The Auto Dead Zone

(The Wall Street Journal, New York)

Selected editorial excerpts from the U.S. press:

The cover page of Chrysler's restructuring plan, submitted along with GM's late Tuesday, tells you all you really need to know about these 100-page-plus tomes. Replete with pictures of World War II Army Jeeps, dead men in starched collars -- and the now-obligatory "hybrid" logo and plug-in car -- the first page declares that Chrysler "is the Quintessential American Auto Company."

None of that has anything to do with whether it has a viable business model or cost structure now. Consider: Chrysler's plan, which runs to 177 pages, cuts 100,000 cars out of its 2.5 million-car capacity. And this for a company that currently sells one million cars a year. It is, in other words, a political document more than a financial plan.

Meanwhile, the companies' "downside" scenarios from late last year have become this year's reality, with auto sales running at an annual pace of 9.8 million for the entire industry in January. GM insists that its plan will allow it to be profitable on an "adjusted" cash-flow basis "at industry sales rates of 12.5-13.0 million units." This assumes GM can maintain its market share when sales eventually pick back up, even though it has been bleeding share for the better part of three decades. While every auto maker has suffered from the 40 percent or so decline in sales, GM and Chrysler have been among the worst affected, with Chrysler's unit sales falling 55 percent year-over-year in January and GM's dropping by 49 percent.

At the same time, GM's funding needs are growing even faster than its market share is shrinking. Its latest plan foresees a total of $30 billion in government loans before it reaches its projected break-even point -- this for a company that, by its own reckoning, has a "net present value" in the range of $5 billion to $14 billion and market capitalization of only $1.25 billion. That $30 billion request doesn't include the possibility of pension-fund contributions over the next few years. It also assumes that additional aid will be forthcoming from European governments where the company has plants -- a possibility those governments view with dread.

GM posits this $30 billion against what it says would be a $100 billion tab for bankruptcy financing, a figure calculated to frighten the Obama Administration into doubling down on the $13.4 billion already lent to GM in December. Predictably, however, the latest plans defer most of the hardest decisions about labor costs and retiree benefits. The United Auto Workers are right to look askance at retiree benefit contributions made in company stock at a time when it isn't clear that the stock is worth much anyway. Likewise for bondholders, who are being asked to agree to a debt-for-equity swap to cut GM's debt load by two-thirds. (Feb. 19)

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