THE IKA STORY

James F. McCloud

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Introduction

This is the story of the early beginnings of a company that aspired to be something more than just a profitable commercial operation. We wanted to prove, and did, that the capabilities of the manufacturing sector of Argentina could cope not only with the integral production of vehicles but with their development as well. Building the infrastructure of human capabilities that was the backbone of our company probably inspired us more than any other single element. Each new venture was a challenge that taxed the limits of our resources and required innovative ideas and decisions to bring it to a satisfactory conclusion. When mistakes were made we would insist they be recognized so that we could do something about them. The prime requisite for any discussion in my office was, "put it all on top of the table," and with the resiliency we had we always managed to recuperate and land back on our feet.

I don't have any reason for writing this book other than the enjoyment of recalling the milestones that occurred during IKA's formative stages and the subsequent years that I had the privilege of participating in its management. I would suspect, moreover, that there are a lot of my former colleagues who will find some of the reminiscences amusing, and my sons will get an insight into the reason Dad was away from home so much.

My years in Argentina were the most fruitful and enjoyable of any I have experienced in my professional life. IKA was a continuous expansion program and one that never lacked for surprises that would blow in from the least suspected quarter. As Henry Kaiser said, "Problems are opportunities in work clothes." Using this criterion, I can assure you we had our share of challenges.

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Chapter I | Pre-Incorporation — Most of 1954

In the early 1950s, Kaiser-Frazer went through a major restructuring. Willys Motors, Inc. was acquired, the Willow-Run plant was sold to General Motors and the new company that had emerged, Kaiser Motors Corporation, made its headquarters in Toledo, Ohio, the location of Willys' main plant and principal offices. The restructuring also involved the withdrawal from passenger car production and concentration on the Jeep Four Wheel Drive utility vehicle line. At this point in time, the major facilities owned and operated by Kaiser Motors consisted of the main assembly, machining and press plants in Toledo, the Detroit Engine Division, the Dowagiac, Michigan, foundry and the Shadyside, Ohio, press plant. The latter three facilities were suppliers for Willow-Run vehicle assembly and, with the decision taken to produce the Jeep line only, would eventually become redundant.

The Detroit Engine Division not only manufactured automotive engines for the Kaiser and Frazer automobiles but was also engaged, during the Korean War, in the manufacture of the R-1300 Aircraft engine under license to the Wright Aeronautical Corporation. As the Korean conflict drew to a close, aircraft engine contracts, which had been very profitable, would be completed and the Engine Division, which also included the Dowagiac foundry, would be faced with a shut-down. This was foreseeable in 1953, and various studies were undertaken to find products that would fit the Division's managerial and manufacturing capabilities.

Not the least of the problems, and probably the paramount consideration, would be the development of a flexible enough labor agreement with Local 280 of the UAW-CIO to permit the diversity of product that would be required. As General Manager of the Division, it became apparent to me that, for various reasons

— the specialized equipment and tooling we had, the inflexibility of our labor contracts, plant location, lack of specialized marketing capabilities and the like — it was highly improbable a new product venture would prove feasible. We had studied everything from manufacturing pin-setting machines for bowling alleys to agricultural equipment. The Engine Division did have some diversification during this period, working as a sub-contractor to General Motors, and manufacturing components for its Hydramatic transmission. GM lost its Livonia, Michigan, transmission plant in a major fire and had to gear up several component manufacturers in order to keep its lines going. In fact, it was this fire that caused GM's acquisition of the Willow-Run facility from Kaiser Motors.

Another project that the Engine Division took on was the design and operation of a production line for the manufacture and assembly of a miniaturized Sonobuoy, the underwater expendable sonar device used by the Navy for submarine detection. The code name for the project was "Operation Tinkertoy." After the design and process engineering was completed at the Engine Division, Kenny Flood, Gordon Woods and Jules Lussier set up the plant in Arlington, Virginia. The operation was a success and the process was in the vanguard of then existing technology. The chips that were printed with electronic circuitry were of ceramic and about one inch square and one sixteenth of an inch thick. These were stacked up in modules and assembled into the sonobuoys using automated assembly and transfer lines that we had designed. Nothing to compare to today's microchips — but in the early fifties, a real breakthrough in mechanized electronics component manufacture.

