

Chrysler could file for bankruptcy as early as next week

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The US Treasury Department is preparing a Chapter 11 bankruptcy filing for Chrysler LLC that could come as soon as next week, the *New York Times* reported Thursday. The newspaper cited persons involved in ongoing negotiations between the Obama administration, the Detroit automaker and the United Auto Workers union (UAW).

Under the government-supervised bankruptcy, Italian automaker Fiat would complete its alliance with Chrysler while the company is under bankruptcy protection. A bankruptcy case, the *Times* reported, “would allow Fiat to more easily select the assets of Chrysler that it wants to preserve, such as dealerships, factories and the company’s product development operations...Then, Chrysler could sell or jettison any assets it does not want to keep, and cancel franchise agreements with superfluous car dealers.”

While the newspaper claims the plan protects the pensions and health care benefits of the company’s 125,000 retirees and their dependents, the opposite is the truth. The *Times* reported that the White House has reached an agreement in principle with the UAW to accept Chrysler stock to finance half of the company’s \$10.6 billion obligation to the union’s retiree health care trust. The *Wall Street Journal* reported that the UAW may have acceded to even more, saying the union “would get \$1 billion in 2009 and \$2 billion in 2010 plus a stake in the restructured Chrysler under the most recent government proposal to lenders.”

The funding of the retiree trust with virtually worthless shares all but guarantees that it will go broke and the UAW, which will take over the provision of health care benefits next year, will slash coverage and increase out-of-pocket expenses for retirees.

Moreover, Chrysler is certain to dump its pension obligations onto the federal government’s Pension Benefit Guaranty Corporation, which is already severely overstretched. “Chrysler has a \$9.3 billion pension shortfall, or 34 percent of its total liability, according to the Pension Benefit Guaranty Corporation,” the *Times* reported. “The agency said earlier this month that it would assume \$2 billion of the shortfall in the event Chrysler terminates its pension plans. If that happened, retirees would receive sharply lower benefits than they normally would expect.”

The UAW has given its blessing to the plan, which will lead to the carve-up of the 85-year-old company and gut the jobs, living standards and working conditions of 26,000 hourly workers, in addition to penalizing retirees. This will set a precedent for the Obama administration to carry out a similar breakup of General

Motors, attacking 66,000 hourly workers and 800,000 retirees and their dependents.

In exchange for this betrayal, the UAW would emerge as one of the largest shareholders in Chrysler, giving the union bureaucracy a direct financial stake in driving up the exploitation of its own members in order to boost the value of its shares. The *Times* noted, “Once Chrysler emerges from bankruptcy protection, it would largely be owned by Fiat, the UAW, the Treasury and its lenders, these people said.”

The Canadian Auto Workers union (CAW) is reportedly close to its own deal with Chrysler, which will lower wages and tear up long-standing factory floor protections for workers. Fiat CEO Sergio Marchionne has threatened to walk away from a deal unless workers on both sides of the border abandon their “sense of entitlement” and accept wages and benefits on par with non-union workers at Japanese-owned plants in North America.

“After vowing repeatedly not to reduce labor costs for Chrysler’s 8,000 Canadian workers, the CAW on Wednesday appeared close to backing down,” the *Times* reported. “Chrysler executives have said that without big concessions from the CAW, the company could close its manufacturing operations in Canada.”

A week before the April 30 deadline set by the Obama administration for Chrysler to reach a deal or face liquidation, the Obama administration has used the threat of bankruptcy to intimidate workers and wrench the maximum in concessions from them.

Meanwhile, the White House has repeatedly sought to appease the company’s big bondholders, who are demanding that the public pay for their virtually worthless debt holdings. The bondholders—led by JPMorgan Chase, Citigroup, Goldman Sachs and Morgan Stanley—have already been the beneficiaries of the government’s Wall Street bailout and believe they have nothing to lose from blocking any deal to keep the company out of bankruptcy. As the *New York Times* noted, “If Chrysler were liquidated and sold off in parts, the secured lenders would be first in line to be paid.”

On the market, Chrysler’s creditors cannot sell their bonds for anything more than 10 to 15 cents on the dollar. The big banks, however, are demanding the administration pay them 65 cents on the dollar, or about \$4.5 billion out of the \$6.9 billion in bonds they hold. In addition, the banks are seeking a 40 percent ownership stake in the company, a seat on the company’s board of directors and \$1 billion from Fiat, which has said it plans to put no

money into the merger.

