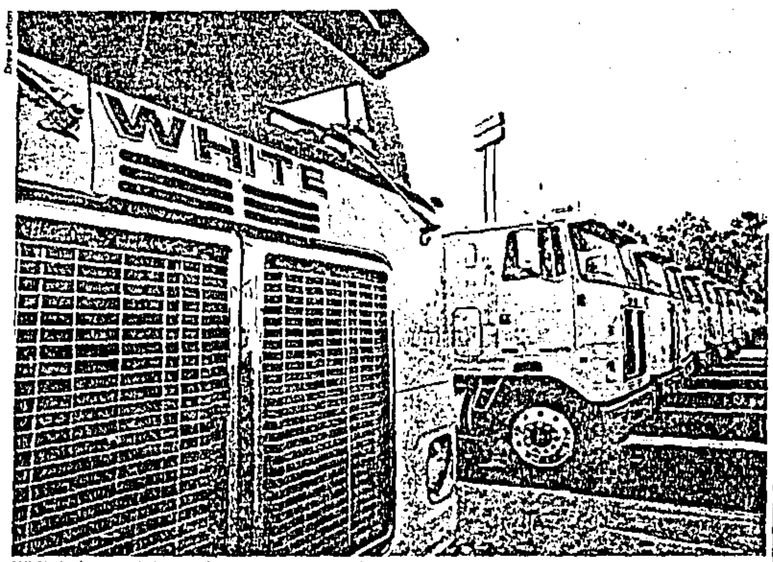
During the last recession in 1975, White lost $69.4 million on sales of $902 million. Shortly thereafter, White's bankers placed stringent limits on the company's capability to spend money and incur debt. Such restraints are expected to continue in a new revolving credit agreement that White is negotiating. With a downturn expected in the heavy-truck market—White's biggest business—one observer suggests White's best course would be to find another buyer or face eventual insolvency.

Reason for optimism. But the chairman of White, Semon E. Knudsen, says that he is not worried. He says White does not intend "to shop" for a new merger partner and in fact was the courted party in the German talks. Instead, Knudsen contends that White has "an excellent future" as an independent in its present market.

White's recent results appear to support Knudsen's optimism. The company's profits rebounded from $300,000 in all of 1978 to $6.7 million in the first quarter of 1979. Knudsen says the company is in a position to grow. Since he took office in 1971 after holding the presidency of Ford Motor Co., he got rid of four major lines of business. More recently, he completed a streamlining of White's truck assembly plants by closing the company's 66-year-old Cleveland factory. That leaves White with four modern assembly plants, including two built in 1975. White's outlook has improved, Knudsen says, because "we have less debt, less excess inventory, a new family of trucks, and new plants."

However, White also has some new problems. Foreign manufacturers such as Daimler-Benz, Fiat, and Volvo are entering the U. S. market with medium-sized trucks and could become new competitors in big trucks as well. At the same time, partly because White lost a contract to market Freightliner trucks for Consolidated Freightways Inc. in 1978, White's market share in heavy trucks has dropped to 7.6% in the first five months of this year, from 9.3% a year earlier.

Reasons for collapse. The heavy-duty truck market appears to have begun a long-anticipated downturn. Sales jumped from 13,300 trucks in January to 17,500 in March but have since dropped to a monthly rate of 16,302. Such drops can accelerate so rapidly that one analyst warns, "This market could fall to 8,000 to 9,000 units per month so fast it could make your head spin." The industry would then be caught with more than five months of inventory.



White's heavy-duty trucks must now go it alone in a market expecting a downturn.

In farm equipment, White's market share has dropped from 5.4% in 1967 to 2.9% last year. This, Knudsen concedes, is a result of White's inability to finance dealers' inventories. And, making matters worse, White will soon be forced to dilute its common stock by issuing 1,050,000 new shares to Studebaker-Worthington Inc. to redeem preferred stock in order to settle a suit in which Studebaker alleged that White had not properly paid dividends.

Such troubles may have helped to sink the MAN deal, in which the German company was to buy 9.6 million White shares. The two companies also had contemplated marketing and assembling each other's vehicles in U. S. and European markets. Knudsen has insisted that the decision to scrap the agreement was made mutually.

But Knudsen also has admitted that the German company approached him "with certain reports I hadn't seen" about the high projected costs of the two companies doing business together. In Germany, a source in the trucking industry said that MAN had simply decided that the $8 a share it planned to spend on White common stock was too high.

Whatever the outcome of White's problems, Knudsen will not be there to watch. The chairman, who will be 67 years old in October, says that he will discuss his retirement with his board within two months. He maintains that his "goals have been absolutely fullfilled" at White. Despite the current trauma, he says, "This company was nothing when I came in." ■

Forbes
SEPT 29, 80

What happens when two sides are eyeball-to-eyeball and nobody blinks? In White Motor's case, maybe a good thing.

Gimme that good ole Chapter 11

By Steven Flax

TRAFFIC FOR MILES around Michigan's famous Mackinac Bridge was abruptly backed up on the Labor Day weekend. Photographers hanging out of the bridge tower snapped away. Onto the bridge rumbled a gleaming heavy-duty Road Boss truck to have its picture taken.

Admittedly, new motor vehicle introductions are a big deal in Michigan. But that truck was from White Motor Corp., the $1.2 billion (1979 revenues) manufacturer of heavy trucks, farm equipment and lift trucks. That same day, on Aug. 31, 1980, every penny of White's bank credit had technically expired. Just four days later, the company petitioned under Chapter 11 of the Federal Bankruptcy Laws. Grotesque coincidence? Or example of a company running too hard to roll over and die?

White never really recovered from the last recession, when it lost $104 million. Ever since, it has been cash poor and heavily dependent for working capital on a group of 27 banks and several insurance companies. Takeover talks with Renault and MAN, a German company, fell through. White had stiff annual interest charges, and cash flow shrank when Consolidated Freightways Inc. withdrew its Freightliner brand of heavy truck from White's distribution system.

Even so, the White, Autocar and Western Star brand names have good reputations in the industry. The company offers a broad product line with great flexibility. And the company recently added right-hand-drive vehicles for the British markets and military vehicles to complement their existing lines. Three relatively new plants are now each devoted to a single product line. Operationally, then, a good enough company. Financially, a lousy one.

New management—Cruse Moss from AM General, a subsidiary of American Motors, and Keith Mazurek from International Harvester—came in with a mandate to cut costs and put together a little working-capital cushion. Moss and Mazurek laid off two layers of sluggish upper management, saving $8 million; reduced salaried personnel by 35%; reorganized plant utilization; closed the truck group office in Eastlake, Ohio; discontinued truck-part fabrication at the Cleveland plant; and ceased heavy-truck production at its plant in Exton, Penna.

Mazurek (top) and CEO Moss of White Motor
They can keep on truckin'.

But during the first half of this year, interest expense for White ballooned to $46 million. Says Moss, "I knew this job would be risky, but I never thought that I'd be paying 26% for money."

Nor did either Moss or Mazurek expect the heavy-truck market to collapse as it has this year. Through July the market produced gross orders of 65,000 units and then canceled over 44,000 of them. White lost $46.8 million on sales of $524.3 million in the first half. In addition, plant-closing costs decreased working capital $59.5 million.

White's revolving credit agreemen[t] was due to expire Aug. 31, 1980. Mos[s] and Mazurek negotiated an agreement i[n] principle with Bill Davidson of Guardia[n] Industries Inc., a glass manufactur[er] from Northville, Mich. For $55 million i[n] cash, Guardian would get a 50% intere[st] in White's wholly owned White Moto[r] Credit Corp. which could, at Guardian's option, be converted into a controlli[ng] interest in White Motor. If White stay[ed] in business, Guardian could be gaini[ng] control of a $1 billion company.

Guardian required that White arran[ge] adequate financing that did *not* inclu[de] White's pledging assets and collateral [for] a new line of credit. White's credito[rs] had not previously required the com[pany's] assets as security. Now the len[d]ing consortium asked for just that.

If White agreed, the lenders' cla[ims] would supersede Guardian's in the eve[nt] of bankruptcy, leaving Davidson a co[n]trolling interest only in what the ba[nks] left him to pick over. He didn't want [...]

White argued that its suppliers [...] stood by the company when cash [was] scarce; why subordinate the interes[ts of] the very suppliers who had helped W[hite] stay in business? In vain.

Why, especially since the revol[ving] credit would not bring White any [new] money? If the terms were formerly [satis]factory when money was actually ch[ang]ing hands, then why weren't they [satis]factory now? Also in vain.

How could White negotiate with [sup]pliers who knew that White ranked [their] interests below those of its lenders? [...] good was the bank credit to them if [...] couldn't do business as usual with i[t]

But the banks held out for blood.

On Sept. 2 the credit agreemen[t] [...] dead, and AmeriTrust and Centra[l Na]tional Bank in Cleveland seized o[...] million of White's cash on deposit. [...] next night, on Sept. 3, 1980, W[hite's] board met and, seeing that the cre[dit had] already expired, authorized White [...] under Chapter 11 if the next day['s talks] got no further. They got no further.

When Judge Mark Schlachet [...] U.S. Bankruptcy Court in Clevela[nd ac]cepted White's petition, White's [...] million in assets exceeded liabili[ties by] $154 million. Cash on hand was [...] million.

The death knell? Wait. Parado[xically,] in reorganization White is in th[e best] competitive posture it has been [in for a] long time. White has been mom[entarily] relieved of its heavy interest and [...]ment burden of unsecured liabil[ities in] excess of $300 million. In additi[on, cur]rent assets are now available to [...] to pay employees and suppliers[...] the interest income coming to th[e White] Motor Credit Corp.

Says Moss, "This current [...] provides the two ingredients [that have] been missing—time and money[...]

POOR
COPY

new management to complete the restructuring of the company." Says Mazurek, "At this time we have a firm production plan for 800 trucks next month and adequate orders and supplies to continue at those rates. We are going over our marketing network for farm equipment. But we also may end our policy of building farm machinery for inventory; we can't afford that luxury."

Adds Moss, "We're going to accelerate our penetration of major fleets and the foreign and military markets. I think a 10% market share is reasonably attainable. We've had our best international truck month last month."

Of course, White's reorganization won't mean a thing until the heavy-truck market comes back. And buys White trucks despite Chapter 11. Still, analyst Arvid Jouppi of John Muir says Moss and Mazurek will probably get their good shot at turning White around at last. For the first time in over five years White has both the management and the money to act. Now, any customers for that truck on the Mackinac Bridge?

U.S. News & World Report April 21, 1980

In Midst of Joblessness, A Strike Over Too Much Work

At auto plants, workers would welcome some overtime. But in a sister industry, extra hours became an emotional issue that fanned a long walkout.

While workers in other industries struggle to keep their jobs, 35,000 employes of International Harvester have stayed on strike almost six months to protect something even more dear to them—their leisure time.

Their determination appears to have had its effect. Management of the huge farm-equipment company has softened its demand that employes be required to work overtime, and a compromise that signals an end to the dispute sometime soon appears to have been hammered out.