This was about the time I became acquainted with Hickman Price. He was a nephew of Joseph Frazer and, during the K-F days, had worked in the export division. Hickman left K-F and joined Willys Motors prior to its acquisition by the Kaiser interests. As Manager of Export for Willys, Hickman had organized a fine overseas distribution network. In Brazil, in particular, the dealer organization there had built, and was operating, an assembly plant in Sao Paulo for Willys FWD vehicles. Due to the ever-present foreign exchange shortage, the pressure was on for the assembly

plants to start manufacturing components locally and reduce the hard currency requirement per vehicle.

The common policy followed by automobile manufacturers at that time in South America was to set up an assembly plant in a given country, sized in accordance with the market potential, and ship CKD (Completely Knocked Down) vehicles to it. For a given allocation of foreign exchange by the Central Bank of the country involved, a greater number of vehicles could be produced. Perhaps the biggest saving was in freight costs which were reduced substantially and this system also made possible the local procurement of "easy buy items" such as tires, upholstery materials, paint, batteries, flat glass, etc. The hard core of the CKD package consisted of manufactured parts peculiar to a given model that were designed and manufactured by the automobile company itself or by vendors using designs and tooling supplied by the company. These were the tough parts — engines, transmissions, differentials, brake assemblies, stampings, steering gear, axle forgings, frames, instruments, etc.

The investment required for an assembly plant and its associated assembly jigs, welding fixtures and painting equipment was minimal compared to machining, gear making, stamping, forging and foundry. The import dollars replaced by each dollar of assembly plant investment were substantially greater than the replacement dollars involved with machine and tooling investment. Coupling this problem with periodic model changes which primarily affected the "tough parts," it is easy to understand the reluctance of the prime manufacturer to break through the assembly barrier and produce these parts locally.

Hickman Price's idea was to invest the Detroit Engine Division's machines and tooling in Brazil, build an engine plant and, together with the existing assembly plant and dealer body, form a company that would be the first integrated automobile plant in South America. He showed up one day in Detroit with Vauvau Aranha, who was the head of the Brazilian dealer association. Vauvau was a great personality, spoke excellent English and was the son of a former finance minister. Euclydes, his brother, later became one of the prime movers in Willys Overland do Brasil. In the tour of

the Engine Division facilities I'll never forget Hickman, who was quite dramatic and, at times, somewhat flamboyant, standing in the middle of six acres of concentrated machine lines saying to Vauvau, "This is all yours! Say the word and it will be on the next boat." I thought Hickman was a bit premature but it was still a good idea. The trouble was that someone else, completely independently and at the same time, had the same brainstorm. The difference was, that person had the ear of Mr. Henry J. Kaiser.

DeLesseps "Chep" Morrison, then mayor of New Orleans, worked very closely with the Kaiser interests in the early days of the Kaiser Aluminum and Chemical Corporation's activities in Louisiana. Mayor Morrison had also organized an entity called International House that served as a meeting place and sounding board for South American public and private sector contacts. International House was directed by Mario Bermudez, a Colombian by birth. Mario had excellent relationships with various heads of state in South America. Chep and Mario proposed that Mr. Kaiser tour South America and investigate investment possibilities for the surplus manufacturing facilities we had.

Although somewhat reluctant to entertain investing in South America, for reasons that will be brought to light later in this story, Mr. Kaiser considered the Morrison advice very seriously and asked his son Edgar and Gene Trefethen to develop the Morrison idea into an action plan. Edgar, who was spending most of his time in Toledo in those days, swung into action and had Hickman Price put his plans on the back burner until the results of Henry Kaiser's projected tour of South America unfolded. This decision is the reason that Argentina became the first Latin American country in integrated vehicle manufacture even though Brazil's infrastructure and population should have given it priority. But I'm getting ahead of the story.