The *Wall Street Journal* reported Thursday that the Treasury Department's counteroffer proposes that "the banks and other lenders accept as payment 22 percent of the \$6.9 billion they are owed plus a 5 percent equity stake in Chrysler, said several people familiar with the matter. That's up from an earlier Treasury proposal that the banks and other lenders accept 15 percent of what Chrysler owes them and receive no Chrysler stock."

Obama's auto task force is led by former hedge fund and private equity investors, including Steven Rattner. It is, above all, seeking to craft a deal that will guarantee a high rate of return for Wall Street by gutting the livelihoods of auto workers and their families.

General Motors prepares for bankruptcy

General Motors, the biggest US automaker, announced Thursday it would shut down all 13 of its assembly plants in the US and Mexico for nine weeks this summer. The move, which will put 55,000 hourly workers on temporary layoff, is aimed at cutting operating costs and reducing GM's huge inventory of unsold cars. At the same time, it eliminates an essential source of revenue—and threatens of chain reaction collapse of suppliers—making it all but certain that the company will file for bankruptcy protection.

The Obama administration has given GM until May 31 to wrench major concessions from the UAW and reduce its debt to bondholders or face being thrown into the bankruptcy courts, where labor contracts would be torn up and the century-old former industrial icon broken up.

As with Chrysler, the administration has prepared a "363 sale"—named after Section 363 of the Bankruptcy Code—which would break GM into two corporate entities. The "good" GM would consist of profitable brands and factories, which would be sold to private investors. The "bad" GM would include the company's undesirable assets and debts, including tens of billions of dollars in pension and retiree health obligations.

GM Chief Financial Officer Ray Young told Detroit business leaders Wednesday that a GM bankruptcy filing was "probable," the *Detroit News* reported. In further sign that GM is heading in that direction, the company announced Thursday it would not make a \$1 billion debt payment owed to bondholders by June 1.

Auto companies traditionally close for two weeks during the summer for model changeovers. GM's nine-week shutdown, which will begin as early as mid-May, is designed to reduce GM's capacity by 190,000 units and will follow unprecedented first-quarter production cuts, which lowered North American capacity by 30 percent.

Due to the economic crisis, US auto sales have fallen to their lowest level in 26 years, with sales in 2009 expected to be 9 million, down from between 16 and 17 million for most of the decade.

It is unknown how many of the closed plants will be reopened. The company is currently drawing up plans to drastically downsize, following Obama's rejection of its initial proposal to

cut 47,000 jobs, including 21,000 in the US, and close 14 plants in North America and Europe. Earlier this week, 1,600 salaried workers were given pink slips as part of GM's plan to eliminate 3,400 white-collar workers.

"We continue to work with the US Treasury to revise our business plan to go faster and deeper as required by President Obama," GM spokesman Greg Martin said. "As part of the plan, we previously acknowledged we will idle several US assembly, stamping and power train plants. We are currently finalizing our plans."

GM's bondholders are chiefly made up of hedge funds and Wall Street investment firms that specialize in buying and selling the debt of distressed companies. Like Chrysler's creditors, they are holding out for the best deal from the Obama administration and insisting that autoworkers give up the bulk of concessions.

The UAW is involved in intense negotiations over how much GM will pay of the \$20 billion it owes to the union's trust. It is currently working out a deal with the White House that would give it a substantial ownership stake in a restructured GM, where autoworkers—who will still be forced to pay union dues—will receive poverty wages and be subjected to conditions of heightened exploitation.

The *Detroit News* reported Thursday that the UAW leadership had summoned its national bargaining council to Detroit, a sign that a deal with Chrysler was imminent. For the last three weeks the UAW has remained silent, leaving its members in the dark, while it negotiated a deal behind their backs.

On Wednesday, UAW President Ron Gettelfinger broke the silence, saying in a statement that the union was working toward an agreement "that will be in the best interests of Chrysler workers, retirees and the communities where the company does business." In fact, the UAW bureaucracy—advised by the Wall Street firm Lazard—has used the negotiations to preserve its own interests by maximizing its ownership stake in the companies.

In the top echelons of the UAW bureaucracy there is no doubt fear that rank-and-file opposition could derail its efforts and vote down a sellout agreement. This is one reason the UAW may very well support a bankruptcy process, in which a judge would tear up the existing agreement and impose the demands of the corporations and Wall Street.



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