STATEMENT BEFORE THE SUBCOMMITTEE ON MONOPOLIES AND COMMERCIAL LAW OF THE COMMITTEE ON THE JUDICIARY, HOUSE OF REPRESENTATIVES, WASHINGTON, D.C.,

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Mr. Chairman, I am grateful for your invitation to appear here today to participate in this very fundamental debate.

Paul W. Litchfield was C.E.O. of Goodyear during the thirty years of its greatest prosperity and growth. He defined Goodyear's job quite clearly. It was, he said, “to build better tires, cheaper and sell them harder.”

The current management of Goodyear forgot Mr. Litchfield's lesson. It strayed into industries about which it knew nothing, jeopardizing the very heart of Goodyear's business and the security of all those associated with it.

Let me give you an example. In 1983, Goodyear acquired Celeron Corporation. Celeron operated natural gas transmission systems and also owned oil and gas assets. The price paid was 828 million plus assumption of debt of $160 million, making trotal of nearly $ 1 billion. This diversification is a dramatic illustration of what happens when management gets involved with things that it knows nothing about. So it is worthy of analysis:

1) The acquisition of Celeron was announced in February 1983. The average acquisition cost of crude oil has never since exceeded the price of that very month. According to the Department of Energy, the cost was $ 29.16 per barrel in February 1983. It has dropped to $ 13 .06 per barrel in the second quarter of 1986, the most recent period reported.

2) In June 1983 Goodyear announced that it would build a new 300,000 barrel per day transcontinental pipeline going from California to Texas. This was by far the most expensive capital project in Goodyear's history. For Goodyear to build a major transcontinental pipeline was as ill considered as it would be for an oil company to build a major tire factory. Business Week, on November 28, 1983, commented “Goodyear's proposal is regarded skeptically, in part because previous attempts by Standard Oil of Ohio and Getty Oil to build West to East pipelines on a similar scale flopped.”

The size and complexity of this undertaking was so great that normal industry practice would have required that the project be syndicated and that steps be taken beforehand to ensure that, on completion, sufficient oil would be available to enable the pipeline to operate profitably. As far as we are aware, no such precaution was taken.

On June 23, 1983, when the pipeline project was made public, the announcement said “the pipeline is expected to cost more than $ 600 million”. By November 1983, the estimated figure was quoted as $ 700 million. On December'S, 1983, Reuters quoted the probable cost at between $ 700 million and $ 800 million. On April 11, 1984, the New York Times quoted $ 900 million. In March 1986, in the company's 10K filing with the S.E.C., a figure is given of $ 890 million plus capitalized interest. Interest is probably about $ 100 million, making a total of about $ 1 billion.

In any case, the project is not complete and has been delayed because of environmental problems in Texas. Furthermore, as a result of the fall in oil prices, there has been less exploration and development of oil reserves in California. That means less oil to ship from California to Texas. So now we don't know whether there is enough oil for the pipeline to operate profitably for years.

3) In December 1985 Goodyear went in still deeper and purchased further oil and gas properties for $ 480 million. This time it was only weeks before oil prices collapsed. So far Goodyear has recognized a pretax loss of $ 214 million on its oil and gas reserves.

Perhaps Goodyear could afford to squander hundred of millions of shareholders' money. What it could not afford was to cease concentrating on its real business which, as Litchfield had stated, was “to build better tires, cheaper and sell them harder.” Instead Mr. Mercer stated with pride that the acquisition of Celeron would make Goodyear “up to 44 % non-automotive”

That is how management lost its way. The approximately two billion dollars spent in the oil and gas business should have been invested to build the most modern, state of the art, frontier breaking industrial infrastructure to produce better tires, cheaper, and to ensure that Goodyear's operations could compete with anything, including imports, no matter their origin.

