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Concessions

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Autos

Obama Sets Stiff Conditions for GM, Chrysler, Demands More 'Painful' Union Concessions

LANSING, Mich.—President Obama March 30 gave General Motors Corp. and Chrysler LLC short-term lifelines, instructing the companies to come up with more comprehensive restructuring plans with tougher union concessions that would justify the investment of additional taxpayer dollars.

Obama said plans submitted by the companies in February (30 DLR A-15, 2/18/09) in exchange for emergency bridge loans from the federal government were not strong enough to ensure their viability. However, he added, “we cannot, we must not, and we will not let our auto industry simply vanish.” The companies, he said, “must ultimately stand on their own, not as wards of the state.”

In return for the loans obtained in December (245 DLR AA-1, 12/22/08), the White House said GM and Chrysler must reduce their debt by two-thirds. The concessions from UAW to be reached by March 31 included accepting half of the funding for the voluntary employees' beneficiary association—the fund set up to manage retiree health care costs—in stock; eliminating the jobs bank program for idled workers; and making work rules and wages “competitive” with foreign-owned rivals Toyota Motor Corp., Nissan Motor Co., and American Honda Motor Co. by the end of 2009.

The Obama administration now said it will provide GM with an unspecified amount of working capital for 60 days while it develops “a more aggressive restructuring plan and a credible strategy to implement” it. It also suggested that a “structured bankruptcy process,” with the government providing debtor-in-possession financing, might be a way to achieve those goals.

Unions, Creditors Must Sacrifice

Obama said he will fight for auto workers but added that “[w]hat we are asking is difficult. It will require hard choices by companies. It will require unions and workers who have already made painful concessions to make even more. It will require creditors to recognize that they cannot hold out for the prospect of endless government bailouts.”

“There isn't too much more that the union can give up,” Scott Watkins, senior consultant

at Anderson Economic Group in East Lansing, Mich., told BNA March 30. UAW, which agreed to a two-tier wage system in its 2007 contract agreements with GM, Chrysler, and Ford Motor Co., has since made additional concessions to help the industry weather the economic crisis (233 DLR AA-1, 12/4/08).

Retiree benefits are “about all that's left, unless they're going to force American autoworkers to have benefits and hourly salaries that are actually lower than those offered by the (Japanese) transplants,”he said. And “when you start looking at retiree benefits, anything you take away from them has to get picked up by the American taxpayer, in terms of them using more Medicaid and other social services,”he said.

“There are jobs that cannot be saved,” Obama said. “There are plants that will not reopen.” To help workers and residents in the areas that have been most dependent on the auto industry, the president named Ed Montgomery, dean of the University of Maryland's College of Behavioral and Social Sciences, to be director of recovery for auto communities and workers.

Montgomery, a former Labor Department deputy secretary, will work with the administration, governors, and congressional leaders to provide assistance to laid-off workers and help attract new investment to communities hit by plant closings, the administration said.

Labor Secretary Hilda L. Solis March 30 issued a statement saying, “I am committed to revitalizing the American auto industry and helping manufacturing communities create new jobs to rebuild local economies. For hardest hit workers and communities, we will do everything we can to provide relief and paths to re-employment.”Solis said she will work closely with Montgomery for communities hit hardest by the auto crisis. Labor Department programs have provided enhanced unemployment benefits to workers who have lost their jobs and additional job training funds to help displaced workers gain new job skills.

Meanwhile, GM must negotiate debt-restructuring agreements with bondholders. Talks to persuade the parties to accept GM equity for much of their holdings have so far failed to produce agreement.

GM said it will address those and other “tough issues”over the next 60 days. “Our strong preference is to complete this restructuring out of court,” the company said in a statement. “However, GM will take whatever steps are necessary to successfully restructure the company, which could include a court-supervised process.”

Chrysler, for its part, said it was “encouraged” by the administration's commitment to the industry and an alliance with Fiat and was “pleased that Chrysler, Fiat, and Cerberus [Capital Management] have reached agreement on a framework of a global alliance, supported by the U.S. Treasury.”

UAW officials were not available to comment March 30.

New GM CEO, Directors

The administration's plan for GM includes the resignation of Chairman and Chief Executive Officer Rick Wagoner and the replacement of a majority of the company's directors. "When complete, these changes will bring fresh thinking and new vision to the company while maintaining a degree of continuity in the current challenging environment," the administration said. GM said President and Chief Operating Officer Fritz Henderson will succeed Wagoner as chief executive, and director Kent Kresa will serve as interim non-executive chairman.