Shortly after the foregoing I was called to Oakland by Mr. E. E. Trefethen. In those days, with Edgar Kaiser involved primarily in the automobile business with offices in Toledo, Mr. Kaiser, in Oakland, depended principally on Gene Trefethen to administer all of the other operating companies — quite a task when one considers the size and complexities of the companies involved.

We met in Mr. Henry J. Kaiser's office on July 15, 1954. This meeting marked the beginning of Kaiser's Latin American ventures that would encompass major developments in the automotive, aluminum, mining and heavy construction industries for the next two decades. It also marked the first overseas venture by any Kaiser company since the Cuban highway job in the twenties. Present at the meeting — in addition to Mr. Kaiser, Gene Trefethen and myself — were Bob Elliott, Mr. Kaiser's special assistant who wrote most of Kaiser's speeches, Mario Bermudez, George Havas, General Manager of Kaiser Engineers, and some others whose names I can't recall.

We reviewed a report written by E. O. Jewell, then World Trade Development Director for International House, that described priorities and conditions in various countries, potential financing sources and the shortages in the vehicle population that they all had. The report concentrated on four countries: Argentina, Brazil, Colombia and Venezuela, the only ones, according to the Jewell report, that had the potential to support an automotive manufacturing scheme. Mr. Kaiser concluded our discussions and requested that we develop a plan of action concentrating on these four, even though his itinerary would take him to other countries as well. Descriptive brochures and proposals were to be prepared that he would present to the authorities involved.

I was assigned the task of developing, with my organization in Detroit, a listing and description of all the surplus equipment that Kaiser Motors would be able to make available for investment in South America. This entailed not only my plants — the Engine Division and the Dowagiac Foundry — but in addition, the Shadyside, Ohio, press plant, the tools and dies for the Kaiser Passenger car, which were located in several different places, and the company-owned special tooling that was in vendor plants. Most important was the description of what this equipment could do in reducing the imported content of the vehicles to be manufactured. I was originally slated to go with the Kaiser party but at the last minute Mr. Kaiser decided that he didn't need any engineers along — preferring a more generalized approach on the first contact. The trouble was that while Mr. Kaiser didn't want any

engineers around, he was still going to be exposed to some pretty penetrating technical questions which no one in the Kaiser entourage could answer. And that is exactly what happened.

Much has been written about Henry Kaiser, and by writers more prolific than I. However, I was fortunate to be close to Mr. Kaiser and his sons Edgar and Henry Jr. on many occasions, starting with my work in the Kaiser Shipyards during World War II. As superintendent of the outfitting dock at Kaiser Yard 3 in Richmond, California, I would see Mr. Kaiser from time to time when he visited the Yard. Yard 3 is where we built the C4 Troopships, the largest vessels constructed in any of the seven Kaiser operated yards. These ships were designed to transport 4000 troops and provide all the necessities on voyages of long duration.

Whenever Mr. Kaiser had an important visitor in the Oakland office he customarily showed him the Richmond shipyards. This was, of course, during the war years. The Kaiser group managed four shipyards in Richmond, California, and three in the Portland, Oregon, and Vancouver, Washington area. If one of the C4s was about ready for delivery when Mr. Kaiser was visiting Yard 3 with one of his guests, he would board the ship and I usually was elected to show the party around. Some of the visitors I remember were Vyacheslav Molotov, Foreign Minister of the U.S.S.R. under Stalin, Lord Halifax of the British Purchasing Commission in the U.S., Admirals Land and Vickery, the heads of the U.S. Maritime Commission and others of like stature. Few questions from Mr. Kaiser, but penetrating ones. Usually my immediate superiors, Clay Bedford, Einar Larson and Kenny Flood were in the visiting party, but since the outfitting and final completion of the C4s were my direct responsibilities, comments and questions were usually directed to me. This was a pretty august group and, for a 25-year-old engineer, quite a heady experience.