Instead the market share for imported tires rose from 12 % in 1982 to 24 % in 1985 in the replacement tire market. We all know that Goodyear has the market share, technological leadership, brand strength, distribution network and management depth needed, not only to compete in the U.S. against imported tires, but to dominate them worldwide. But to do so management must concentrate on the core business and not try to escape from it.
Mr. Chairman, a few years ago a survey was carried out among entrepreneurs in Silicon Valley. They were asked whether the government could help to reduce the mortality rates of new enterprises, for example, by offering subsidies. The majority of the entrepreneurs questioned answered that that would be negative. When a new company fails, they said, it is because the management team was wrongly assembled in the first place. If so, the team needs to be disbanded and should regroup into new teams which can be successful. Subsidizing inefficient teams only consolidates inefficiency and hinders innovation. That is the view of the entrepreneur. The view of the corpocrat, as the corporate bureaucracy is now known, is very different. When the free market exerts pressure on his corporation, he calls on government for help. If it is the free capital market which is disturbing him, then he comes to you to ask for new legislation to protect him. If it is the free marketplace for merchandise, he comes to you for trade protection or to ask you to exert pressure on exporting countries so that they impose “voluntary restraints.”

Goodyear is no exception. This Committee Hearing is not the first step in asking you for protection from the free capital market. In August 1984, Goodyear, along with others, asked for protection from the free market for merchandise. They signed a request to the U.S. Commerce Department to restrict imports of tires. The reason given was that importers were “dumping.” The Commerce Department rejected the claim. Instead the Korean Government voluntarily imposed restraints on exports to the U.S. by Korean tire manufacturers.

The appropriate response to competition is to compete, not to seek artificial protection. That means reorganizing, cutting out fat, and concentrating on building “better tires, cheaper, and selling them harder,”

During the past week on television, in the newspapers and in public meetings, Goodyear management and their friends have sought to raise strong feelings about me. Let me analyze their rhetoric :

1) They point to the fact that I am a foreigner. Whether or not America welcomes foreign investment is a question that the Administration, Congress, and the American people must decide. For my part, I have always campaigned in Europe for the freedom of foreign investment. But it seems to me, Mr. Chairman, that Goodyear's views have been the same as mine. That is at least until the last few weeks. Goodyear is justifiably proud of operating

101 manufacturing facilities in 28 countries. That means that Goodyear has believed foreign investment to be right for at least 27 countries.

2) They suggest that U.S. subsidiaries of offshore companies like ours, pay less tax than U.S. companies. In reality, when we invest in the U.S., our operations are subject to U.S. tax regulations like everybody else. Grand Union, our supermarket company, pays the same taxes as Safeway. Our forest products company pays the same tax as Weyerhaeuser.

3) And to heighten attention and create anxiety, they claim that we would sell, and I would “dissipate” Goodyear's assets and cause loss of jobs. Yes, indeed, we have made it quite clear that we would return Goodyear to its core business and concentrate on it. That means selling non-core diversifications. Goodyear management has now announced that it will do the same thing. Selling diversifications does not mean dissipating assets or jobs. It usually means the contrary. It means transferring activities from the hands of management with inappropriate experience into those with appropriate experience. Normally this results in greater growth and prosperity for the companies concerned, thereby benefiting employees, shareholders, customers and communities.

It is important to understand what happens in the real world when a company goes back to its roots and sells its unrelated activites.

Let me give you a documented case history. In 1982, we acquired a company whose origins were also in Akron, Ohio. The company was the Diamond International Corporation which is the old Diamond Match Company. Diamond's core business, in our view, was in the forest products industry. It has diversified into a number of other areas. We decided to concentrate on and improve the core business and sell the other companies. Here is what happened to the major entities since they were sold and according to information supplied to us by their present management.

Two Ohio companies, the U.S. Playing Card Corporation and Heekin Can, Inc., were sold to investor groups, the latter including management. Since that time, the U.S. Playing Card Corporation has prospered. It has increased capital investment substantially, enabling it to acquire another company in its own industry, and it now employs 25 % more people. The sales of Heekin Can have almost doubled. Operating income has grown from $ 10 million to $ 25 million. Employment is up by over 20 %.