Effects of the walkout are being felt sorely by the company, the workers and businesses that rely on Harvester trade. By the end of February, the strike had set a record as the longest against a multiplant company by the United Auto Workers, surpassing a 113-day walkout at General Motors in 1946.

With 17 of its 21 U.S. plants paralyzed, Harvester reported a 222-million-dollar loss for the three-month period ending in January. Analysts expect losses to surpass 350 million before the dispute ends. A five-year, 2.5-billion-dollar investment program aimed at meeting competition with new products has been scaled back. Debt has increased to nearly 2 billion dollars.

For the striking workers in nine states, lost wages have run into the hundreds of millions of dollars. The UAW has paid more than 22 million dollars in strike benefits. However, its strike fund, which topped 300 million going into the dispute, remains strong.

Parts suppliers for Harvester plants are losing out, too. So are small businesses in cities that cater to the factory workers. Among them is Thomas Lebamoff, a restaurateur in Fort Wayne, Ind. "The Harvester workers just don't come around much any more," he says.

Company officials admittedly were surprised by the intense feelings on the overtime plan, which became a solidifying issue for the strikers. "It captured their imagination, and they've seized it as a flag," says a company spokesman. It even surprised some UAW people. Says one worried worker in layoff-plagued Detroit: "I'd give my eyeteeth to get back on overtime."

But UAW President Douglas Fraser is not surprised at the blowup. "They've had voluntary overtime at Harvester for 30 years, and that's the difference." Adds Paul Sonneman, a Harvester employe in Canton, Ill.: "We want the option to say, 'I'd rather spend the weekend fishing.'"

This picketing scene outside an International Harvester truck plant in Fort Wayne, Ind., has become a familiar one. The strike at 17 plants began November 1.

Fraser calls the dispute "a disastrous miscalculation" on the part of Harvester's tough new chairman, Archie R. McCardell. McCardell, who came from the presidency of Xerox in 1977, has embarked on a 460-million-dollar cost-cutting program to strengthen profits and generate investment capital.

"He came in and cut out 11,000 to 15,000 salaried folks who couldn't defend themselves, and said, 'Hey, this is easy, so now I'm going to teach the UAW a lesson,'" says Fraser. "But if you want to take something back that represents a bit of individual freedom, you're going to have to fight to get it back."

Overtime blues. Company officials reject the notion that they were picking a fight. They describe the overtime plan as a much needed means of improving productivity and making it easier to fill Saturday shifts. They also note that Harvester is the only major farm-implement firm without it. "It's not as if we were trying to break virgin ground," says a company spokesman.

Other issues in the stormy dispute took a back seat to the overtime proposal. They include:

- Wages, fringe benefits and other "bread and butter" demands by the UAW. The company made it clear from the beginning that it would match the three-year, 33 percent wage-and-fringe-benefit increase negotiated at other farm-implement firms last fall, but other details remained to be worked out.
- Job transfers. The company demanded a limit to excessive transfers of employes from one job to another. The issue was dropped from national talks and sent to plant-level negotiations.
- Management neutrality. The union wanted company managers to remain neutral in union-organizing drives at a handful of plants not represented by the UAW.

Both sides say they are not far apart on remaining issues. But national talks have been stalled since early February and are not scheduled to resume until local contracts, covering 34 bargaining units, are settled. Officials say those agreements could fall into place soon.

Both union and company sources say a tentative agreement has been reached on a compromise—short of a mandatory plan—that will help insure adequate staffing of overtime shifts. With national talks about to resume, some say an agreement should come quickly now that the most emotional issue has been resolved.

But the damage, both to a financially weakened company and thousands of International Harvester employes, will remain. □

Corporate strategies

International Harvester: When cost-cutting threatens the future

When International Harvester Co. closed its books on fiscal 1979, ended last Oct. 31, Chairman Archie R. McCardell savored a momentary taste of the fatter profits he covets for the $8.4 billion manufacturer of trucks, farm implements, and construction equipment. Thanks to a surge in all three key markets—and the success of a cost-cutting campaign that McCardell says has saved $460 million in two years—the company's earnings soared 98% last year to $370 million, producing an aftertax margin of 4.4%, a 15-year high. Buoyed by such initial results, McCardell, who was lured to Harvester from the presidency of Xerox Corp. in 1977 with a $1.5 million bonus, proclaimed just last September that his five-year plan to invigorate the sluggish giant was a full year ahead of schedule.

But the turnaround is now dangerously suspended in midair. McCardell has chosen 1980 as the year to engage the powerful United Auto Workers in the most risky battle of Harvester's cost-reduction war. By demanding union work rule concessions in a new contract rather than simply granting wage and benefit increases already won by the UAW at competitor companies, Harvester triggered a strike on Nov. 1 by 35,000 workers, or 36% of its work force. With 17 of its 21 U. S. plants closed, the company has estimated it will lose $225 million in the quarter ending Jan. 31—an amount equal to 10% of Harvester's equity.

Union officials perceive this struggle as an outgrowth of McCardell's overzealousness in slashing costs. At the UAW's Solidarity House in Detroit, one staffer warns: "Archie McCardell came to Harvester to see how much money he could save, but now he's really out on a limb. Our guys are talking about staying out through March." Even without such a long strike, the threat to Harvester is not only that its earnings will suffer but also that it might lose market-share gains made in 1979, most notably in the heavy-duty truck business, where Harvester extended its lead by increasing its share from 26% to 31%. Already, Harvester's inventories, beefed up before the strike, are starting to wane. "We're beginning to hurt for parts," concedes one truck dealer in Wisconsin.

Outspent by competitors. For the long term, the strike may throw a monkey wrench into McCardell's ambitious capital expansion program, under which Harvester plans a capital outlay of $2.5 billion from 1980 through 1984, compared with $1 billion in the previous five-year period. The program is crucial to Harvester's future competitive position, because during the 1970s the company was embarrassingly outspent by its major rivals—General Motors Corp. in trucks, Deere & Co. in farm machinery, and Caterpillar Tractor Co. in construction equipment.

McCardell acknowledges that Harvester must modernize its antiquated plants and reverse its record of paltry spending on new product development, not only to protect its market shares but also to close the massive profitability gap between itself and its competition. While its 4.4% net margin last year was Harvester's high for the 1970s, Deere's margin regularly topped 8% during the decade and Caterpillar's exceeded 7%. The new capital program is also vital to improving the investment community's image of McCardell, who has been roundly criticized for cutting costs at Xerox at the expense of product innovation.

Already, however, the strike has forced McCardell to reduce his company's capital spending plans for 1980 from $500 million to $400 million. Nevertheless, he vows to continue fighting for concessions from the UAW, which he contends are as essential as capital improvements to put Harvester on an equal footing on costs with its competitors and give it the financial muscle to carry out future spending plans.

Harvester's McCardell: A bitter clash with the UAW jeopardizes his ambitious five-year capital plan.

Nightmarish scheduling. Among other things, Harvester wants the UAW to give the company more flexibility in mandating overtime work. At Deere, UAW members must work three Saturdays a month if asked, although they may refuse on five occasions per year. But at Harvester, prior labor contracts have always entitled workers to turn down Saturday overtime whenever they please, making weekend scheduling a nightmare. Because of such practices, McCardell says, "We are losing between 1.5% and 2% in our margins through plant inefficiencies. If we're going to be competitive we have to get at that cost penalty, so we are really serious about the strike."

Unfortunately, so is the UAW, whose strike fund—kept intact when an auto strike failed to materialize in 1979—now totals a comfortable $300 million. Both sides are so entrenched, in fact, that no negotiations were even scheduled for most of December and January.

By taking his tough stand with labor, McCardell is raising questions in the investment community and among competitors. They sympathize with Harvester's plight. "The company by far has got the worst union contract in the business," agrees one industry labor negotiator. But there is concern about the strike's cost and its impact on McCardell's schedule to catch up in plant modernization and product development. Even with a quick end to the strike, machinery analyst Larry D. Hollis of Milwaukee's Robert W. Baird & Co. is forecasting that Harvester will barely break even in 1980 and may have to cut its dividend. "It looks like the company will be at least a year behind where it hoped to be [with its turnaround plan]," adds Hollis.

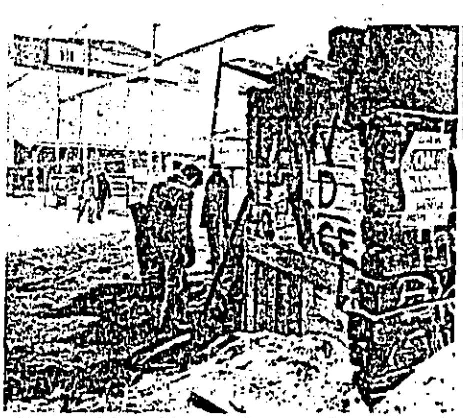
No better time. Although McCardell seems fully aware of the costs of the strike, he maintains there will be no better time in the near future to drive a hard bargain with the union. He also knows that because Deere and Caterpillar endured shorter strikes of their own late last year, they do not yet have the inventory to exploit fully the openings in their markets, where growth is expected to slacken this year because of the Soviet grain embargo and general economic conditions. As a former Ford Motor Co. executive before moving to Xerox, McCardell also knows the union he is up against.

In addition, he argues that Harvester's $400 million capital spending budget this year is still double the average yearly rate during the last five years. And the IH chairman contends that the strike has not yet forced any curtailment of key product development at Harvester's five operating groups, or of the activities of a newly formed corporate research and development team headed by Chief Technical Officer Robert J. Potter, who worked for McCardell at Xerox.

Thus, aside from the stymied effort to improve labor efficiency, McCardell sees himself as essentially moving ahead with the other aspects of his plan. Potter is hiring 300 scientists and engineers to staff 22 new corporate technology teams, which will report to him on projects ranging from vehicular electronics to development of exotic body and structural materials. To be truly innovative, these teams will explore the most esoteric technologies, according to Potter. "We will introduce projects," he says, "where the uncertainties and risks are high."

More technological stretch. In 1979, Harvester spent 2.6% of its sales on R&D, well under the 3.8% of sales spent by Deere and about 3.5% by Caterpillar. McCardell has picked this area as a specific target for reversal. Harvester hopes to boost R&D spending sharply this year despite the strike, and within five years McCardell sees Harvester as being among the most generous spenders. "The industries we compete in," McCardell intones, "have not done nearly enough technological stretch."

Such rhetoric is typical of most executives trained in the word processing industry but is atypical of McCardell. At Xerox, McCardell was known as an effective budgeter and organizer, but the company's record of innovation declined noticeably during his tenure as president and chief operating officer from 1971 to 1977. "Xerox developed constipation in product development," says David G. Jorgensen, senior vice-president of Dataquest Inc., a Cupertino (Calif.) market researcher. "The company ignored the threat of new competition and saw its market share of plain paper copiers plunge from 85% in 1973 to 55% in 1978. That's not a very good report card."



