

The Washington Post

U.S. to Steer GM Toward Bankruptcy

Filing Expected as Chrysler Set to Emerge

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Friday, May 22, 2009

The Obama administration is preparing to send [General Motors](#) into bankruptcy as early as the end of next week under a plan that would give the automaker tens of billions of dollars more in public financing as the company seeks to shrink and reemerge as a global competitor, sources familiar with the discussions said.

The move comes as the administration prepares to lift the nation's other faltering car company, Chrysler, from bankruptcy protection as soon as next week, industry sources said.

The shifts into and out of bankruptcy are landmarks in the Obama administration's attempt to broker a historic restructuring of the American auto industry in the space of months.

The legal tactic is viewed by some as the best means of reviving the companies. But the speed of the government-led transformation has triggered complaints that the rights of investors and dealers are being trampled. Meanwhile, fears that a bankruptcy could lead to cascading business failures are spreading throughout GM's vast chain of suppliers.

Under the GM draft bankruptcy plan, the company would receive just short of \$30 billion in additional federal loans, a source said.

The figure is a starting point in negotiations between the government and the company, the source said, and could change. A cash injection that large would boost the U.S. investment in GM to nearly \$45 billion. The timing of the filing is also fluid, and could happen the first week of June.

The government previously indicated that it planned to take at least 50 percent of the restructured company, and likely would take the right to name members to its board of directors, as it has at Chrysler, where the government will control four of nine seats.

The United Auto Workers retiree health fund is set to own as much as 39 percent of the restructured GM, in exchange for giving up its claim to at least \$10 billion that the company owes it. Yesterday, the union announced that it reached an agreement with GM that will reduce the company's labor costs.

Still unknown is what part the Canadian government might play in the ongoing GM restructuring.

GM operates several plants north of the border. The Canadians agreed to invest about \$3.5 billion in the Chrysler restructuring and control one of the nine board seats.

In the GM negotiations, the Canadians are poised to make a similar investment, but they are seeking assurances that the share of GM production in their country will remain the same.

"China isn't putting up the money, and Mexico isn't putting up the money," said Tony Clement, Canada's Minister of Industry. "But if we're putting up the money, just as the Americans are, then we have the right to protect our production capacity."

Clement added that the Canadian Auto Workers union would have to make more concessions before the

government agrees to get involved in the GM rescue.

"We've basically been joined at the hip with U.S. Treasury on our approach with both Chrysler and GM," he said. "We have officials down here in Washington all the time. We basically review the information together. We devise strategy together and execute strategy together."

Both Chrysler and GM have been saddled with too much in debt and labor costs to compete against rivals from Japan and Korea, industry analysts say.

To alleviate the financial burdens, the Obama administration has engaged for months in negotiations with the union, dealers and creditors in hopes of reducing automaker costs without having to resort to bankruptcy court.

But last month, the administration concluded that the only way to free Chrysler of its debt was to file for Chapter 11, and it is now nearing a similar decision with GM.

The chief obstacle to an out-of-court settlement for GM remains: There has been no agreement between the company and the investors who hold \$27 billion worth of GM bonds.

Under orders from the Obama administration, GM has offered to give the bondholders a 10 percent equity stake in the restructured company in exchange for giving up their bonds.

So far, however, the investors have resisted that proposal and if no accord is reached by June 1, GM will follow Chrysler into bankruptcy.

The speed with which the Chrysler bankruptcy has proceeded has given the administration more confidence that the best path for GM may be a similar trip, where the claims of disgruntled creditors and dealers can be more easily resolved.

In the Chrysler proceedings, the court has yet to stand in the way of plans to create a new company led by Italian carmaker Fiat. Chrysler's existing assets would be sold to the new company and the new entity could be up and running as soon as next week.

That's because Chrysler is asking U.S. Bankruptcy Judge Arthur Gonzalez to waive the customary 10-day waiting period before the order approving the sale becomes effective. The hearing on the sale is scheduled for next Wednesday at 10 a.m.

Gonzalez has already granted a similar request to expedite proceedings. Time and again in court, Chrysler executives and attorneys have argued -- and the court has agreed -- that Chrysler's core assets are "wasting" and that an immediate sale must take place to preserve value.

"Subject to the closing conditions, a new Chrysler could emerge as soon as the ink is dry on the judge's order," said Scott Van Meter, managing director of [LECG](#), a consulting firm.

The administration is taking steps to prepare. It is drafting the paperwork for a \$4.7 billion loan to sustain Chrysler after it emerges from bankruptcy. On Wednesday, the automaker announced that C. Robert Kidder, former chairman of Borden Chemical and of Duracell International will become the company's new chairman. He will succeed Robert L. Nardelli.

Chrysler still could encounter some delays. The company faces a new legal challenge from pension funds representing Indiana teachers and police officers as well as a state construction fund. The investors, who contend that the automaker's sale violates their rights as senior secured lenders to Chrysler, are seeking to move the bankruptcy proceedings to federal district court, which has authority over the bankruptcy court.

A hearing on the matter is scheduled in district court Tuesday.

There are also challenges outside court. Chrysler has moved to close 789 dealerships on June 9. But Sen. Kay Bailey Hutchison (R-Tex.) has introduced legislation that would withhold federal funding if the automaker does not give dealers an extra 60 days to close down operations and sell remaining inventory. Her amendment has won the backing of a number of other senators.

Judiciary Committee chairman Rep. John Conyers Jr. (D-Mich.) said he hopes to meet with White House officials today to discuss changing Chrysler's bankruptcy plan and GM's future. Conyers did not outline what he wanted, but a nine-person panel he assembled for a hearing yesterday offered a hint. Liberal consumer advocate Ralph Nader, a conservative Heritage Foundation analyst and minority auto dealers all criticized the automakers' restructuring.

Conyers and other committee members attacked the administration for abusing bankruptcy laws, unfairly eliminating dealerships and jeopardizing consumer safety.

"GM now stands for Government Motors," said Rep. Lamar Smith (R-Tex.). "While the UAW is cashing in, it's the dealers, creditors and American taxpayers who are being forced to cash out."

Staff writer Tomoeh Murakami Tse in New York contributed to this report.

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