Huge GM losses push automaker towards bankruptcy

Patrick Martin
9 May 2009

General Motors reported dismal results for the first quarter of 2009 Thursday, including a $5.98 billion operating loss and a drain of $10.2 billion in operating cash, leading to widespread speculation in the national and Detroit media that the company will file for bankruptcy in less than three weeks.

The largest US auto maker faces a deadline of June 1, set by the Obama administration, to restructure its contracts with the United Auto Workers and reach agreement with debt-holders to convert most company bonds into stock. May 26 is the deadline for bondholders to reply to the company's stock-for-debt exchange offer.

Detroit News columnist Daniel Howes, after interviewing GM Chief Financial Officer Ray Young Friday morning, said that if GM bondholders take the same hard line as a significant section of Chrysler's bondholders and reject the stock-for-debt swap, "I would expect GM to file for bankruptcy on May 27th."

GM's loss in the first quarter was nearly twice as bad as the first quarter of 2008, when it lost $3.25 billion. North American operations were the hardest hit, with a $3.2 billion operating loss, eight times the amount lost in the first quarter of 2008. GM's market share in North America fell from 21.7 percent in 2008 to only 17.9 percent.

Young told reporters Thursday that cost-cutting had been unable to keep pace with the collapse of the company's revenues, which fell by 50 percent during the first three months of the year. "We're focusing very, very much on the cost side of the business," he said, but even if GM achieves its goal of a 25 percent cut in structural costs, this would be only half the reduction in revenues.

The $22.4 billion drop in revenues was the result of plunging auto sales. GM cut production by 903,000 cars and trucks, a number which CFO Young called "staggering," building only 1.3 million vehicles worldwide. GM lost $38.7 billion in 2007 and $30.9 billion in 2008, and it is currently sustained only by financial support from the federal government.

GM ended the quarter with $11.6 billion in cash. At the rate it is burning cash—a net loss of $113 million each and every day—the company would run out of money completely by early July, regardless of any government deadline.

Both media reports and statements from GM executives suggest that the public discussion of bankruptcy has hurt the company's sales and made bankruptcy even more likely.

Speaking to the media Thursday, GM CFO Young said, "Once you start losing revenue you can get into a vicious circle from which you cannot recover. We need to get the bankruptcy speculation rumor behind us. It clearly is having an impact in terms of sales."

The *Detroit News* reported, "Growing fear that General Motors Corp. will be forced to file for bankruptcy is scaring away buyers." One GM executive told the newspaper, "We're getting killed," by the media speculation over bankruptcy.

The Obama administration's auto industry task force held meetings at the Treasury Department in Washington with GM officials and UAW President Ron Gettelfinger, as the official opening of talks between the company and the UAW were delayed until Monday in Detroit.

Senator Carl Levin, a Democrat of Michigan, said GM could not proceed with plans to close 13 plants and eliminate 21,000 jobs without the approval of the UAW. The closings "have to be negotiated with the UAW, and that's now clearly part of the process," he said.

Meanwhile Canadian government officials demanded that the Canadian Auto Workers make even greater concessions to the company, beyond those accepted by the union executives in March. Both the Conservative-led national government in Ottawa and the Liberal provincial government in Ontario agreed that further cuts for workers would be the price of new loans and debtor-in-possession financing if GM files for bankruptcy.

The union officials in both countries are collaborating shamelessly in imposing the demands of the GM bosses and the US and Canadian governments for further cuts in jobs and living standards.

The first public statement on the auto crisis this week from UAW officials in Detroit was a blast of anti-Mexican chauvinism from UAW Vice President Bob King, appearing with Ford Motor Company officials at a ceremony Wednesday to announce conversion of the Michigan Truck Plant to building the Ford Focus compact.

King appealed to a crowd of Ford employees against GM’s plans to continue building cars in Mexico. “If you’re going to take American tax dollars, where should you build?” he asked, eliciting the response “in America,” from union and company officials in his audience.

King spoke to the *Detroit Free Press* after the rally, denouncing GM’s latest restructuring plan on the grounds that it calls for increasing imports of cars built by GM overseas once the domestic US auto market revives. “The GM plan is not acceptable,” King said. “I don’t think the American public will support their tax dollars being used to close more plants and then to openly say we’re going to bring the product in from Korea, China and Mexico. It’s just a tremendous outrage.”

It is significant that King went beyond the usual chauvinist rhetoric of the UAW, attacking not only foreign car makers, but foreign auto workers employed by General Motors, an American company.

The UAW’s chief Washington lobbyist, legislative director Alan Reuther, sent a letter to Congress Tuesday voicing a similar complaint, then followed up in an interview with the *Washington Post* published Friday. “The bottom line is GM would rather pay $2 an hour—and it’s a slippery slope downward,” Reuther told the *Post*. “If GM is going to be getting government assistance, they ought to be maintaining their manufacturing footprint in the U.S. rather than going off to China, Mexico and South Korea.”

The UAW has no principled objection to auto workers being paid $2 an hour. It simply wants to make sure that those $2-an-hour workers are in the United States, paying dues to support the army of $50 and $100-an-hour parasites in the UAW hierarchy.

This “America First” perspective is both politically reactionary and narrow-minded to the point of absurdity, ignoring the global dimensions of the crisis. This crisis is devastating the automobile industry and creating the conditions for the international unification of auto workers in a common struggle to defend their jobs and living standards.

GM workers, for instance, are directly linked through the production process with workers in Asia, Latin America and Europe. The ongoing maneuvers such as the negotiations between Fiat, Chrysler and GM pose the necessity for common action between Chrysler workers in the US, American, Mexican and Brazilian workers at GM, European workers at GM’s Opel and Vauxhall subsidiaries, and Fiat workers in Italy, Spain, Latin America and other locations.

Nor is there any arbitrary wall separating the auto workers at the “successful” companies from those at the more beleaguered. The economic crisis affects world capitalism as a whole, and even the biggest and most profitable auto maker, Toyota, has been hard hit. The company announced Friday that it had posted a loss of $6.9 billion in the first quarter, $1 billion more than GM lost, and that it forecasts an annual loss of $8.6 billion.

Toyota’s sales fell by double-digit percentages in Japan, the US and China, but the company said the losses were worsened by the rise in the yen against the dollar. The company posted record profits last year, but its annual sales have fallen by 22 percent, with sales in the US falling 42 percent in April. Standard & Poor’s lowered its long-term credit rating on Toyota by a notch to AA.