

Obama puts GM, Chrysler on short leash

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WASHINGTON (AP) — President Barack Obama asserted unprecedented government control over the auto industry Monday, bluntly rejecting turnaround plans by General Motors Corp. and Chrysler LLC, demanding fresh concessions for long-term federal aid and raising the possibility of quick bankruptcy for either ailing auto giant.

Obama took the extraordinary step of announcing the government will back new car warranties issued by both GM and Chrysler, an attempt to reassure consumers their U.S.-made purchases will be protected even if the companies don't survive.

"I am absolutely committed to working with Congress and the auto companies to meet one goal: The United States of America will lead the world in building the next generation of clean cars," Obama said in his first extended remarks on the industry since taking office nearly 10 weeks ago. And yet, he added, "our auto industry is not moving in the right direction fast enough to succeed."

Obama, flanked by several administration officials at the White House, announced a short-term infusion of cash for the firms, and said it could be the last for one or both.

Chrysler, judged by the administration as too small to survive, got 30 days' worth of funds to complete a partnership with Fiat SpA, the Italian manufacturer, or some other automaker.

GM got assurances of 60 days' worth of federal financing to try and revise its turnaround plan under new management with heavy government participation. That would involve concessions from its union workers and bondholders. The administration engineered the ouster of longtime CEO Rick Wagoner over the weekend, an indication of its deep involvement in an industry that once stood as a symbol of American capitalism.

Obama's announcement underscored the extent to which automakers have been added to the list of large corporations now operating under a level of government control that seemed unthinkable less than a year ago. Since last fall, the Bush and Obama administrations, often acting in concert with the Federal Reserve, have engineered the takeover of housing titans Fannie Mae and Freddie Mac, seized a large stake in several banks and installed a new CEO at bailed-out insurance giant American International Group.

The latest addition to the list, the once-proud auto industry, has struggled with foreign competition for more than a generation, then was further battered by the recession and credit crisis gripping the economy. Obama said 400,000 industry jobs have been lost in the past year alone, many in Michigan.

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Fritz Henderson, newly named as CEO of General Motors, issued a statement saying the company would work "to make the fundamental and lasting changes necessary to reinvent GM for the long term." The company said it hopes to avoid bankruptcy, but added it will "take whatever steps are necessary to successfully restructure the company, which could include a court-supervised process."

Chrysler Chairman Bob Nardelli sought to assure customers, dealers, suppliers and employees that the automaker "will operate 'business as usual' over the next 30 days," while working closely with the government and Fiat to secure the support of stakeholders.

Sergio Marchionne, CEO of Fiat, issued a statement calling the Obama administration's involvement "tough but fair, and we believe we will arrive at a result that will establish a credible future for this crucial industrial sector and that assigns the right priority to the repayment of U.S. taxpayers' funds."

Fiat executives have talked to administration officials about a proposal to acquire a 35 percent stake in Chrysler in exchange for small car technology, transmissions and other items that Chrysler has valued at \$8-\$10 billion.

There was no immediate response from the United AutoWorkers Union, which will be pressured to make additional wage and benefit concessions under Obama's demand for a revised restructuring plan. One worker, Don Thompson, 56, of Chesterfield Township in Michigan, said automakers were being punished because of public anger over the banking bailout. "They're using us for the mistakes they've made in Washington," he said.

Other workers were critical of what they see as a double standard in how Washington has dealt with the auto industry versus financial institutions, with the ousted Wagoner treated differently than the CEOs of troubled banks. "They're using him as a fall guy," said Frank Rowser, financial secretary for UAW Local 909.

When Wagoner leaves the automaker, he will take a financial package worth an estimated \$23 million.

Ford Motor Co., the third member of the Big Three, has not requested federal bailout funds.

Obama said bankruptcy would be a way for either GM or Chrysler to "quickly clear away old debts that are weighing them down so they can get back on their feet," and stressed that either firm would remain open.

"What I am not talking about is a process where a company is broken up, sold off and no longer exists. And what I am not talking about is having a company stuck in court for years, unable to get out," he said.

Still, fears about the industry's future sent stocks plummeting, with the Dow Jones industrial average losing about 254 points. GM plunged 92 cents, or 25.4 percent, to

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\$2.70. Chrysler is not publicly traded.

Obama's remarks were prompted by the expiration of a temporary bailout approved by the Bush administration last winter, with \$17 billion in federal funds to help GM and Chrysler survive. Under its terms, the two automakers had until March 31 to submit restructuring plans as it searched for additional federal funds.

At the time, it appeared Bush had avoided an industry collapse on his watch yet had deferred the most difficult decisions for his predecessor.

By his comments, Obama bought himself a little more time, but made it clear it was fast running out. "Now is the time to confront our problems head-on and do what's necessary to solve them," he said.

The administration issued papers detailing the prospects for survival of both GM and Chrysler, credited them with making difficult choices, yet also stressing the difficulties that remain.

It said that while GM's new car of the future, the Volt, "holds promise, it will likely be too expensive to be commercially successful in the short run," the paper said. A GM Web site hails the car for its "revolutionary propulsion system that takes you beyond the power of the battery. It will use a lithium-ion battery with a gasoline-powered, range-extending engine that drives a generator to provide electric power when you drive beyond the 40-mile battery range."

The administration said that even with the changes it has made, GM's own plan is based on overly optimistic assumptions, and also assumes a negative cash flow of \$14.5 billion over the next six years. It also says the GM plan does not do enough to solve the problem of "underperforming brands, nameplates, and an excess of dealers."

And yet, it says GM can potentially survive as a freestanding corporation, a judgment it does not make for Chrysler.

Government experts said the firm does not spend enough money on research and development. It also said the "inferior quality of its existing product portfolio and its heavy truck mix leave the company poorly positioned." Additionally, Chrysler is heavily dependent on North America, making it vulnerable to local economic conditions, Obama's advisers said.

They said the administration would consider investing another \$6 billion in the firm if it can conclude an agreement with Fiat over the next 30 days that is satisfactory.

"If an agreement is not reached, the government will not invest any additional taxpayer funds in Chrysler," it said.

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