Chicago pickets: A lengthy shutdown after Harvester demanded UAW work rule concessions in a new pact.

The jury is out on McCardell's new corporate-run R&D approach at Harvester. In the past, the company's R&D was handled mainly by its five highly independent product groups, whose engineers still are responsible for applying the final engineering and design work that leads to commercial products. Sources within these groups say they are not offended at the new approach, but some outside observers wonder whether some enthusiasm or ideas might be lost in the "hand-off" from a corporate R&D team to a divisional unit.

So far, however, Harvester has been more creative under McCardell than before. Despite limited budgets, the five product groups—truck, farm, construction, turbines, and components—recently have turned out some successful new machines. The $3 billion farm group, which contributed more than half of last year's corporate operating profit, gained market share with a new rotary combine, which boasts a gentler rubbing action to separate grain from the chaff, and with a small, highly maneuverable four-wheel-drive tractor called the "2 + 2." Work on both products actually began before McCardell arrived at Harvester, but the new chairman accelerated their development. He has also initiated design work on a new generation of fuel-efficient tractors. Aside from that, McCardell is extremely secretive regarding the types of new products the company is developing.

In the meantime, McCardell is moving forward with his cost-cutting plans. Since he joined the company, he claims to have eliminated 11,000 jobs out of 15,000 he wants to cut eventually. While he has had to add other positions in order to handle Harvester's 40% sales growth during the last three years, the net result has been that total employment has risen only from 93,200 to 97,660.

Foreign growth. Once the impact of the UAW strike is absorbed, McCardell hopes to return to his five-year plan to invest $500 million a year to bring in more new and sophisticated production machinery as well as to broaden product lines and marketing penetration in the U. S. McCardell wants especially to expand the company's mix of construction equipment, sales of which now total $1 billion. He is also attempting to grow internationally. Last year, Harvester bought its way into the booming Brazilian agriculture industry by purchasing one-third of the equity of a combine manufacturer there. McCardell says he also envisions a bigger role in Europe for his truck group, whose 1979 world revenues were $4 billion.

All of McCardell's long-range plans, though, are not as firm as they were before he decided to take on the auto workers. Should the strike be further prolonged, McCardell may find his challenge not in cost reduction, research, or modernization, but in winning back customers taken by competitors. "Our members," suggests one unionist, "are just not prepared to give any relief on the overtime issue. Like two wrestlers, right now we each have our best hold." ■

Forbes June 9, 1980

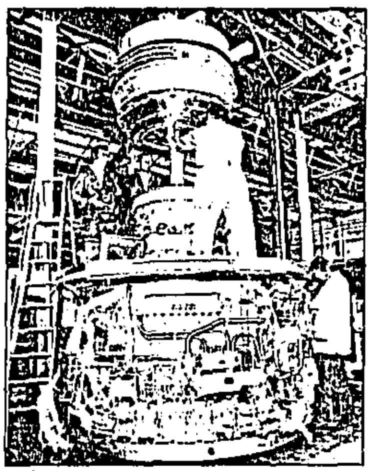
mitted early in May, could cost the company at least $100 million by 1981.

The problem, of course, is that while RR's revenues come in the form of dollars, the majority of its raw materials and labor costs are in pounds. The fact that the pound has soared 26% against the dollar since early 1978 explains why RR's new chairman, Sir Frank McFadzean (FORBES, *Dec. 10, 1979*), reported a "very disappointing" $132.5 million loss for 1979 on sales of $1.9 billion. This has led to a certain amount of levity in RR's work force. "Here's the company always exhorting us to increase productivity," says one worker. "We do, and all the effort is knocked into oblivion because some financial wizard miscalculates."

Miscalculation, of course, had nothing to do with it. "These aren't actual losses," explains RR's ex-chairman, investment banker Lord Keith, who headed RR for the seven years up to the end of 1979. Keith, now back full time in the private sector with Hill Samuel, goes on: "They are provisions for losses that could be made [on engines already sold] if sterling remains at its present level [$2.25]. I personally don't think it will." Interviewed by FORBES in his office next door to RR's London headquarters, the elegantly pin-striped Lord Keith was unapologetic about contracts (as with Pan Am for TriStars and Eastern for 757s) that critics say were priced too low. He says the prices had to be low to keep RR in the running. "The others [RR's competitors] take contracts on a marginal basis," he says. "This is the fight for market share." He is right, of course. Had RR tried pricing its contracts on the assumption that the pound was going to be driven higher by Britain's oil wealth, RR probably wouldn't have ended up with any U.S. business at all.

At any rate, the present situation is nothing like 1971. That was the year RR, still a private company, ran out of cash needed to develop its RB 211 series. It failed to get Edward Heath's Tory government to hand out the kind of bailout Lockheed, its partner on the TriStar project, got from Congress. Instead, RR went into an image-crushing bankruptcy. State takeover followed, though the famed auto division was reborn as a separate, publicly held company.

Cash is again running low at RR, but this time bankruptcy isn't an option. Another antihandout Tory government has been quick to affirm its support for the current programs, which include developing the RB 211-524B for the advanced TriStar and the RB 211-535C for Boeing's 757—the first time Boeing has used a foreign engine as standard equipment on a new model. Impressed, Sir Keith Joseph's Industry Ministry rapidly anted up additional aid of $408 million for this year, and converted some interest-bearing loans to noninterest equity.



Rolls-Royce RB 211-524 in production
The pound soared: So did losses.

Rolls is far from being the only British manufacturer hurt by the strong currency. Unlike some of the others, however, RR is important in that it helps keep Britain in the forefront of technology. It certainly didn't hurt the company when it was announced last month that America's Pratt & Whitney would team with Rolls to produce jointly a British-designed engine for jet fighters that will be capable of vertical and short-run takeoffs. Apparently Prime Minister Margaret Thatcher and her ministers have decided that RR's prospects are good enough to warrant the extra aid.

"Spain 300 years ago was ruined by too much silver," laments Philip Whitehead, a Labour member of Parliament who sees oil as a similar threat to Britain today. Whitehead, whose constituency includes 18,000 Rolls workers, often exhorts the government to drive down the pound's value. Alas, in this complex modern world, a strong currency creates as many problems as a weak one. ■

Bumpy road ahead. So hit the accelerator, says Cummins Engine's Henry Schacht.

Fasten seat belts

By Harold Seneker

IN 1974, 80% of Cummins Engine Co., Inc.'s backlog was canceled in 21 days. This year, Henry B. Schacht, 45, already plans 2,000 layoffs among his 12,000 Columbus, Ind. workers. But unlike a lot of business people Schacht is already making plans for 1990. For Cummins (1979 assets, $1.1 billion), that means capital spending of nearly $900 million in the next five years, at least $400 million of it using new debt.

That may sound very gutsy, but CEO Schacht and his board see it more as a necessity, despite the extreme volatility of the heavy-duty diesel truck engine business. Facing competition from General Motors, Caterpillar and Mack Trucks, big European competitors, and the frequently whimsical surveillance of the Environmental Protection Agency, Cummins is not without its problems.

Cummins stock has lately been selling for around 29½, about 4.3 times 1979's earnings of $6.68 a share on sales of $1.7 billion (down from $7.99 in 1977), and not very impressive when you consider that book value is $57 a share and net current assets come to nearly $35. "The price is being held up as high as it is," grouses one security analyst, "by takeover rumors because Gulf & Western bought 513,000 shares [about 6.15% of the total outstanding]." But then, seemingly contradicting himself, he adds that the founding family still owns 25%, "and you're not going to do anything without them." Which maybe says Charles Bluhdorn really is buying for investment and sees things that less perceptive investors are missing.

Unlike investors with a short attention span, Schacht must consider the middle distance. And what he sees is that the price of diesel fuel, now around

$1.10 a gallon, could well cost $5 a gallon in 1990 (an increase of only 14.7% a year). And that, as Schacht and Cummins see it, creates opportunities Cummins cannot pass up, however big the capital investment.

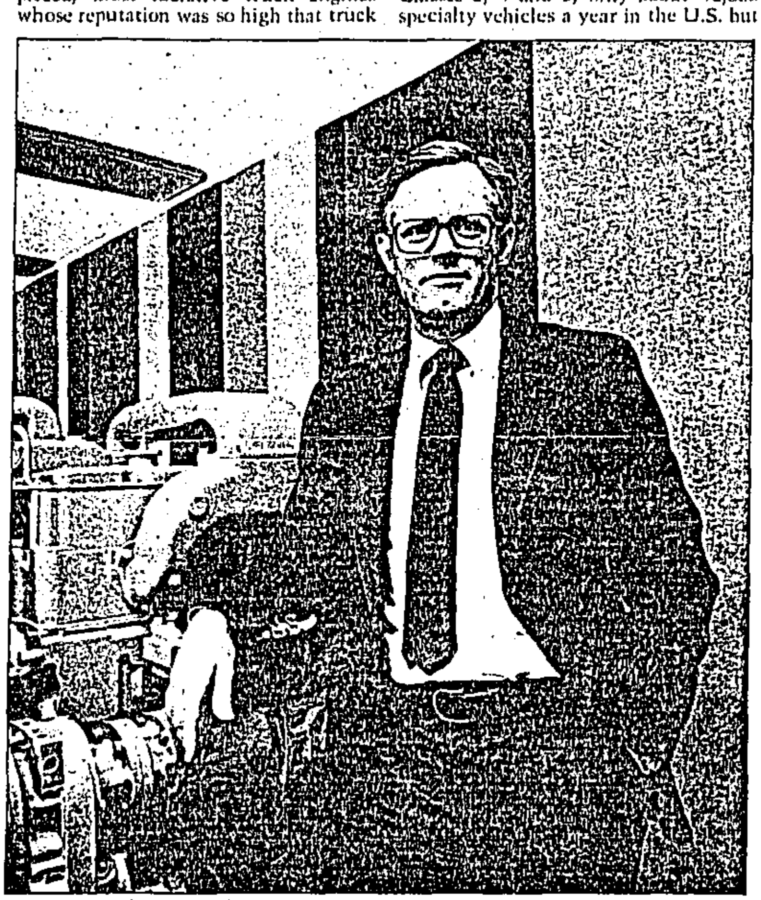
Diesels' fuel consumption runs a good third below that of gasoline engines, and maintenance costs are minuscule by comparison; the engines last as much as 500,000 miles with only minimal overhauls. You invest 2 to 3 times the price of a comparable gasoline engine to get those savings.

In the days of cheap fuel, that kind of economics worked mainly in the heaviest workhorse situations—heavy-duty highway trucks (Class 8, 33,000 gross pounds and up), monster offroad equipment and such industrial applications as generator sets. Or in Europe, where fuel costs were already high. Under Schacht's predecessor, J. Irwin Miller, Cummins sold to these other markets, but concentrated on building the biggest, highest-priced, most lucrative truck engines whose reputation was so high that truck buyers often specified Cummins engines in GM, Mack or International Harvester vehicles.

Thanks to OPEC, the market is broadening decisively and, strictly on a cost-benefit basis, many smaller trucks ought to have diesel engines, says Schacht.