Mr. Kaiser knew what he wanted and when he chose his entourage for the South American junket he was less concerned about technical aspects than he was with the personalities and political climates he would be involved with. It should be noted that a paramount Kaiser principle was "no payoffs." The Kaisers, Henry, Edgar and Henry, Jr., had high business ethics and woe

befall anyone in the organization if he was caught trying to buy someone off. This would be Mr. Kaiser's first trip to Latin America since the Kaiser Paving Company's highway job in Cuba. There, according to stories I had heard, everyone had their "hand out" and Mr. Kaiser made it absolutely clear to everyone on the team that anything we did concerning the South American auto venture would have to bear his scrutiny.

I vividly remember my disappointment when Gene Trefethen told me I was not included in the roster for the trip. But Gene also said, "Don't worry, the Boss will come back with something," and he sure did.

In addition to Mr. and Mrs. Henry Kaiser, the group included Mayor and Mrs. Morrison, Mario Bermudez, Mr. and Mrs. Bob Elliot and Mr. and Mrs. William Weintraub. Bill Weintraub was the Senior Partner of Norman, Craig and Kummell, the advertising agency used by Kaiser-Frazer. Mr. Kaiser placed a high value on Bill Weintraub's perceptions and opinions. A New Yorker of discriminating taste, a famous art collector, Bill became a great friend and supporter of our work in the Argentine.

With the creative help of Kaiser Engineers' proposal department, brochures were prepared for each of the countries to be visited and contained a proposed automotive integration scheme that gradually, over a five year period, arrived at practically 100% local content exclusive of certain raw materials that had to be imported. This would vary from country to country but, in general, raw materials included cold rolled steel sheets for body panels, pig iron for castings, steel billets for forgings, copper wire for wiring harnesses, aluminum and zinc for die castings, etc. The proposals were very preliminary and generalized. In essence, they stated the Kaiser Group's readiness to invest tools and equipment into joint venture companies that would be formed with either government or private entities, or a combination of both. No stipulations were made as to control. Kaiser was willing to accept a minority position, and public ownership of stock in the proposed corporations was encouraged. Certain assumptions were made relative to vendor capabilities in the various countries, the volume of vehicles to be produced and sold, the amount of capital that could be raised

in the public and private sectors; and it was the criteria formulated by these assumptions that caused the Kaiser entourage its initial difficulties. With some advance technical research and "on site" investigations it would have been clear that the only two South American countries that could even come close to qualifying were Argentina and Brazil. Mind — we are talking of South America, not Latin America. For some unknown reason Mexico was not included at the outset, even though it was the second largest country, in terms of population. I wondered why Mexico was not included but undoubtedly the influence of Mario Bermudez and International House in laying out the itinerary caused the concentration on South America. Mexico, at the time, had a fairly good foreign exchange position and seemed to have no trouble in affording the importation of built-up vehicles and CKDs to satisfy its internal market.

The tour started in August 1954. During the two weeks or so that the trip lasted I received reports from Oakland, from time to time, on progress. In Brazil and Colombia Mr. Kaiser was very well received. Bermudez's contacts coupled with Mr. Kaiser's prestige gained access to the top people in these governments. After the usual courtesy calls on the Head of State, the pertinent Ministers of Government met with the group, reviewed the proposals and discussed Kaiser's plan for vehicle manufacture. As discussions progressed it became apparent that we should have done a lot more "homework" in anticipating the many technical criticisms of the plan that came out during the meetings. As a result, Kaiser began to get somewhat frustrated and, in typical H.J. style, became critical of the engineers who had put these proposals together. And I was at the top of the list. Luckily, Argentina was the next stop.

When Kaiser landed at the Ezeiza International airport that serves Buenos Aires, there was a welcoming party displaying a large banner that proclaimed, "President Peron welcomes Mr. Henry J. Kaiser." Brigadier General Juan San Martin, Secretary of Air, was the senior official representing President Peron. The reason for the presence of the Secretary of the Argentine Air Force became apparent later when it was learned that the Air Force, in