
CNBC
CNBC Reports
June 12, 2009
“Auto Dealer Closings”

Dennis Kneale: Auto dealers have miles to go before they weep, because right now they are still fighting, even as Chrysler and GM slip into Chapter Eleven to free themselves from antiquated state laws forbidding them from axing dealerships. Congress is eager to interfere. Heads of General Motors, Chrysler along with several dealers have endured several Congressional hearings on this. A proposed law would seek to block the troubled car makers from taking the steps they say they need to take to downsize. Tammy Darvish owns something like thirty four dealerships including a Chrysler shop. Peter Flaherty is back, President of the National Legal and Policy Center. And Kevin Smith is with Edmunds dot com. All right Tammy, how did you do on Capital Hill this week? I think you told us that you were heading over to Washington.

Tammy Darvish: We were and we missed you. We thought that you were going to be there. We did really well. You know we introduced our bill it is HR twenty seven forty three and we have as of five or six o'clock PM this evening, over a hundred and twenty three Members of Congress already signed on to cosponsor our bill.

Dennis Kneale: Yeah, and Tammy if you were convinced that what Chrysler needs to do really one of the key things it needs to do to stay alive is to trim its dealer network would you then stop your opposition?

Tammy Darvish: No, I wouldn't because this is the United States of America. This is about Constitutional rights. And I find it very interesting that even Ron Bloom himself this week acknowledged that they just discovered that it was the federal government who forced the auto makers to put the squeeze on the auto dealers and that is not appropriate.

Dennis Kneale: Ok, hey Peter she just talked about Constitutional rights but don't GM and Chrysler have a certain right to trim their dealer networks when they have a need to?

Peter Flaherty: Well, sure, but they didn't do it. The White House did it. And there have been accusations that this was done in an arbitrary and even a political manner. So I think it is important that at this point the White House release the criteria it used to close all these dealerships. Many of them which are very profitable.

Tammy Darvish: I don't think there was any criteria.

Dennis Kneale: So how did they pick Tammy?

Tammy Darvish: You know as he said I think there are a lot of different reasons why and if you sat and listened to the testimony, it is all public, you can go on the internet and read it and see some of the e-mails and the trash that transpired between agents from the

federal government and the auto manufacturers. They should be ashamed of themselves. I told you that last week. I want to know, does President Obama know that his staff is behaving in this unconscionable manner.

Peter Flaherty: Well I think he does.

Tammy Darvish: What is he going to do about it?

Peter Flaherty: Well they have been acting thuggishly and Obama is the top thug. I don't think he is going to do anything about it. This was not a bankruptcy. It was more like securities fraud conducted by the Obama Administration and the United Auto Workers against taxpayers, bond holders and dealers. And that is the process we are dealing with here and that is why it has become so messy.

Dennis Kneale: Let's go to Kevin Smith. Can you split the baby for us here. I mean I just find it hard to believe that there is some sort of dark motive inside the Obama Administration. Let's find a couple dealers we never met and really find a way to destroy their lives. What do you think? How do you balance the needs of the two sides here?

Kevin Smith: Well I am not sure I can because obviously there is some powerful vested interest. From my point of view as I try to be an independent observer. I have to accept a couple of facts. One of which is the business has shrunk dramatically. We were selling sixteen million units a year two years ago. Now, we are down to nine or ten. Obviously we don't need as many car companies. We don't need as many cars. We need to close factories. And it is tragic but this is what is going to happen and I don't really see any way around it. There is probably no good way to do this. Manufacturers will tell you they need fewer healthier dealers. Too many dealerships too close together drive down margins and prices and make it harder to deliver the kind of customer service they want and the kind of brand stewardship they want. I know that this is going to be really painful. It is going to be awful. Just as it is with workers who were laid off white collar or blue collar but I got to feel like this is the direction we are going to have to go.

Peter Flaherty: Well that may be but are we going to toss out contract law? We going to toss out private property rights?

Dennis Kneale: Peter they filed Chapter Eleven. When you file Chapter Eleven you are protected from creditor lawsuits and other legal requirements because you are trying to save your company. Right, when you go into Chapter Eleven.

Peter Flaherty: Except this was a rigged Chapter Eleven. Why did Mac McClarty, Clintons former Chief of Staff have all of his competitors wiped out? There is so many unanswered questions about the way this was conducted. I disagree with Tammy. Somebody had to make the list. I'd like to know who compiled it and what criteria they used to put a dealer on it or keep a dealer off.

Tammy Darvish: Well what right do they even have to even compile a list? We are of no cost to the manufacturer.

Peter Flaherty: That is the point I am making. I think that if they did release the criteria it would be hugely embarrassing to them. That is way I want them to do it. That is probably why they won't do it.

Dennis Kneale: I can't understand Peter, you know, you are the Libertarian. I don't even understand why you think some dealer some place should have a right to demand that I am allowed to keep selling GM cars.

Peter Flaherty: Look when Barney Frank called up Fritz Henderson, the acting CEO of GM, and sought to get a special favor, that was meddling.

Dennis Kneale: That was bad.

Peter Flaherty: That was wrong. Now what we are talking about here is something different. We are talking about the contracts that these dealers had with the auto makers. We are talking about them just being arbitrarily abrogated by the government and people who employ people, people who are making money, people who are pillars of their community just being told you are out of business. What is this, Putin's Russia?

Tammy Darvish: Exactly. It is completely inappropriate. We are independent business people.

Dennis Kneale: Well Tammy keep fighting.

Tammy Darvish: Hey, I will tell you what. There is too much junk food. You going to start closing a bunch of fast food restaurants because there are too many hamburgers?

Peter Flaherty: Don't give them any ideas.

Dennis Kneale: Only if the market dictates it. I have to wrap folks. Tammy, Peter Kevin – thank you very much.