So, on top of Cummins' ongoing capital spending, Schacht is adding costly new engines to compete for smaller trucks. That includes building an entirely new line of smaller engines with J.I. Case, Tenneco's offroad equipment maker. These engines, designed for Case's products, will be adaptable to trucks all the way down to pickups. Altogether, they will require an investment by Cummins of $600 million.

Schacht, a careful, logical man, is obviously excited by the prospects. "In the U.S., there is a market of about 200,000 Class 7 and 8 trucks a year; it's growing perhaps 2% to 3% a year, and it's virtually all diesels. Adding Class 6 virtually doubles that market. Then there are Classes 3, 4 and 5, only about 40,000 specialty vehicles a year in the U.S. but very big in Europe, and we get a third of our revenues from abroad now. Finally, some 300,000 or so of the harder-worked Class 2 pickups might become candidates for diesels by 1990."



Henry B. Schacht of Cummins Engine
The way the price of gasoline is going up, it's a bargain at $900 million.

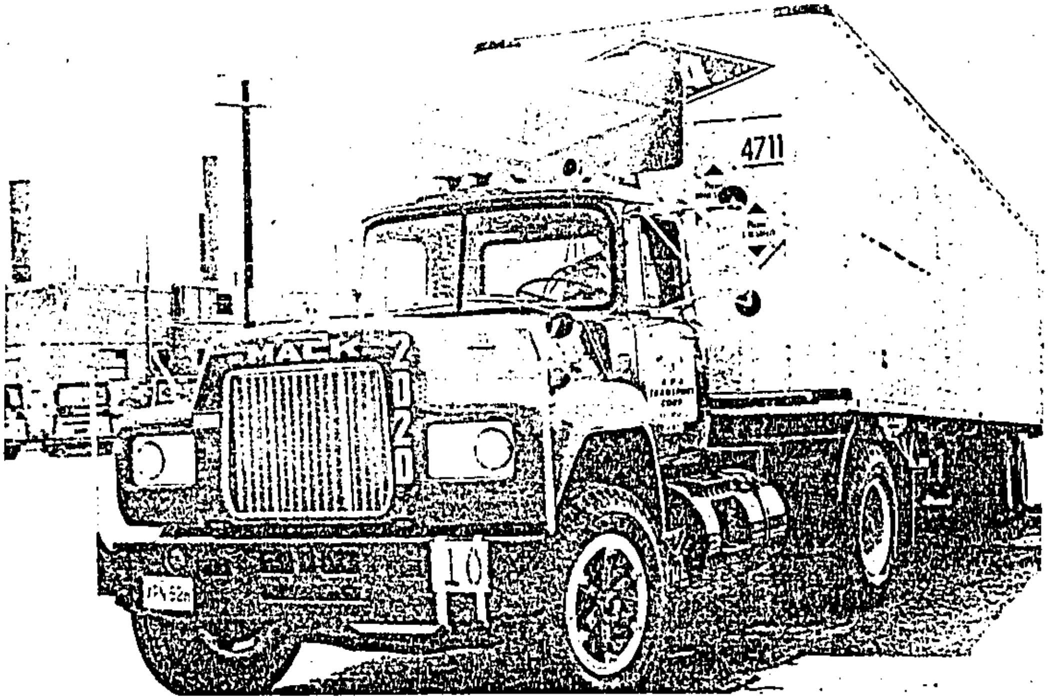
Schacht spins out these plans at his temporary headquarters in a small former hotel on Washington Street in downtown Columbus, Ind., while Cummins' three-block-long concrete office building goes up a couple of blocks away. He makes clear that Cummins' phenomenal success in 1976 and 1977 was unsustainable, because it stemmed from a one-time advantage over its principal competitor, GM's Detroit Diesel Allison division. Cummins introduced a fuel-efficient engine that GM couldn't match (FORBES, *July 15, 1977*) and its share of the Class 8 market shot up from a traditional 49% to 54%. That's why earnings in 1977 hit $7.99 a share, compared with the previous cyclical peak's earnings, 1973's $3.53 a share. The GM division, whose market share dropped below 20%, came back quickly with its own improved models and muscled its way back up by offering costly warranty deals. At the same time, Cummins ran into highly uncharacteristic manufacturing glitches on EPA-required changes.

Now the pricing pressure is moderating, but the recession is upon us. The first quarter earnings, hurt by the International Harvester strike, were only 31 cents a share, compared with $2.66 a year before. Margins swing wildly in bad years, so Wall Street estimates for all of 1980 range upward from $1.60 a share.

But even if the recession worsens, Schacht feels the company's fundamental financial structure is more than adequate to support his expansion plans: "People forget we are a large-cash-flow business. Our operating profit last year was $107 million and depreciation was $43 million, while interest expense was $22 million and the dividend $15 million. It's cash flow that pays the interest and the dividend." Which leaves the entire net profit for reinvestment.

"Actually," says Schacht, "our worst cash stress is right now, when everything is still going full tilt and costs are rising from inflation, and we have to carry large amounts of inventory and receivables. But incoming business is slowing down drastically. Later, during the recession, the receivables and inventories run off and cash flows in.

"We don't begin any stage until we have it completely prefunded," Schacht goes on, "and we have several points built in where we can stretch things out if we need to. We assume another 1974-75 recession this time, and then a second recession around 1985." There's a certain risk, but with OPEC and technology on Cummins' side, it seems minimal. Still there could be a rough ride for Cummins, for a while. ■



U.S. truckers are fighting a shakeout

Despite harsh times, APA Transport's aggressive approach is bringing in record profits and it's preparing for further expansion

by Harlow Unger

Recession and the beginnings of deregulation have combined to toss the U.S. trucking industry into turmoil this year. Tonnage for less-than-truckload carriers is off 32.2%; several large carriers are reported on the verge of bankruptcy, and Wilson Freight Co., of Cincinnati, the 17th largest U.S. common carrier, has already filed for bankruptcy.

The tonnage decline is largely the result of the disastrous 30% decline in new car sales and a 50% drop in construction of new homes. Nearly 10% of all common carrier traffic in the U.S. is related to the auto, steel, and construction industries.

New-car haulers report a 50% drop in their business so far this year, while truckers specializing in hauling steel say their business is off as much as 40%.

Compounding the effects of lower revenues has been the soaring cost of fuel—up 80% over the last 18 months. An Interstate Commerce Commission regulation now forces carriers to pay drivers who own their own rigs a diesel surcharge for less-than-truckload shipments.

The surcharges range from 2.3% to 13% and has driven a lot of business away from common carriers. Many manufacturers now find it less costly to operate their own trucks—especially in the face of deregulation, which permits captive fleets to haul goods for other companies on their return trips.

Although deregulation won't be fully implemented for a few months, its effects are already being felt.

"Lately," said one industry analyst, "the ICC has shown a reluctance to go after small companies operating without a certificate. This has undoubtedly opened the door to illegal truckers willing to haul for lower rates."

The presence of so-called illegal trucking has already forced some legitimate firms to offer discounts. Commercial Lovelace Motor Freight, Inc., of Columbus, Ohio, Garrett Freightlines, Inc., and Mason & Dixon Lines, Inc., are now offering 5% discounts for five shipments loaded at the same time but destined for different delivery points. Discounts of 10% and 15% are available for 10- and 15-shipment loads.

Such discounts on one-stop pickups are just one tactic being used by established carriers in their fight to survive. For not all truckers are facing bankruptcy. True, a shakeout in the industry is under way. But, the process is the usual industrial story of the rich getting richer and the poor poorer.

Healthy carriers are getting healthier at the expense of their weaker competition. To see just what is happening in this most critical period in the history of American trucking, we've taken a close look at operations at two important American trucking companies—one, the now-bankrupt Wilson Freight Co.; the other, the thriving, expanding APA Transport Corp., of North Bergen, N.J., just across the Hudson River from New York City.

Wilson's problems began during the harsh winter of 1977—a boom year that was interrupted by the bad weather. Another harsh winter in 1978 also hurt business. Unlike other trucking firms, though, Wilson refused to sit by idly and absorb its losses.

It sought to expand by taking over Strickland Transportation Co. of Dallas, a near-bankrupt firm that helped extend the Wilson system into 31 states. With more than 70 terminals and nearly 3,500 employees, the company grew into a major factor in American surface transport.

Then came the April, 1979 strike of union drivers, followed by a settlement costing 27% in wage-and-benefit increases over three years. Compounding matters was the fuel shortage followed by the surge in fuel prices.

Wilson finished last year with losses of $2.9 million on revenues of just under $200 million (U.S.), and the company's accountants were predicting further losses of $12 million or more for this year.

What they didn't know at the time was that the most severe recession since the depression of the 1930s was about to break out. By March of this year, Wilson's traffic had dropped 30%. When it filed for protection under Chapter 11, the company was in default on loans totaling $22.4 million.

The company told the court it had "run out of cash with which to pay its bills" and that a consortium of banks headed by Citibank in New York had refused to extend new credit or set new terms on a defaulted $18.75 million credit agreement.

The company didn't go down without a fight. When John E. Shore took over as president last year, he immediately began cutting costs and trimming fat off the company, laying off about 85 workers and closing 15 company terminals.

Then, last spring, Shore appealed to the company's employees to help save their company by buying 4 million new shares of stock in Wilson at $4 a share.

By mid-July, only a few days before the company went under, the company's workers had subscribed to more than $11 million of the $12 million offering, and morale of the entire work force seemed to reach a peak.

Although Citibank had initially supported the project, it suddenly reversed its stand, following the sharp slump in March, and decided to foreclose its loans.

Arthur E. Imperatore, president and co-founder of APA Transport Corp. in North Bergen, New Jersey. The recession, soaring fuel costs, and deregulation don't seem to bother his firm's profit picture—APA had the best operating ratio of all U.S. common carriers in 1979. "We've got a surplus of managerial talent in this company," he says.

"The economy killed us," declares Shore, who now says he plans rebuilding the firm from scratch into a solid, though far smaller carrier. Unfortunately, his plans won't save the jobs of the company's 3,400 workers.

"There's a disaster out there, a real disaster," he says, referring to the trucking industry, as he prepared to close his company's terminals.

The disaster that struck down Wilson doesn't seem to have affected APA Transport, which, according to some admiring onlookers, "seems to be operating in another country," where recession, soaring fuel and labor costs, and deregulation don't even exist.

APA is expecting revenues to reach a record $66 million (U.S.) this year, and the company has already launched plans to expand its territory to include all of New York State, Pennsylvania, and New Hampshire. Added to its present territories in Massachusetts, Rhode Island, New Jersey, and Connecticut, the new areas will expand the company's market to a region of 50 million people.

Demographic considerations such as population base may seem a bit strange to the trucking industry. Such figures are the kind usually used by food product and toothpaste producers in determining marketing areas.

But it's this kind of aggressive, computerized approach to marketing APA's services that has made the company the U.S. trucking industry's most profitable company.

