

SAVING AUTO JOBS AND THE MAIN STREET ECONOMY: THE CASE FOR AN AUTO INDUSTRY BRIDGE LOAN

The problem:

The credit and economic crises that hit the country in September have dramatically altered the situation facing the auto industry. The steep decline in auto sales and revenue have created a crisis for this key U.S. manufacturing industry.

Without immediate federal assistance, one or more major automakers could be forced to liquidate – creating severe economic consequences for the entire country.

A legislative solution:

Congress is considering an amendment to the \$700 billion financial rescue package.

It will clarify that the Treasury Department should use the existing authority to provide a \$25 billion bridge loan to enable GM, Ford and Chrysler to continue operations and avoid liquidation.

- **No new cost to taxpayers:** This is part of the existing Treasury Dept. rescue package; it will not involve any further expenditure of government funds.
- **What it pays for:** Investments in equipment, buildings and new products, as well as wages, salaries and benefits.
- **New funding stream:** Not related at all to the Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP), previously approved and funded by Congress. No changes will be made in the advanced vehicle retooling program, which will accelerate the introduction of highly fuel efficient vehicles, while ensuring that these vehicles and their key components are built in the United States.
- **Conditions on auto companies:** Similar to those imposed on financial institutions: limits on executive compensation, and the government takes an equity stake to protect taxpayers

Why the Auto Companies Need This Bridge Loan

- **Lowest sales level in 25 years:** In October, auto sales were 10.8 million on an annualized basis, compared to sales of 16-18 million in recent years. All auto companies have experienced steep declines, including Toyota.

- **Consumers not buying cars:** Credit is not available on reasonable terms, and consumers are concerned about their own economic situations as a result of the downturn in the economy. Autos are usually the second largest purchase that families make -- not surprising that many families are deferring the purchase of a new vehicle.
- **Current crisis not related to fuel prices:**
 - ✓ Current problem is not that consumers are demanding different, more fuel efficient vehicles than those that are being produced by the companies. The problem is that consumers are not buying vehicles at all.
 - ✓ All auto companies are facing steep declines in their sales.
 - ✓ And, with the recent drop in gas prices, analysts are questioning whether there will be a shift backwards in the product mix demanded by consumers.
- **Decline in revenue:** Due to the drop in sales driven by the credit crunch and economic crisis, GM, Ford and Chrysler are burning through their cash reserves at unsustainable rates.

Without a bridge loan to these companies to enable them to continue operations, GM and Chrysler will run out of cash and be forced to liquidate in the very near future. Ford will not be far behind.

Why Congress MUST Act to Prevent the Failure of the Detroit-Based Auto Companies

- **Chapter 11 not an option:** GM, Ford and Chrysler will not simply reorganize under Chapter 11 and emerge as smaller, but more viable companies. Instead, there will be a Chapter 7 liquidation, which means a cessation of all operations.

This would have devastating consequences for workers, retirees, dealers, suppliers, auto communities and the economy of the entire nation.

- **Consumers will not buy cars from companies that are in bankruptcy:** And debtor-in-possession financing would not be available to the auto companies. These two factors make it impossible for automakers to operate under a Chapter 11 reorganization.
- **Restructuring has already been achieved outside of bankruptcy:** According to analyst Kid Penniman of independent research firm KDP Advisors:

"The Detroit automakers have, in essence, been pursuing an out-of-court restructuring over the last three years. These efforts have produced a competitive labor contract with the UAW, a viable solution to reduce retiree health-care expense, and a substantial downsizing of capacity and headcount. Incremental gains achieved through bankruptcy would be minimal in comparison and would likely result in even further deterioration of enterprise values as consumers would be far less likely to purchase an expensive vehicle from a bankrupt manufacturer, with or without government guarantees."

