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GM, Chrysler Push UAW, Creditor Cuts to Beat Deadline

By Jeff Green, Mike Ramsey and Serena Saitto

Feb. 9 (Bloomberg) -- General Motors Corp. and Chrysler LLC, racing to meet a Feb. 17 U.S. deadline, plan meetings this week with advisers to creditors and the United Auto Workers to hammer out agreements they need to keep \$17.4 billion in aid, people familiar with the matter said.

The automakers, still awaiting President Barack Obama's appointment of a so-called car czar to oversee their restructuring, need signed preliminary accords to cut retiree and other union costs and to exchange bondholder and creditor debt for equity before next week's deadline.

Meeting the government mandate is forcing Chrysler and GM to accelerate discussions complicated by a faster-than-predicted collapse of global sales. Last month, U.S. sales fell to the slowest since 1981 and auto purchases across Europe, Russia and China also slowed, cutting revenue for automakers that already said they would fail without the loans.

"It's hard to say how much progress they've made," said Bruce Belzowski, a researcher at the Transportation Research Institute at University of Michigan in Ann Arbor. "The stuff that's been announced seems like it's stuff around the edges, compared to the money they have to save."

GM, the biggest U.S. automaker, and No. 3 Chrysler both ended a program in the last two weeks that paid union workers most of their salary to come to the factory when they didn't have tasks to perform. They are also trying to get thousands of their 91,200 U.S. union workers to agree to retire or quit to make room for new workers who are paid half as much.

Taxpayer Patience

Chrysler, after receiving \$4 billion in aid, is seeking \$3 billion more, and GM has said only that \$13.4 billion in aid pledged so far is sufficient for the first quarter. Auto suppliers are seeking as much as \$25.5 billion.

"The valley's pretty deep, so the question is how long do you keep throwing money at it," Doug Bernstein, an attorney who heads banking, bankruptcy and creditors' rights at Plunkett Cooney in Bloomfield Hills, Michigan, said in an interview.

If GM and Chrysler can't persuade creditors and the UAW to agree to new terms, the government could force them to return the loans or convert them into funding for a government-backed bankruptcy. Both car companies have said a bankruptcy may lead to liquidation because it would further erode sales.

GM Board's View

GM has made "extensive plans and progress," director George Fisher said Feb. 3 in a statement after the board reviewed the automaker's strategy. Fisher didn't provide any details of Chief Executive Office Rick Wagoner's plan.

"The company's viability plan is on track," said Stuart Schorr, a Chrysler spokesman, in an e-mail last night. "We continue to make progress with our union partners, and this week will work closely with both the union and debt holders to meet the remaining requirements."

The Motor & Equipment Manufacturers Association, a trade group for auto-parts suppliers, outlined requests for as much as \$25.5 billion to the Treasury Department last week to prevent an industry collapse.

"We unfortunately are going to have to support our auto industry for a while," said Jerry Reisman, a bankruptcy attorney at Reisman Peirez & Reisman in Garden City, New York.

The Treasury Department hired Cadwalader, Wickersham & Taft LLP to evaluate several restructuring scenarios, including a government-funded bankruptcy, a Treasury official said Feb. 5.

Last Resort

Bankruptcy would only be a last resort, Reisman said. "To be known as a bankrupt company I think will dramatically hurt their sales," he said.

Advisers to GM, bondholders and union officials plan to meet this week in Detroit to negotiate the government-ordered debt restructuring, two people close to the talks said. GM needs agreement on a plan to reduce \$27.5 billion in unsecured debt to about \$9.2 billion by swapping for equity.

"GM is providing certain necessary information to key stakeholders' advisers so they can appropriately evaluate the decisions they will have to make," GM spokeswoman Renee Rashid-Merem said. She wouldn't confirm any specific meeting plans.

UAW President Ron Gettelfinger has said he is willing to make concessions if other stakeholders, including bondholders and auto executives also make sacrifices. Union spokesman Roger Kerson didn't return a phone call seeking comment on the meetings this week.

Talks With Delphi

GM also is in discussions about taking back parts of its bankrupt former parts unit, Delphi Corp., to help guarantee access to components from its biggest supplier. GM has already spent more than \$11 billion to assist in Delphi's restructuring since the October 2005 Chapter 11 bankruptcy filing. GM had already agreed to take back some plants if they can't be sold.

The move would seek to ensure that key operations at Troy, Michigan-based Delphi are kept running as it struggles to exit bankruptcy, according to an official at GM, the parts-supplier's former parent. The Wall Street Journal reported the plans earlier today.

GM is also readying a plan this month to cut thousands of salaried jobs, people familiar with those plans said. Those cuts may help with efforts to get additional union concessions, the people said. The job losses may be similar in magnitude to more than 5,000 eliminated last year, the people said.

The Detroit automaker's plan also includes plant closings and other actions that accelerate cutbacks discussed in a Dec. 2 report to Congress, people familiar with the plans said. Some additional details may be released this week before the report, they said.

Chrysler Efforts

Chrysler, which is trying to sell its Viper sports car brand, has cut 32,000 workers in the past 18 months. The Auburn Hills, Michigan-based automaker, controlled by private equity firm Cerberus Capital Management LP, has said it is seeking price cuts from suppliers and is reducing margins for dealers as it urges them to increase orders.

Chrysler has agreed to trade 35 percent of its equity to Fiat SpA in exchange for small-car technology and access to global markets. That potential alliance must be approved by the Treasury and isn't part of Chrysler's viability plan that will be submitted on Feb. 17, President Jim Press said in an interview last week.

The report next week must show a preliminary plan for long-term viability, competitiveness and energy efficiency. The plans must demonstrate how the automakers will repay the loans, restructure their businesses and ensure positive values in the future.

By March 31, GM and Chrysler must have union approval for any contract changes as well as an agreement to cut the costs of the union retiree health-care fund. The automaker must also have begun the debt exchange offer with bondholders.

The lack of a car czar or a car czar team to accept the progress reports and oversee restructuring is slowing the process, said John Casesa, a partner at consulting firm Casesa Shapiro Group.

“The lack of policy direction is holding the process back,” Casesa said. “The stakeholders have a motivation to drag their feet until they have a policy direction. Why make concessions before you know what you have to concede?”

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