"We're propelled to expand," explains Arthur E. Imperatore, the 55-year-old president and founder of APA. He still owns 94% of the company's shares. "We're responding to the environment that we think will be created by deregulation."

Because he believes deregulation will open the door to free competition from all directions, Imperatore wants "to get there first."

In addition to expanding the basic territory, the company is also planning to get ICC approval to "piggy-back" containers to terminals as far west as Detroit, Indianapolis, Chicago, Louisville and St. Louis.

Although still a short-haul, less-than-carload trucker, APA believes that intermodal transport will become basic transportation in the future, and Imperatore is eager to establish links with rail, sea, and air transport now.

APA has always been an aggressive, efficient firm with a willingness to use carefully collected data to make decisions. That's why the company did not expand last year.

"We're a very conservatively managed company," Imperatore explains. "We'll take our steps after careful planning and not at the expense of any existing services. We've got a surplus of managerial talent in this company."

APA is one of the few trucking companies in North America that is not managed "off the top of the owner's head." The company is staffed and run by business-school grads who believe in computerized data. The result is a large corps of loyal customers.

"They are almost mysteriously efficient," says the president of one company that refuses to deal with anyone else.

"APA offers a Cadillac-type service," says the traffic manager for Johnson & Johnson, the big health products firm. "They charge more than some competitors, but if they say they'll deliver tomorrow, it will be there."

Behind APA's remarkable record is more than a computer and business school training, of course. Imperatore is an old-fashioned salesman, who, over the years, has built his company's clientele by making personal calls on customers and delivering on all his promises of good service.

The company's relations with shippers in the 6,000 towns it serves is "absolutely solid," says one industry analyst who is familiar with APA operations.

While most truckers in the U.S. are now preparing for what they believe will be a vicious rate war following deregulation, Imperatore is preparing for what he believes will be the growth of an entirely new form of transportation—intermodal small-volume shipping and courier traffic.

"We're not worried about rate wars," says an aide. "We already charge more than our competitors, and we'll continue to do so in many areas. We offer perfect service, and our customers are willing to pay for it. They're loyal and they won't be lured by discounts from fly-by-night operators."

Confident of its relations with old customers, APA is now preparing for its predicted expansion of small-load traffic by doubling the size of its main terminal in North Bergen, N.J., at a cost of $4.5 million.

Unlike Wilson, APA is virtually debt-free. Although the company's costs have climbed, they have only reached about 85% to 86% of revenues, compared with 79% last year. The company, nevertheless, remains the industry's most profitable carrier.

Imperatore predicts this year's profits will top last year's $5.7 million and that even if a rate war reduces the industry to "just a handful of survivors, we're going to be one of them." □

Microfilm system unveiled for transport companies

The Microx microfilm system was recently introduced in Canada by Bell & Howell.

The system, comprised of five elements, is a management information centre utilizing microfilm designed especially for small- to medium-sized businesses.

Taking up less space than a standard office desk, the Microx System records, files and displays information in one 10-second step. A dry process allows a user to store a file folder of records (up to 98 documents) on a single 4-in. by 6-in. microfilm.

The five elements of the system are:

- Microx masters (the 4-in. by 6-in. file)
- Microx CPM (the 5-second recorder)
- Vesicular duplicates (for information distribution)
- Printer (prints a duplicate of the master)
- Processor (develops the duplicate)

Whenever a user plans to record a document or complete a file, a Microx master is inserted into the CPM.

The Microx System is priced at $21,375 and is available from Bell & Howell Microimagery Division branches across Canada. □

Harvester falls flat on its bargaining goals

International Harvester Co. is on the verge of settling a bitter five-month strike by the United Auto Workers, but the $8.4 billion manufacturer of trucks, farm implements, and construction equipment is emerging from negotiations with deep financial wounds, lost market share, and no clear contract victories. In resolving the stickiest issue, Harvester backed down from its key demand, which was designed to enable it to force overtime work at its manufacturing plants. Moreover, the company is gaining only partial relief on its second pivotal proposal, aimed at restricting excessive transfers of employees between different jobs. "Nobody wins in a long strike," notes Eli S. Lustgarten, an analyst with Paine Webber Mitchell Hutchins Inc. "But there is no question the company is the big loser in this one."

Harvester is paying dearly for its tough bargaining stance. The company took a $222 million loss in the quarter that ended Jan. 31, and with most second-quarter production already wiped out, total strike-related losses could exceed $350 million. Debt has ballooned 43% to about $1.9 billion, the company's commercial paper rating has been lowered one notch to Prime-2 by Moody's Investors Service, and Harvester's stock has withered to less than $27 per share from a 12-month high of $45.50.

'No significant change.' The dispute, which has idled 35,000 Harvester workers since Nov. 1, will probably be settled in early April for about the same 33% increase in wages and benefits over three years, assuming 8% annual inflation, that Deere & Co. and Caterpillar Tractor Co. agreed to last fall. Harvester Chairman Archie R. McCardell has insisted that his recently scuttled demands were essential to bring costs in line with his more profitable competitors'. But that goal has evidently eluded him.

On the overtime issue, the company apparently has given up trying to get the right to require at least 14 Saturdays of work annually. The UAW, which bristled at the thought of "giving back" an existing contract provision providing only voluntary overtime, would only agree to form pools of plant workers and laid-off employees who would be willing to work extra shifts if regular production line workers refused. Says UAW Vice-President D. Patrick Greathouse: "There are no mandatory days, no significant change from the prior contract."

Similarly, Harvester has retrenched from an initiative that would have restricted an employee's transfers within a plant to two in a single year. That issue, which was pushed down to local bargaining units, is being resolved rather liberally.

In a tentative agreement with UAW Local 6, which represents some 3,000 workers in Harvester's Melrose Park (Ill.) plant, an employee can bid for a new job every 90 days—although he

Strike-related losses could exceed $350 million. Debt has ballooned 43%

must accept it if it is offered. This would halt only the most flagrant transfer abuses, which are especially prevalent among bored young workers. "Our people will continue to control their own destiny," contends Robert H. Tinker, president of Local 6.

Harvester is not yet ready to discuss its progress in current negotiations or the impact of its compromises until several remaining issues are settled and a contract ratified. At the central bargaining table, negotiators may still haggle over UAW work-rule prerogatives in new Harvester plants and the reassignment of piece-rate employees to other duties after they finish their regular work.

Meanwhile, Harvester is making plans to gear up its factories as quickly as possible following a settlement. But the company will have a difficult chore of recapturing market share during a period of slack demand in all three of its major lines. Competitors have been benefiting from Harvester's low inventories. Deere, for instance, has raised its 1980 production schedule for North American farm equipment by 16%, even though, according to market research firm Dataquest Inc., farm equipment demand will be off at least several percentage points this year.

Harvester will also have the formidable task of putting its balance sheet back in shape at a time when it is trying to catch up with competitors' larger capital investment programs. Says analyst Lustgarten: "It's not a company you'd want to own in a credit crunch." ■

RESOURCES

A respite for zooming oil prices

The Mar. 25 announcement by Saudi Oil Minister Ahmed Zaki Yamani that Saudi Arabia will maintain production at a high, 9.5 million-bbl.-per-day rate for another quarter should assure a soft oil market worldwide and stable prices through the summer—barring a political blowup in the Middle East. Recently announced cuts of around 1 million bbl. per day by other oil-producing countries will prevent major erosion of existing contract prices but will not provoke another price flare-up, at least in the near term, most market analysts believe.

Consuming countries, led by the U. S., can share credit with Saudi Arabia for this return to market stability. U. S. gasoline demand is running 7% below last year's levels, and U. S. crude oil use is off more than 10%. Most government projections show total Western and Japanese oil demand dropping in 1980 by around 1 million bbl. per day even without a major recession. Stocks are high and available production exceeds consumption by an estimated 2 million bbl. per day.

Selective buying. In response to this falling demand and the Saudi willingness to keep production up, the market is finally losing its prolonged case of the jitters. "Before, people were buying everything," says Theodore R. Eck, chief economist for Standard Oil Co. (Indiana). "Now, they're getting very selective. This won't mean the price will stop rising, but it will mean an end to rapidly escalating average world crude prices."

While most market analysts agree that contract prices will hold firm, there are rumors of discounting and the effective price for oil is already falling because of a drastic shrinkage in volumes being sold at prices above contract levels. Spot prices are still $4 to $8 per bbl. higher than contract, but *Petroleum Intelligence Weekly*, an oil market newsletter, calculates that only 700,000 bbl.

How slack oil demand doomed a Texas port

The Texas Deepwater Port Authority has decided to cut back its operations, effectively killing a proposed $1.2 billion superport 27 mi. off the coast from Freeport, Tex. The decision makes the Louisiana Offshore Oil Port (LOOP) the only U. S. facility that will be able to handle supertankers directly.

The Texas port was proposed in December, 1975, as a way to handle imported oil cargoes from very large crude carriers (VLCCs)—ships that can handle as much as 550,000 deadweight tons. A consortium of oil companies, known as Seadock Inc., applied for a license to build a facility that would be capable of handling 2.5 million bbl. of oil daily.

SALES
Heavy only

DEPT. OF COMMERCE
REPORT.

o Heavy-duty truck retail sales for Class 7 and 8 trucks (26000 lbs. gross vehicular weight (GVW) and over) this year are forecasted to total 179000 [redacted] units. This is a drop of 20.0 percent from the 222,698 units sold last year. Manufacturers of heavy-duty trucks predict a meager real ANNUAL growth rate of only 2.0 percent or less in the next ten years, with a turnabout in retail trade starting in the second quarter of next year.

o The reasons for pessimism in the outlook for heavy-duty truck retail sales are:

--Current high interest RATES, if continuing through the first quarter in 1981, could stymie prospects of a turnaround in the business.

--Overcapacity has been a problem for the heavy-duty truck producers. Even with truck assemblers; namely Chrysler, Diamond Reo, and Brockway disappearing from the heavy-duty rig trade after the 1975 recession, most truck manufacturing facilities have operated at half capacity for most of this year.

--Heavy-duty truck production costs are going up and profit margins are going down. This will inhibit the building of modern and efficient manufacturing facilities needed in introducing new fuel-efficient trucks. Paccar Incorporated, assemblers of Kenworth and Peterbilt heavy-duty trucks, is the only heavy-duty rig producer to show a profit ($64.8 million) for the first nine months of 1980. Mack Trucks Incorporated, a company whose size and production output is comparable to Paccar Incorporated, lost $12.3 million for the same period this year. Mack is also closing and selling its assembly plant in Hayward, California by the end of this year. This move would permanently lay-off 700 employees and transfer Mack's Cruiseliner and Super-liner assembly to the company's main assembly facility in Allentown, Pennsylvania.