- **Three million jobs lost:** A liquidation of the Detroit-based auto companies would result in the loss of 3 million jobs, according to a study by the Center for Automotive Research. This includes direct job loss at the three companies, and at auto dealers, component suppliers, and other businesses. There would also be a ripple effect throughout the economies of auto communities across the United States, due to a decline in personal income and tax revenue.
- **Disruption of the supply chain will hurt all auto manufacturers:** The liquidation of the Detroit-based auto companies would inevitably result in the failure of component suppliers that depend on them for business. Because all of the auto manufacturers depend on many of the same suppliers, a disruption in the supply chain would cause significant problems for the foreign transplant operations in this country.
- **Auto retirees at risk:** Liquidation will jeopardize pensions and health benefits for one million retirees and their spouses and dependents.
- **Taxpayers and other retirees also at risk:** The federal pension guarantee program could be saddled with enormous pension liabilities if the auto companies terminate their pension plans. The demands on this program could then jeopardize pensions for millions of other workers and retirees.
- **Huge health care costs:** Under current law, the federal government would also be required to pay for part of the retiree health care costs for pre-65 retirees from the auto companies -- an enormous liability for the federal government.
- **Making the economic downturn even worse:**

Auto industry = 4% of U.S. GDP; Ten percent of U.S. industrial production by value.

A failure by any one of the Detroit-based companies would remove hundreds of billions worth of personal income, sales and revenue from the U.S. economy.

Working families and thousands of small and medium-sized businesses would be severely affected.

Revenues to the federal, state and local governments would drop, forcing cuts in vital social services at a time when they are most needed.

Active and Retired Autoworkers Have Already Made Enormous Sacrifices

- **2005 and 2007 contracts saved automakers billions:** Contrary to the assertions by some pundits and editorial boards, the current crisis facing the Detroit-based companies is not due to "overly rich" union contracts. In fact, in the 2005 and 2007 collective bargaining agreements between the UAW and GM, Ford and Chrysler, active and retired workers already stepped forward to make huge concessions.
- **Sacrifices by workers and retirees in 2005:** The 2005 contracts made cuts in wages for active workers and health care benefits for retirees.
- **Sacrifices by workers and retirees in 2007:** The 2007 contracts reduced wages for new workers by 50%. New workers will not be covered by the traditional retiree health care and defined benefit pension plans. The UAW also agreed that the responsibility for health care benefits for existing retirees would be transferred from the companies to an independent trust, called a Voluntary Employee Beneficiary Association (VEBA.)
- **Huge cost savings for companies:** The changes in the 2005 and 2007 contracts eliminated half of the companies' liabilities for retiree health care benefits, saving them billions of dollars.
- **Cost gap addressed:** As a result of the 2005 and 2007 contracts, the labor cost gap between the Detroit-based auto companies and the foreign transplants will be largely or completely eliminated by the end of the current contracts. Indeed, some analysts have indicated that GM's labor costs will now be lower than Toyota's.
- **On par with the competition:** In terms of labor costs, GM, Ford and Chrysler are on a par with their competitors. Thus, there is no competitive justification for further concessions from workers.

- **No pay cuts for workers in financial institutions:** The Treasury Department bailouts of banks and investment firms included restrictions on executive compensation, but have never included any cuts in pay or benefits for rank-and-file workers or retirees from financial institutions. Thus, it would be anomalous to impose such cuts on workers and retirees in the auto industry.

Fuel Economy/Environmental Standards Issues to be Considered Next Year

- **Energy a top priority for President-elect Obama:** The President-elect has specifically called for increases in fuel economy standards and accelerating the introduction of plug in hybrids, while ensuring that the vehicles of the future will be produced in this country by American workers. This agenda is supported by House and Senate leaders and clearly will be considered by the next Congress.
- **“Health care for Hybrids”** legislation was introduced by Senator Obama. It called for the federal government to provide assistance to the Detroit-based companies for their retiree health care legacy costs, in exchange for the companies meeting tougher fuel economy standards.
- **The UAW strongly supports moving ahead next year to deal with all of these issues.** Major progress can be made on fuel economy and plug in hybrids. Dealing with the retiree health care cost burdens should be an important part of any program to ensure that the auto companies have the resources to meet any new standards.
- **But the auto companies will never be in a position to do this if they do not receive an immediate infusion of assistance through a bridge loan from the federal government.** Simply stated, if the companies liquidate in the near future they will not be able to produce the green cars of the future here in the United States.

AR:lb
opeiu494
L8495