General Motors lost $8.6 billion in 2005

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Calling it "one of the most difficult years in GM's history," General Motors CEO Richard Wagoner announced Thursday that the world's largest automaker had lost $4.8 billion in the fourth quarter of 2005 and $8.6 billion for the entire year. The company has posted five consecutive quarterly losses and its first unprofitable year since the recession of 1992.

The huge losses were centered in GM's North American automotive operations—where profits fell by $7.6 billion in 2005—and prompted demands by Wall Street analysts that GM embark on an even more aggressive cost-cutting plan than the one it announced last November, when the car company said it would save $11 billion by shutting down 12 plants and eliminating 30,000 jobs. With the company's share values at an 18-year low, analysts continue to predict that GM may soon slide into bankruptcy.

GM's dismal results follow Ford's announcement Monday that the number-two US automaker lost $1.6 billion in North America for the year. Ford announced plans to cut 30,000 jobs and close 14 facilities by 2012.

Despite offering large customer incentives last summer, GM sales and market share continue to plummet. General Motors, which once sold one in two vehicles bought in America, now controls 26 percent of the US market, its lowest share since 1925. On a world scale, GM's market share has fallen to 15 percent, and the Japanese carmaker Toyota—which is boosting output—is expected to surpass it as the world's biggest automaker this year.

GM, Ford Motor Co. and DaimlerChrysler AG's Chrysler Group have seen their US market share decline steadily over the last 10 years, from 72 percent in 1995 to 57 percent last year, while foreign auto companies, particularly Toyota and Nissan, held 43 percent of the US market in 2005, their highest share ever.

One central reason for the decline is the Big Three auto companies' heavy reliance on highly profitable sport utility vehicles and trucks, hard hit by rising gas prices, which some analysts predict will hit close to $3 a gallon this summer.

The response to this decline has been a savage attack on jobs and autoworkers' living standards, an assault that will now be stepped up. Wagoner blamed GM's losses on "our huge legacy cost burden," a euphemism for the billions of dollars in the health care and pension payments owed to 750,000 retired autoworkers and their dependants. Last year, after Wagoner threatened to unilaterally impose health care cuts on its retirees, the United Auto Workers union accepted unprecedented cutbacks in medical benefits.

GM management has made it clear that these concessions, as well as its massive job-cutting plans, are only the beginning. This point was underscored by an article in the *Detroit Free Press* Friday, headlined, "GM: 'Brace for more cuts,' " which warned that pensions and health care benefits would be on the chopping block.

During the Detroit auto show earlier this month, Wagoner announced he wanted to eliminate the jobs bank—a program that provides temporary income and benefits for thousands of laid-off workers—before the national contract with the United Auto Workers union expires in September 2007.

"There's a lot of issues that we need to discuss in the next contract," Wagoner said, "and a lot of improvements that we see possible in cost competitiveness even between now and the next contract. We want to work every day on it and we'll not wait until September of '07 to address some of these issues."

With GM planning to add tens of thousands more workers to the jobless rolls over the next three years, the company is counting on the UAW to eliminate or cut back the program. Alluding to the union's long record of collaborating with the Big Three to cut labor costs, Wagoner said, “We need to sit down and work with the UAW on the best ways to make sure we’re competitive. I think clearer than ever, it’s in our interest and theirs, but we do have to do it jointly.”

Wall Street analysts have complained that the “benefits” of health care concessions, the shutdown of plants and the wiping out of 30,000 jobs would not improve the company’s cash flow until 2007-2008. Big investors continue to punish GM’s share values and demand even deeper cost cutting. Moody’s Investor Service late Thursday said it may lower GM’s long-term debt rating deeper into “junk,” citing its fourth-quarter earnings.

Much of the company’s fourth-quarter losses were directly related to the cost of restructuring its operations, including the mothballing of factories and outlays to cover the separation agreements for 12,000 workers being laid off in the company’s European operations. GM also took a $2.3 billion charge for the health care and pension costs of its 34,000 former employees at Delphi Corp., which GM spun off in 1999.

GM warned that its financial results may be revised before mid-March on any changes in Delphi costs—which are still being negotiated with Delphi and the UAW, and could be as high as $12 billion. Its losses might also increase as a result of an internal investigation into how it booked some credits with its former parts supplier. GM is currently under investigation by the US Securities and Exchange Commission and recently acknowledged that it overstated its 2001 earnings by $400 million.

Earlier this week, Las Vegas casino and MGM movie mogul Kirk Kerkorian raised his stake in GM to 9.9 percent, in a move analysts say signaled that GM executives have embraced the billionaire investor’s demands for the turnaround of the company through huge job cuts, slashing the wages and benefits of white- and blue-collar workers, and other cost-cutting measures.

“We believe that Kerkorian’s presence has ratcheted up pressure on GM management to restructure the business,” Merrill Lynch analyst John Murphy said in a report to investors Thursday. Regardless of what Kerkorian does, “we believe that things are going to get worse before they get better,” Murphy added.

There has been widespread speculation that Kerkorian has been planning to take advantage of the failing auto company’s situation to buy GM at a fire sale price. Analysts say he would then sell off the company’s most profitable assets, such as the GMAC financing arm, and push the car company—along with its pension and health care obligations—into bankruptcy, allowing him to walk away with billions.