International Harvester, historically the number one producer of heavy-duty trucks, lost $397.3 MILLION [redacted] for the [redacted] year ended DECEMBER [redacted] 31. The 172-day strike last year and the recession this year has hurt the company, and this will not help the company's plunging credit ratings. The company has total short and long-term debt of $2.1 billion dollars and $1.8 billion in equity as of the end of DECEMBER [redacted] 31, 1980. White Motor Corporation, producer of White heavy-duty trucks, lost $46.8 million in the first six months of this year, and is already in Chapter II bankruptcy proceedings. White's heavy-duty truck market share has been tumbling from 20.0 percent in the 1960's, to 5.7 percent in 1979 and to 4.5 percent in the first nine months of this year. General Motors, Ford and Freightliner do not break out earnings from truck operations. However, industry analysts feel that these companies suffered losses in the same magnitudes as the other truck manufacturing companies.

- Industry analysts predict that the U.S. heavy-duty truck market will test the efficiency and marketing ability of the "smaller independents" like Mack, Paccar, Freightliner, and White, against the financial clout of the big three heavy-duty rig producers; namely General Motors, Ford and International Harvester. It is feared that, if the economy remains sluggish with high interest rates for most of next year, some companies will follow White in a Chapter II bankruptcy process.

Robert V. Coleman
Eddie G. Japzon
566-7419

TOTAL NEW TRUCK RETAIL SALES AND STOCKS
BY GVW
GROUPS & BODY TYPE

NOV /80

	IH	INDUSTRY TOTAL
		3449
		195
1500 1 - 14,000		2,234
14,001 - 16,000		
16,001 - 19,500		83,910
19501 - 26,000 lbs	15,985	54,594
26,001 - 33,000	20,304	109,470
33,000 - over	21,120	

MOODY'S INDUSTRIAL HANDBOOK
S & POORS INDEX -
Profitability

…igation indicate that other major purchases of Royal stock will be identified at the hearings. Said one source, "The hearings are going to open a whole can of worms."

Chief among these, observers believe, is lax takeover and insider rules in Canada. As a result of the Campeau bid, the commission last month tightened insider-disclosure requirements during takeover bids. More rule-tightening seems likely, though legal experts doubt the commission will set limits to management's ability to fight an unfriendly takeover. However, the agency could force directors of an acquisition candidate to disclose more information about how the company intends to fight the bid.

"Takeover fights are always dirty," noted one source close to the Campeau bid. "But I'm skeptical that Royal went about its defense in the most ethical way possible."

Whether enough information is disclosed at the hearings to prompt a shareholder suit against Royal isn't known. Trust industry analysts believe that most "seasoned" investors probably sold their Royal shares into the market during the bid to avoid a share price fall if Campeau failed.

Phil Anisman, a Toronto securities lawyer, said that if Royal is shown to have violated securities laws, "the damage to the reputation" of the 80-year trust company, with ties to Canada's earliest financiers and industrialists, will be the most serious aspect of the hearings.

Campeau's executive vice president, William Carroll, wouldn't comment on the company's plans regarding Royal. After the bid failed, Campeau privately purchased an 8.3% interest in the trust company. "We'll just have to wait to see the results of the hearing," he said.

Seven Are Disciplined After Inquiry by U.S. About Abscam Leaks

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — The Justice Department's $500,000 investigation into leaks about Abscam has led to disciplinary action against seven employes but has failed to pinpoint who originally disclosed the undercover operation, officials said.

The department announced disciplinary steps against two prosecutors and five agents of the Federal Bureau of Investigation. They were charged with disclosing or confirming details of three investigations: Abscam and Brilab, both undercover probes of official corruption; and Pendorf, a secret investigation of Teamsters union pension funds and organized crime.

Attorney General Benjamin Civiletti ordered the broad investigation last February soon after major leaks about Abscam were followed by less detailed disclosures in the other cases. Mr. Civiletti conceded yesterday that despite the department's investigation, which included lie-detector tests, he wasn't "at all certain who the first leakers (of Abscam) were."

The highest ranking officials disciplined were Oliver Revell, assistant director of the FBI, for discussing Brilab, and Peter Vaira, U.S. attorney for the eastern district of Pennsylvania, for confirming information on Abscam. Both got the lightest penalty available, a letter of censure.

…boycotting countries, the Commerce Department said. The agency said that Raytheon claimed it relied on misleading information from a U.S. official concerning the effective date of the regulations.

The Commerce Department indicated it had investigated Raytheon's program for complying with the antiboycott regulations and found them adequate.

In agreeing to pay the penalty, Raytheon neither admitted nor denied any wrongdoing.

Harvester Co. Slices 20% From Salaries Of 26 Top Officers

By a WALL STREET JOURNAL *Staff Reporter*

CHICAGO—International Harvester Co. said that effective Jan. 1 it cut the salaries of 26 corporate officers by 20%, and put a freeze on the salaries of about 30,000 other office employes "for an indefinite period."

A spokesman for the farm and construction equipment maker wouldn't say how much the company hoped to save with the measures, but he said they are efforts "to bring costs under maximum control during a period of high interest rates, lower demand from the industries Harvester serves, and increased debt load."

Financially troubled Harvester, which reported a deficit of nearly $400 million in fiscal 1980, ended Oct. 31, has been looking for ways to save cash. On Dec. 18, Harvester slashed its quarterly dividend by more than 50%.

The Harvester spokesman said that the salary of Harvester chairman and chief executive officer, Archie R. McCardell, was among those cut. In the Feb. 21, 1980, proxy statement, Harvester listed Mr. McCardell's annual remuneration from salaries, fees, commissions and bonuses as $845,404, but the spokesman said Mr. McCardell's base salary was below that figure.

In November, Harvester's directors forgave a $1.8 million loan to Mr. McCardell as part of the original employment agreement offered when he came to Harvester from Xerox Corp. in 1977.

Harvester's hourly wage workers won't be affected by the decisions, the spokesman said. A few salaried employes also won't be affected because their salaries must be increased because of legal or contractural obligations, Harvester said.

Analysts weren't surprised by the announcement. "It's just another cash conservation action," said Thomas Corkill, an analyst with Blunt, Ellis & Loewi Inc. in Chicago.

Wall Street Journal
1/15/81

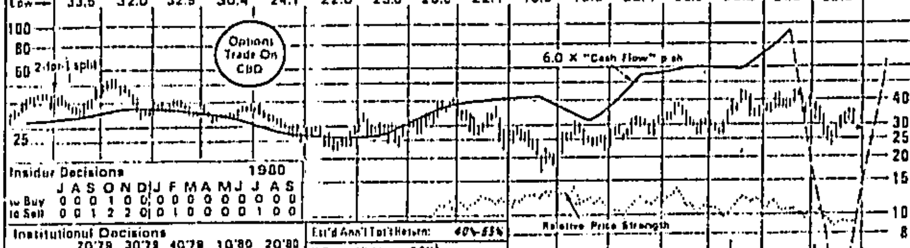
POOR COPY

VALUE LINE FOR → 11/28/80 VL

INT'L HARVESTER NYSE-HR

RECENT PRICE **28** | P/E RATIO **5.5** (Norm 8.0; Trail'g NMF) | DIV'D YIELD **8.9-4.5%** (Norm 3.4%; Trail'g 8.9%) | 1438

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
High	47.1	52.9	41.0	38.8	38.0	29.4	33.9	40.5	39.0	29.3	30.5	33.0	37.8	44.9	45.5	39.4	
Low	33.5	32.0	32.9	30.4	24.1	22.0	23.0	20.8	22.1	16.8	18.8	22.4	26.0	26.3	34.6	23.0	



1982	1983	1984	1985

TIMELINESS (Relative Price Performance Next 12 Mos.) **4** Below Average

SAFETY (Scale: 1 Highest to 5 Lowest) **3** Average

BETA 1.15

Nov. 28, 1980 Value Line

Insider Decisions

1980	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	1	0	0	0	0	0	0	0	0	0	0	
to Sell	0	0	1	2	2	0	0	1	0	0	0	0	1	0	0

Institutional Decisions

	2Q'79	3Q'79	4Q'79	1Q'80	2Q'80
to Buy	43	42	40	28	20
to Sell	33	46	39	55	30
Hldg's(000)	5675	6731	6252	5485	5390

Est'd Ann'l Tot'l Return: 40%-53%
% Due to Yield: 8%
% Due to Growth: 7.1% } 16%-18%
% Due to P/E Change: 24%-35%

Percent shares traded 6.0 4.0 2.0

1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	© Arnold Bernhard & Co., Inc.	83-85
77.50	82.68	91.57	90.48	90.71	95.76	99.45	110.48	127.93	150.83	178.65	188.73	193.39	204.93	222.49	272.77	*201.40*	*238.50*	(A) Sales per sh	[illegible]
5.37	5.67	6.37	6.00	5.46	4.53	4.38	4.39	6.02	6.64	6.96	5.37	9.13	10.04	9.77	15.97	*d7.90*	*11.00*	"Cash Flow" per sh	[illegible]
3.39	3.46	3.86	3.31	2.69	2.30	1.92	1.65	3.17	3.86	4.24	2.48	6.02	6.92	6.14	12.01	*d12.50*	*6.00*	(B) Earnings per sh	[illegible]
1.40	1.50	1.80	1.80	1.80	1.80	1.80	1.60	1.40	1.50	1.60	1.70	1.70	1.85	2.10	2.35	2.50	*2.50*	(C) Div'ds Decl'd per sh ■	[illegible]
2.85	4.26	3.52	3.33	3.64	3.58	3.25	2.30	2.24	3.83	6.50	6.23	5.93	5.62	7.02	9.26	*11.05*	*15.40*	Cap'l Spending per sh	[illegible]
36.25	36.16	38.78	40.45	41.48	41.70	42.06	42.10	43.87	46.21	49.08	50.14	53.94	57.75	60.97	69.85	*53.75*	*57.00*	Tangible Book Value sh	[illegible]
28.76	26.26	28.21	28.09	28.00	27.70	27.27	27.30	27.31	27.80	27.80	27.80	28.38	29.16	29.95	30.77	*31.65*	*32.50*	(D) Common Shs Outst'g	[illegible]
10.6	11.1	11.5	11.3	12.5	14.0	13.2	17.3	10.0	8.5	5.7	9.8	4.5	4.6	5.5	3.2	*NMF*		Avg Ann'l P/E Ratio	[illegible]
3.9%	3.9%	4.1%	4.8%	5.3%	5.6%	7.1%	5.6%	4.4%	4.6%	6.6%	7.0%	6.3%	5.8%	6.3%	6.1%	7.9%		Avg Ann'l Div'd Yield	[illegible]

CAPITAL STRUCTURE as of 7/31/80
Total Debt $2676 mill. Due in 5 Yrs $2000 mill.
LT Debt $1254 mill. LT Interest $130 mill.
Incl. $51.0 mill. capitalized leases.
(Interest not earned) (42% of Cap'l)

Leases, Uncapitalized Annual rentals $33.4 mill.