Chrysler, meanwhile, will get 30 days' worth of working capital while it secures a definitive technology-sharing agreement with Fiat SpA. Chrysler and Fiat in January announced plans to form an alliance to share technology and assets, with Fiat taking a 35 percent stake in Chrysler (12 DLR A-5, 1/22/09).

The government said Chrysler, Fiat, and the UAW must "reach an agreement that entails greater concessions than those outlined in the existing loan agreements." It said it may provide Chrysler with another \$6 billion, but if an agreement with Fiat is not reached, no additional taxpayer money will be invested in the company.

"It is with deep reluctance, but also a clear-eyed recognition of the facts, that we have determined, after careful review, that Chrysler needs a partner to remain viable," Obama said.

'Fresh Start' Might Include Bankruptcies

"While Chrysler and GM are very different companies with very different paths forward, both need a fresh start to implement the restructuring plans they develop," Obama said. "That may mean using our bankruptcy code as a mechanism to help them restructure quickly and emerge stronger."

Obama acknowledged that the industry's troubles "are due in no small part to the weakness in our economy," and said the government would take steps to spur auto purchases by accelerating federal fleet purchases and working with auto finance companies to free up credit.

The Internal Revenue Service also announced a tax break for purchasers of new cars, allowing deductions of state and local sales and excise taxes paid on up to \$49,500 of the purchase price of a new car, light truck, motor home, or motorcycle between Feb. 16 and the end of the year. The amount of the deduction is phased out based on income levels. Obama said the program "could save families hundreds of dollars and lead to as many as 100,000 new car sales."

Obama also said the government will back warranties on the companies' products, a move designed to allay consumer fears about buying cars from a company that might go bankrupt.

A group of bondholders that has been holding out for better terms said it was "encouraged" that the administration agrees with it that "GM's current restructuring plan is not viable." The group also said it was "very disappointed that the government and company have had virtually no real dialogue with bondholders while designing the proposed restructuring plan."

"We hope that GM can devise and implement a business plan that addresses the problems identified by the auto task force and the bondholder committee," the group said. "GM needs to become a viable business whose securities have real value."

"In addition, we look forward to working with the company and the task force to configure an exchange that will maximize the chances of a successful out-of-court restructuring," the group said.

Plan Gets Mixed Reviews

Congressional reaction to the plan was mixed. Senate Majority Leader Harry Reid (D-Nev.) said he is "confident" the auto industry can be restructured, and commended the administration for "showing a firm resolve in its negotiations with GM and Chrysler."

Senate Minority Leader Mitch McConnell (R-Ky.) said the administration's ultimatum to the industry "should have happened tens of billions of dollars ago."

Sen. Bob Corker (R-Tenn.), a member of the Senate Banking Committee and a vocal critic of an auto industry bailout, called the move "a major power grab from the White House."

"The administration is pursuing much of what we pushed for in December, but the delay of several months has increased the severity and sent billions of taxpayer dollars down the drain," Corker said. "Now any investment is likely unrecoverable and we are putting more and more jobs ... at risk in a politically charged environment."

Sen. Carl Levin (D-Mich.) told reporters on a conference call that he was reassured by Obama's statement that he is "absolutely committed" to helping the U.S. auto industry become a leader in building the next generation of fuel-efficient cars. "Presidents very rarely make absolute commitments," so the statement "gives some real confidence that the goal here is the right goal, which is a viable American auto industry," he said.

In Michigan, the announcement was greeted with concern. Lt. Gov. John Cherry (D) called it "the economic equivalent of a hurricane warning."

“It appears the federal verdict on the future of General Motors and Chrysler is still out,” Cherry said in a statement. He called the conditions to future aid “pretty tough,” and added, “I hope the preconditions were not designed to force bankruptcy by any name.”

Whether the government plan will be enough to stimulate demand and save the companies is “the million-dollar question,” Anderson Economics' Watkins said. “It's all contingent on sales numbers ... The only thing that's going to get us through this is consumers returning to showrooms and purchasing new vehicles.”

The fact that the government is willing to guarantee warranties is “a strong sign that bankruptcy will be considered,” Watkins said. Given that the government is not set up to run an automotive finance company, the program “could turn into quite the boondoggle” should it need to be used, he said.

David Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich., called the plan “a work in progress.” The administration, he told BNA March 30, does not want the industry to fail, but had to make its rescue “as politically acceptable as possible.” Having Wagoner “fall on his sword” was part of that, he said.

By Nora Macaluso

More information on the administration's auto policy, including fact sheets on the GM and Chrysler assessments, is available on the White House blog at <http://www.whitehouse.gov/blog/09/03/30/GM-and-Chrysler/>.

Susan R. Hobbs contributed to this article.