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Thank you, John (Castellani). And my thanks to Business Roundtable for sponsoring this event.

As you may know, Business Roundtable focuses on issues that affect the economic well-being of the nation. Today, I'm here to talk about the energy challenges facing our country and how we must rise to those and other manufacturing challenges through American innovation.

It's difficult to conceive of any issue that touches more of our lives than energy. It drives our mobility, our appliances and our choices about how far we can live from our jobs. It affects our environment, our national security and our household budgets. And when the price of gas goes up to \$3 a gallon, as it did just a few months ago, all Americans feel it in their pocketbooks. And from where I sit, as Chairman of Ford Motor Company, it affects the decisions I make every day.

For longer than we had reason to expect, this country has been relatively immune to the violent swings in supply and demand of a finite commodity. I think most of us suspected we were living on borrowed time; the volatility of the past year confirmed it.

When I became CEO, I decided to invest in new products that were more fuel efficient. I believed back then that the days of cheap gasoline were numbered. That led to the creation of the world's first hybrid-electric SUV, the Ford Escape, and inspired our decision to build up to 250,000 hybrids a year by 2010. Our hybrids get up to 500 miles on a tank of gas – eighty percent better fuel economy in the city than its gasoline counterpart. Our drive toward innovation also fueled our renewed commitment to flexible-fuel vehicles, like our ethanol-powered lineup of cars and trucks. We already have more than a million on the road, and we plan to produce another quarter-million in 2006. These vehicles can run on fuel that's grown in the heartland of America.

Both of these innovations have simple objectives: to provide relief to Americans at the pump and to lower our country's dependence on foreign oil.

I believe that as an American company, we have the responsibility to the nation to take these steps. Not just because they will help our bottom line – although they ultimately will – but because it's where our future lies. And if we want to succeed as a company – and as an industry – we must drive innovation into everything we do: into technology, into safety, into design and into real-world solutions for environmental issues, like the impact of energy usage on our world.

This is not a new prescription for success, but the urgency couldn't be any greater. Innovation is always what's made American manufacturing the envy of the world, the engine of ideas, the means by which our nation protects its freedom.

Consider my own company's history. Innovation is what made Ford a leader -- from the Model T, to the assembly line, the \$5 a day wage, flathead V-8, seatbelts and passenger side air bags. Innovation is what created the great Lincoln Continentals, the '49 Ford, the T-Bird, the Mustang, and the best-selling trucks the world has ever seen. It's also what helped us play a vital role in Detroit's Arsenal of Democracy. As you may know, Ford applied its manufacturing prowess to the construction of the B-24 Liberator Bomber at our Willow Run facility.

Beyond the auto industry, going back to our nation's founding, innovation has been the driver behind America's leadership. For nearly a hundred years, from 1850 to World War II, innovation was largely driven by entrepreneurs sensing needs and proposing solutions. The Cold War era ushered in a new dynamic to American innovation: the collaboration between government and business. Look at all that partnership has spurred: the polio vaccine, the Internet, GPS systems, cell phones. The list goes on.

Now, more than ever, with the competitive pressures of globalization, America needs to respond to the economic challenges of our time. This is not the moment to stop investing and concede our competitive edge in vital parts of the economy. Just the opposite, we must take the lead and show the world that there is only one, true innovative manufacturing giant. And it has three distinct initials: U.S.A.

As I said, that's a mandate that we must heed in the domestic auto industry. It's at the core of my decision-making. If we don't get in front on the challenge, if we don't adapt to a changing market and shifts in consumer demand, then, like any business, we deserve to suffer the consequences. However, if we innovate and take the necessary steps, we will succeed as we always have, with the might of America behind us. That's what we've done throughout American history, through the ups and downs of war and tough economic cycles. Our government must view the challenges of this era through the same lens -- and stand by American workers, and American industry as it always has.

On that note, I'm somewhat amused by advertisements I've seen lately from one overseas carmaker bragging about its first new plant in America. That's something Ford did in 1903. And it's something the forerunners to GM and DaimlerChrysler did right around the same time -- and have done hundreds of times since.

Today, despite recent announcements, our domestic auto manufacturers are still the foundation of the auto industry in this country. We still employ nearly 90% of the workers in our industry. We still manufacture 75% of the cars and trucks made in America. We purchase 80% of all U.S. auto parts. And since 1980, we've made more than 85% of the total investments in the U.S. auto industry -- \$175 billion.

Granted, there are foreign automakers who have built plants here in our country -- and I

don't dismiss their contributions. But having a few assembly plants here doesn't necessarily make you American. The average American content of the vehicles sold in America by U.S.-based companies is 80%, compared to 31% for Japanese manufacturers, 5% for European, and 2% for Korean.

U.S. automakers also provide health care benefits to more than two million U.S. employees, retirees, and their families. And we pay more than \$11 billion in pensions each year to 800,000 plus retirees and surviving spouses. To put it simply, we invest in America – and in Americans -- every single day. Plus, our dealers and suppliers are in nearly every community in America.

The fact that American auto making has been a powerful engine for jobs, research, and economic development has not been lost on other nations. They see the great potential. That's why they are investing collaboratively with their domestic auto companies to expand into markets such as ours. Take Japan, for example, where the social costs of labor, such as health care and pensions, are spread across the entire population. The government there has actively helped fund advanced technologies that would offer their businesses a competitive advantage in the future. The hybrid batteries are an example of that. Nearly a decade ago, the government offered subsidies to their domestic auto suppliers to build hybrid batteries, which are one of the most expensive components of today's hybrid vehicles. That gave them a head-start. Today these batteries are in high demand and in short supply. We need to develop the capabilities to build these batteries here in the US -- or we will find ourselves increasingly hostage to foreign components.