Pension Liability $910 mill. in '79 vs $950 mill. in '78

Pfd Stock $50.0 mill. Pfd Div'd $5.0 mill.
500,000 shs. $10 cum., callable $110, sinking fund begins 1/15/81 at $100.
(2% of Cap'l)

Common Stock 31,436,465 shares (56% of Cap'l)

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981		83-85
2711.5	3016.3	3493.3	4192.5	4965.9	5246.0	5488.1	5975.1	6664.4	8392.0	*6375*	*7750*	(A) Sales ($mill)	[illegible]
7.9%	6.6%	7.1%	7.5%	7.6%	7.9%	8.8%	9.1%	9.8%	10.0%	*NMF*	*9.5%*	Operating Margin	[illegible]
66.9	74.8	77.7	77.7	75.5	80.3	90.1	94.1	111.0	126.8	*130*	*165*	Depreciation ($mill)	[illegible]
52.4	45.2	86.6	106.9	117.9	71.3	174.1	203.7	186.7	369.6	*d385*	*215*	Net Profit ($mill)	[illegible]
40.7%	35.0%	33.7%	25.5%	35.9%	34.0%	35.5%	36.7%	31.4%	23.9%	*NMF*	*19.0%*	Income Tax Rate	[illegible]
1.9%	1.5%	2.5%	2.5%	2.4%	1.4%	3.2%	3.4%	2.8%	4.4%	*NMF*	*2.8%*	Net Profit Margin	[illegible]
765.5	791.8	845.3	888.7	947.3	1214.9	1223.8	1276.2	1209.6	1392.5	*1100*	*1200*	Working Cap'l ($mill)	[illegible]
402.2	431.3	465.1	497.0	625.3	938.2	922.9	926.4	932.5	948.2	*1350*	*1750*	Long-Term Debt ($mill)	[illegible]
1146.8	1149.5	1198.0	1284.6	1364.2	1443.9	1580.8	1733.8	1876.2	2199.1	*1900*	*2050*	Net Worth ($mill)	[illegible]
4.2%	3.7%	6.1%	6.9%	6.9%	4.3%	8.4%	9.0%	8.0%	13.0%	*NMF*	*7.5%*	% Earned Total Cap'l	[illegible]
4.6%	3.9%	7.2%	8.3%	8.6%	4.9%	11.0%	11.6%	10.0%	16.8%	*NMF*	*10.5%*	% Earned Net Worth	[illegible]
.3%	.1%	4.0%	5.1%	5.4%	1.6%	7.9%	8.6%	6.5%	13.6%	*NMF*	*6.0%*	% Retained to Comm Eq	[illegible]
94%	97%	44%	39%	38%	70%	30%	29%	36%	21%	*NMF*	*48%*	% All Div'ds to Net Prof	[illegible]

CURRENT POSITION ($mill.)	1978	1979	7/31/80
Cash Assets	27.3	25.2	20.8
Receivables	682.6	805.5	841.6
Inventory (LIFO)	1892.9	2342.9	2727.2
Other	45.9	92.2	181.4
Current Assets	2648.7	3265.8	3760.1
Accts Payable	609.9	943.6	909.1
Debt Due	379.7	442.0	1422.3
Other	449.3	487.7	607.6
Current Liab.	1438.9	1873.3	2939.0

ANNUAL RATES of change (per sh)	Past 10 Yrs	Past 5 Yrs	Est '77-'79 (F) to '83-'85
Sales	9.5%	9.0%	*5.0%*
"Cash Flow"	8.5%	13.0%	*9.0%*
Earnings	11.5%	17.5%	*7.5%*
Dividends	1.5%	7.0%	*11.5%*
Book Value	4.5%	6.5%	*3.5%*

Fiscal Year Ends	QUARTERLY SALES ($ mill.) Jan. 31	Apr. 30	July 31	Oct. 31	(A) Full Fiscal Year
1977	1209	1563	1490	1711	5975
1978	1191	1702	1689	2080	6664
1979	1609	2205	2082	2494	8392
1980	1008	1160	1823	*2384*	*6375*
1981	*1300*	*1800*	*2050*	*2600*	*7750*

Fiscal Year Ends	EARNINGS PER SHARE Jan. 31	Apr. 30	July 31	Oct. 31	(A) Full Fiscal Year
1977	.84	1.97	1.51	2.60	6.92
1978	.32	2.24	1.17	(E)2.41	6.14
1979	1.91	3.12	2.19	4.79	12.01
1980	d7.24	d8.32	2.01	*1.05*	*d12.50*
1981	*.75*	*1.25*	*1.75*	*2.25*	*6.00*

Calendar	QUARTERLY DIVIDENDS PAID ■ Mar. 31	June 30	Sept. 30	Dec. 31	(C) Full Year
1976	.425	.425	.425	.425	1.70
1977	.462	.462	.462	.462	1.85
1978	.525	.525	.525	.525	2.10
1979	.575	.575	.575	.625	2.35
1980	.625	.625	.625	.625	

BUSINESS: International Harvester Co., one of the two largest agricultural equipment manufacturers and a leading producer of trucks and construction equipment, also manufactures gas turbines, steel bars, and lawn and garden equipment. Trade names include: *McCormick, Cadet, Paystar, Loadstar, Transtar,* and *Solar.* 73% of sales generated in U.S. Subsidiaries in 10 countries. '79 deprec. rate: 6.2%. Est'd plant age: 8 yrs. Wage costs: 31% of sales. Has 97,700 employees; 128,500 stockholders. Directors control 1.3% of stock. Chrmn. & C.E.O.: Archie R. McCardell. Pres.: Warren J. Hayford. Inc.: Del. Address: 401 N. Michigan Ave., Chicago, Illinois 60611.

A long strike proved very costly. On November 1st, 1979, some 35,000 Harvester employees walked off the job. The strike lasted nearly six months. Although IH won some givebacks from the union, the gains don't appear worth the resultant monetary losses.

Harvester had some special expenses, too. In the April quarter, the company charged off $27.7 million net, to cover losses resulting from the bankruptcy of Wisconsin Steel. That former subsidiary had been sold subject to IH guarantees. A $62.1 million charge, also made in the second period, covered the proposed sale of the *Scout* utility vehicle line and the phaseout of the industrial wheel tractor line. These charges totaled $2.90 a share. If the sale of the *Scout* line fails to materialize, as seems likely, a further writeoff of about $5 million will probably occur in the fourth quarter.

Meanwhile, a soft economy has retarded the expected snapback. We anticipated that pentup demand, after the long strikes, would permit a very profitable second half. But backlogs eroded fast in the absence of new orders. We now estimate that trucks won't register a significant pickup until late fiscal 1981 (ending Oct. 31, 1981) and we're not optimistic for construction equipment. The agricultural machinery division is headed for a better year, however, thanks to the substantial improvement in farm income we anticipate. Gains in the agricultural machinery division coupled with the absence of the strike are likely to permit a partial earnings recovery from the disaster of fiscal 1980.

Some convertible preferred was sold in mid-October to strengthen weakened finances. The issue comprises $150 million of preferred with a dividend totaling $17.3 million and convertible into 4 million common shares.

It may take a while for this company to get its act together. So stockholders may have to be patient. The stock has an attractive yield, but the dividend won't be entirely safe until finances improve. Aggressive efforts to raise profitability should pay off by 1983-85, giving this stock wide 3- to 5-year appreciation potential.

M.L.S./H.S.E.

Sales by Business Line

	1980	1976	1977	1978	1979
Trucks	3X0	2310	2701	3211	3910
Agricultural Equip.	[illegible]	2282	2335	2348	3003
Constr/Indus.	[illegible]	685	731	852	1000
Turbo Machinery	250	247	208	253	357
Company Total	[illegible]	5488	5975	6664	8392

(A) Fiscal year ends Oct. 31 of calendar year. (B) Based on avg. shs. Excl. extraord. gains: '73, 27¢; '74, 22¢; '75, 29¢. Next egs. rep't due late Dec. (C) Next div'd meet'g about Dec. 20. Goes ex about Dec. 24. Div'd paym't dates: Jan. 15, Apr. 15, July 15, Oct. 15. ■ Div'd reinvest. plan av'ble. (D) In mill., adj. for stock splits & div'ds. (E) Qtrly. egs. restated for change to LIFO. (F) Fully diluted in 3 to 5 yrs.

Company's Financial Strength B++
Stock's Price Stability 65
Price Growth Persistence 75
Earnings Predictability 20

POOR COPY

12/26/80

4Q earnings 64¢/sh
far below year ago 4.79.
Hi int rates not only costly
to IH which has lots of
rate-pegged debt O/S,
but reduce rev. by
discouraging buyers.
[VL] Trimmed est. for FY81 to 5.00/sh
& expect stock to underperform
the mkt over the year to come,

237

434
492 } 1012
566
1130

Moody's Bond Survey
Cum Pref Stock B
"b= ~~lacks char of desirable invest. assurance of div pymts & maint of other terms of the issue over any long per of time may be small.~~

10/13 $150 mill 3,000 sh Cum conv Pfd Series C ba
10/13 $100 mill 1,000 sh Cum Pfd. Series B ba

ba - considered to have spec. elements
& its future cannot be considered well
assured. Earnings & asset protection
may be very moderate & not well safeguarded
during adverse periods
Uncertainty of position

(Value Line Reports)

A strapped consumer and high interest rates have kept industry volume weak.

Sales may remain depressed in the new year, although modestly above those of 1980.

A small amount of black ink might return in the current year.

These stocks are best suited for investors willing to take the long view.

Consolidated Financial Report & Forcast of 8 Auto & Truck Companies							
1976	1977	1978	1979	1980	1981	© Arnold Bernhard & Co., Inc.	83-85E
100.0	119.2	130.7	134.7	*114.0*	*147.0*	Sales ($bill)	*205.0*
9.4%	9.6%	9.0%	6.0%	*NMF*	*4.0%*	Operating Margin	*7.5%*
1.8	1.9	2.2	2.5	*3.8*	*4.0*	Depreciation ($bill)	*5.0*
4.3	5.4	5.2	3.5	*d4.3*	*1.1*	Net Profit ($bill)	*6.2*
45.6%	46.0%	46.0%	44.7%	*NMF*	*40.0%*	Income Tax Rate	*44.0%*
4.4%	4.5%	4.0%	2.6%	*NMF*	*.7%*	Net Profit Margin	*3.0%*
12.1	13.2	13.8	10.8	*6.0*	*6.9*	Working Cap'l ($bill)	*18.0*
4.5	4.7	4.4	4.2	*8.3*	*13.5*	Long-Term Debt ($bill)	*21.0*
26.1	29.1	32.4	34.1	*28.9*	*29.7*	Net Worth ($bill)	*40.0*
14.8%	16.5%	14.7%	9.5%	*NMF*	*4.0%*	% Earned Total Cap'l	*12.0%*
16.6%	18.5%	16.2%	10.1%	*NMF*	*3.5%*	% Earned Net Worth	*15.5%*
9.3%	10.2%	9.3%	3.9%	*NMF*	*.6%*	% Retained to Comm Eq	*9.5%*
45%	45%	44%	62%	*NMF*	*83%*	% All Div'ds to Net Prof	*39%*
6.3	5.1	4.8	7.1	Bold figures are VL estimates		Avg Ann'l P/E Ratio	*9.5*
7.0%	8.9%	9.0%	8.6%			Avg Ann'l Div'd Yield	*4.5%*

What Recovery?