One company, Calmar, Inc., a maker of consumer pumps, became independent by going public. Sales have risen by over 50 %. Calmar is building new plants. Overall employment is up 25 %. In its Ohio plant, employment has increased over 15 %.

The Packaging Division of Diamond was sold to Jefferson Smurfit, a company which concentrates on that industry. At the time we sold it, that division's principal mill, located in Middletown, Ohio, was in deep financial trouble. Since the sale, production at that mill is up 50 %, wages and benefits are up 33 %, and capital investment has increased fourfold.

- Sulzer Escher Wyss, a machine manufacturing company, located in Monroe, Ohio, was sold to its joint venture partner. Sales have doubled. Employment is up by 25 %. Capital investment is up 700 %.

- The paper manufacturing division of Diamond was sold to a single industry company with sound management, The James River Corporation. All the indices of industrial health are sharply positive.

That is what happens when companies are liberated from tired conglomerates. And this is only one example among many. Up and down the country, hundreds of erstwhile stagnant divisions of large bureaucratic corporations have been freed. And this means that either the life-giving-link of ownership and management is restored or that single industry management is able to concentrate on managing a business it understands. The result is not “dissipating” assets and jobs as claimed by the corpocracy. It is the opposite. The result is to bring companies back to vigorous life and allow them to compete, to create prosperity and new employment.

The facts are available. I would recommend that they be studied before adopting the usual knee-jerk opposition to free market capitalism and support for the bureaucratic establishment.

4) And finally, Mr. Chairman, Goodyear also makes the usual claims of the corpocracy that the market does not recognize long-term value and forces management to concentrate on the short term. In other words, that the market only measures short-term profits and disregards the long-term benefits of, for example, research and development. But that is quite untrue. If it were true, then the market would disregard quality of earnings and would value all companies at the same price/earnings multiple. In reality the market does the opposite. It applies quite different price/earnings multiples to the profits of different companies. That is precisely because it does take into account the quality of earnings, that is to say whether earnings are likely to grow, stagnate or fall.

When the market believes that management is good and that it will make earnings grow, then it places a premium on the market price of the shares so as to take into account future growth. When, on the other hand, the market believes that management is poor and will dissipate assets and earnings, it places a discount on the market value of the shares so as to take into account future stagnation or decline.

If Goodyear management has failed to convince the marketplace that it deserves a good rating and, instead, receives a poor one, then it has only itself to blame, along with its failed strategy.

Mr. Mercer, in a letter to Goodyear employees, stated that I was responsible for introducing “this corporation to a new and not very pretty world.” What he means, of course, is the rough and tough world of competition. A world in which you don't just throwaway hundreds of millions of dollars chasing after scatterbrained dreams. A world in which you run a business as a business and not as an institution.

In fact, what Goodyear management is doing is using this as its excuse for retreating from Goodyear's ill-conceived diversifications and for cutting out the corporate fat that has been allowed to build up around the core business. For the last two weeks it has been frantically discovering waste almost every day and announcing that it is now doing what needs to be done. Mr. Mercer is an honorable man. He would not reorganize the company if he did not believe it to be right. If management finds it easier to hide behind me to do the job for which it has been paid and which it has failed to do, then so be it. That is a role that an active investor must be willing to assume. At least, one way or the other, the Company will return to the business it knows and will concentrate on it so as to remain globally competitive. That is how Goodyear, its shareholders and employees, will be best served.
I will close my statement, Mr. Chairman, by referring to a recent speech made by the Deputy Secretary of the Treasury, Richard G. Darman. Mr. Darman said that Federal budget deficits are the cause most often cited for the economy's sluggishness. But he added, “I believe we have deeper cultural problems that demand our attention. High on the list,” he said, “one would find a problem that is sometimes captured with the term "corpocracy", a reference to large-scale corporate America's tendency to be like the Government bureaucracy.”

Thank you, Mr. Chairman, and Members of the Committee .•