That's not to say American businesses have stood pat. Ford, General Motors, and DaimlerChrysler alone invest more than \$16 billion on research and development every year -- more than any other U.S. industry. Some of those efforts led to our own hybrid, which was designed, engineered and built in America. And it led to the nearly 100 new patents inside. That's an example of true American innovation.

Still, we have more work to do, especially in developing a stronger, healthier domestic supplier base.

Like all new inventions, the first few years of any new product are the most cost-intensive and the least-profitable. It takes time to roll-out your products in sufficient volume to recover your costs. And it becomes harder and harder to make those long term investments alone. Just as other countries have found manufacturing important enough to make a priority, this country should as well. It ultimately means more jobs, more tax revenue, and a position of strength and leadership in the world. Japan recognizes what's at stake. So does South Korea. And China. And others are getting in line. They're obviously onto something.

There are some who shrug their shoulders at all this. They say American manufacturing is yesterday's news and that we should rely squarely on the service sector. They say it's okay to be a consumer society and to leave the production to other parts of the world. They say that the only thing that matters is that we get our goods as cheaply as possible –

that we shouldn't worry about the collateral damage.

Well, I'm not convinced.

I believe that with the right investments, America – and the American manufacturing sector – can win. It can maintain its leadership stature in the world. And we can reduce our dependence on foreign oil. All at the same time. But we can't get there alone.

Today, I want to talk about several measures America can take in the short run that I believe will bear fruit for years to come.

First and foremost, we all know that research and development is the lifeblood of manufacturing. But as I said, it's costly and the payoffs are longer-term. That's why I urge Congress to invest in America and dramatically increase the R&D tax credit to more directly support companies working on advanced vehicles, components, and fuel technologies. Technologies like hybrids, ethanol, hydrogen, and clean diesel. This investment would help build a supply base right here in America for critically-needed energy saving fuels.

Second, I'm sure you've read about the turmoil that global competitors have thrust upon domestic auto suppliers. Part of the problem, as you know, is the simple fact that there are too many plants with old technology that's becoming more obsolete with each passing day. That's especially true in light of advanced technologies that are created outside our borders.

I believe there is an opportunity here to convert some of our industry's existing plants so we can build advanced technological vehicles and components. I urge Congress to consider tax incentives to help American manufacturers convert existing -- but outmoded plants -- into high-tech facilities.

Third, converting facilities is only part of the equation. We also need to invest in the American workers who build the products with training programs and incentives to upgrade worker skills. That will help us move into the future while preserving American jobs.

Fourth, building advanced fuel vehicles is essential. But getting Americans into them is equally important. We need to reduce our dependence on foreign oil. Hybrids and ethanol vehicles are the most practical ways to do that right now -- not in the distant future. But hybrids are still more expensive to make than pure gasoline-powered cars. The 2005 Energy Act provides up to \$3,600 in tax credits for Americans who buy hybrids. For example, beginning January 1<sup>st</sup>, our Ford Escape and Mercury Mariner hybrids will be eligible for those consumer tax credits. By encouraging consumer support for a promising new technology, our government is supporting innovation and investing in our nation's future. We should look for other ways to encourage Americans to buy fuel-saving vehicles.

And governments should be leading the way. By 2010, for every need that can be met with a hybrid, governments at all levels should be buying only hybrids or other alternatively fueled cars.

Fifth, I spoke earlier about our ethanol program. The 2005 Energy Act encourages the use of ethanol, in particular the higher content E-85 fuel. It's a great, innovative first step – but it's only a first step.

The U.S. auto industry has produced more than five million flexible fuel vehicles -- but there are only 500 fuel pumps in America. So while we're building vehicles that can handle ethanol, Americans have few places to go and fill up their tank. If we're serious about reducing our dependence on foreign oil, we need to get serious about making ethanol available to customers.

Ford is working with VeraSun and other partners to expand retail ethanol pumps in gas stations around the country. But we can't meet the infrastructure needs by ourselves. All of us, including fuel providers and the government, need to do more to build an infrastructure — so we can go from hundreds of fuel stations to thousands.

Sixth and finally, in September I wrote President Bush a letter suggesting he convene a group of automakers, suppliers, fuel providers and government agencies to address America's energy challenges. Later today, I'm meeting with members of his administration to discuss this idea further. Because now, more than ever, I believe we must take action. If we put our heads together, and keep in mind our shared interest in America's future, I'm confident that we can innovate our way toward the right solutions.

Let me conclude by saying this: Nothing I spoke about today is a partisan issue. It's not Democratic or Republican, red state or blue state. If we make the right investments today, in the right innovations, our country will benefit for generations to come.

This Thanksgiving weekend, as you're driving to visit family and friends, think about the mobility we all take for granted. We all depend on an energy supply that is increasingly scarce and expensive and a world beyond our borders that is filled with unrest. We should all pause and think about what we need to do as a nation to face and overcome these challenges -- and to be thankful for all the blessings that we enjoy.

Thank you, happy Thanksgiving, and I'm glad to take a few questions.