The recession, high interest rates, and credit controls took a heavy toll on total auto sales last spring and summer. The absence of controls, lower rates, and signs of a reviving economy led many observers to expect a much better showing with the arrival of the 1981 model year last October 1st. Comparatively speaking, there was, indeed, some improvement in October and November (Table 1).

3

Table 1 Year-to-Year Change in U.S. Auto Sales (Including Imports)

Jan. '80	+2.9%	May '80	−33.9%	Sept. '80	−25.5%
Feb.	−3.6	June	−22.5	Oct.	− 5.6
Mar.	−19.8	July	−12.8	Nov.	− 9.6
Apr.	−24.8	Aug.	−12.8	11 mos.	−16.1

Source: Ward's Automotive Reports

Total volume declined to a lesser extent than in most previous months. But a smaller decline is hardly grounds for rejoicing. The performance is even less impressive when we recall that those comparisons were with depressed periods a year ago. (Total sales in October and November 1979 were down about 13% and 15%, respectively, from a year earlier.)

In addition to greater volume, many believed that the 1981 model year would mark the beginning of Detroit's comeback vs. the imports. The spot shortages and rising prices of fuel that began in the spring of 1979 following the Iran upheaval abruptly shifted the public's interest to fuel-efficient cars. Such models were in short supply from the domestic automakers. The major beneficiaries were the foreign producers, principally the Japanese, which together account for about 80% of imported cars. It takes time to develop new models. But at the beginning of the current model year, both *Ford* and *Chrysler* had new, gas-stingy models. Together with the continuing popularity of *GM's* compacts introduced over a year ago, the new cars were supposed to have stemmed the import tide. Thus far, though, their success in this regard has not been notable. Table 2 shows that the import share has, indeed, declined slightly from the record levels of last summer, but penetration remains above the level of a year ago, despite more U.S.-made small cars.

2

Table 2 Import Share of U.S. Auto Sales

Jan. '80	27.0%	May '80	28.4%	Sept. '80	27.6%
Feb.	27.2	June	27.2	Oct.	21.6
Mar.	25.1	July	29.8	Nov.	24.2
Apr.	27.2	Aug.	29.0	11 mos.	26.7

Source: Ward's Automotive Reports

The Reason Why

Weak sales reflect the fact that consumer budgets remain under pressure, as will be discussed further below. The pressure is intensified by the credit and interest rate situation. Most buyers require credit to buy a high-ticket item such as an automobile. Record high interest rates make this borrowing very expensive, increasing the effective cost of a new car enough to put it out of the range of some would-be buyers. Another effect of the high rates is to dry up the supply of credit. Interest rate ceilings in many states prevented some lenders, especially the banks, from charging auto loan rates that reflected the lender's cost of funds. The result: Many lenders stopped granting auto loans.

The continuing high import penetration, we think, was due in part to the relatively high prices the domestic producers put on their small cars, making them more expensive than imports in some cases. We also suspect that Detroit has an image problem. Many consumers are pleased with the larger cars made in the U.S., but they typically perceive the imports as the best values when it comes to fuel-efficient small cars. The current and planned small models from Detroit might alter the view, but it often takes a long time to change an image.

Trucks

The situation appears worse for trucks (Table 3).

Table 3 Truck Sales

	Yr-to-Yr Change	Import Share		Yr-to-Yr Change	Import Share
Jan. '80	−19.8%	10.4%	Jul. '80	−16.1%	11.4%
Feb.	−26.0	11.9	Aug.	−31.6	12.7
Mar.	−33.2	9.8	Sept.	−32.0	12.6
Apr.	−35.7	10.4	Oct.	−34.3	7.5
May	−32.4	10.6	Nov.	−29.4	8.4
June	−17.3	8.8	11 mos.	−28.8	10.4

Source: Ward's Automotive Reports

The declines from a year ago in November and December were of about the same magnitude as in the worst of the slump last spring. The only bright spot is that the import share of this market has declined from its December peak. This was due to higher tariffs on foreign trucks imposed last August. Trucks now have less interest as second cars and recreation vehicles in view of the current fuel situation and the relatively low mileage these vehicles provide. And the cost and availability of credit is even more of a factor because of the higher prices of these vehicles versus cars.

What's To Come?

The public's buying power, in our view, is not going to blossom any time soon. Tables 4 and 5 show what's happening here.

Table 4 Year-to-Year Increase (Decline) in Number of Persons Employed

Dec. '79	2.2%	Apr. '80	1.7%	Aug. '80	— —
Jan. '80	2.4	May	.9	Sept.	(.3)%
Feb.	2.0	June	.1	Oct.	(.5)
Mar.	1.5	July	(.4)	Nov.	(.4)

Source: U.S. Dept. of Labor

Table 5 Average Spendable Weekly Earnings (1967 dollars)

Nov. '79	$87.44	Mar. '80	$84.35	July '80	$82.78
Dec.	87.17	Apr.	83.68	Aug.	83.31
Jan. '80	85.97	May	82.89	Sept.	83.32
Feb.	85.06	June	82.48	Oct.	82.92

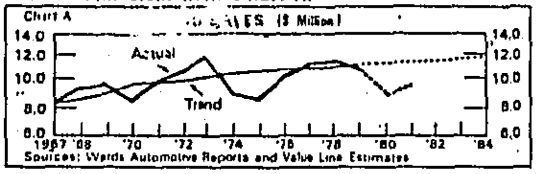
Source: U.S. Dept. of Labor

Total employment has dropped from the year-earlier level in recent months in contrast to gains in late 1979 and early 1980. And the purchasing power of the average worker's take-home pay has dropped about 5% from a year ago despite rising nominal wages. The causes: Inflation, higher social security taxes, and the ratchet effect of the income tax. With the economy likely to remain sluggish for a while, and inflation likely to remain troublesome, we don't envision any early upturn in either of these measures of purchasing power. Fewer workers with lower

(Continued on next page)

(Continued from preceding page).
real incomes suggest that consumers will remain cautious in their spending habits.

But the picture isn't all bad. For one thing, the need for autos seems clear from Chart A.



Sources: Wards Automotive Reports and Value Line Estimates

"Trend" demand is that level of sales that might be expected due to the replacement of cars that are wearing out (usually about 80% of sales) and to provide for the modest growth in the fleet of vehicles in use arising from new households, multicar families, working wives, etc. Despite the sharp rise in the cost of fuel since early 1979, auto usage (that is, miles driven) is now only slightly below what it was before fuel prices zoomed. For most of the year following the Iranian troubles, usage fell significantly, but it has recovered somewhat in recent months when prices stabilized. This means that cars continue to wear out, providing potential demand that must eventually be satisfied. Indeed, the desire for fuel economy might speed up the replacement cycle. Economic conditions will probably keep demand below "trend" for a while longer, but the record suggests that volume eventually returns to that level. We think that there might be some movement in that direction later in the new year.

Another factor that might stimulate sales is, believe it or not, the credit situation. The credit controls, which took a heavy toll on this industry last year, will be absent. And in many states, interest rate ceilings have been raised. The auto companies themselves are helping by offering price cuts to subsidize interest costs. And Value Line believes that short term rates will drop a bit before long. Moreover, the typical consumer's debt burden declined a little over the past year (Table 6).

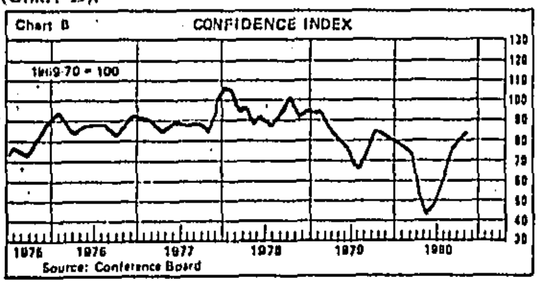
Table 6 — Installment Debt as a Percent of Disposable Income

Sept. '79	18.4%	Jan. '80	17.9%	May '80	17.3%
Oct.	18.3	Feb.	17.8	June	17.1
Nov.	18.3	Mar.	17.6	July	16.8
Dec.	18.3	Apr.	17.5	Aug.	16.8

Source: U.S. Dept. of Commerce

This was due, we think, to the historically high level of debt a year ago, which made both borrowers (and lenders) hesitate to take on (or give) more credit. The Fed's credit controls probably hastened and intensified what would have happened anyway, that is, repayments in excess of new borrowings. As a result, the debt burden at the latest reading was more manageable, if still relatively high by past standards. Accordingly, there is some room in the typical consumer's balance sheet for a little more debt.

The level of consumer confidence might help, too (Chart B).



Source: Conference Board

This is a measure of the average consumer's assessment of his economic well-being. Consumer spending usually moves in tandem (but normally with a lag) with the index since we are more likely to spend if we have fewer worries about our future economic situation. The index plummeted last spring under the influence of [illegible] and inflation rates, a fading economy, and rising unemployment. It recovered thereafter as some of these pressures abated. It seems likely that the index moved down again in the late months of last year as interest rates jumped once again, but we doubt that it returned to the record lows of last spring if only because many believe that the worst of the slump is over and that the new administration will have more success in solving our economic problems.

These conditions lead us to expect a modest recovery in auto and truck demand this year to 9.5 million and 2.7 million units, respectively, up from 8.8 and 2.5 million in 1980. If achieved, our 1981 estimates will still be far below "trend", about 11.0 million cars and 3.5 million trucks. A full recovery is not likely before 1982.

How Will The Pie Be Cut?

A government body has ruled against any import restrictions, so that any gains in Detroit's share will have to be of its own doing. The early returns on *Ford's* and *Chrysler's* newest small car offerings are not impressive, as indicated above. But mighty *GM* will have new front-wheel-drive subcompacts this spring and additional small cars in the fall. We think the result will be a modest decline in the import share, from about 26% in the year just ended to perhaps 22%.

A Little Black Ink May Return

All the U.S. automakers will probably report losses for the final quarter of 1980 and the full year, reflecting low volume, a lean sales mix, and rising operating and interest costs. But if we are right about a modest gain in total vehicle sales, about 8%, and about a lower import share, which might mean a 12% gain in domestic sales, the operating picture will improve. Auto production (equivalent to factory sales) should rise to a greater extent, perhaps 15% or so, in the absence of last year's dealer inventory reductions. With dealer inventories currently much closer to normal than a year ago, factory sales will likely follow the modest rise in retail sales this year.

The volume gain alone is good news for an industry such as this one, where fixed costs are high. In addition, all the automakers have made substantial cost reductions. (Another reason why last year's results were so poor was the one-time costs arising from such moves as plant closings and personnel reductions.) The benefit of these actions should be more evident this year. Marketing expenses might also return to a more normal proportion of sales. Such outlays were unusually high last year in order to dispose of excess stocks. Price increases may offset some of the cost pressures. Lower interest rates, which we expect, will help, too. Despite these factors, the volume

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