

Carmakers near \$25bn loan package

Bernard Simon

The US House of Representatives was set yesterday to authorise a \$25bn package of low-cost loans to help hard-pressed US carmakers and their suppliers finance plant modernisation at a time of restricted access to public capital markets. The automotive loans are separate from the proposed \$700bn bail-out for the banking sector, which is still being debated in Congress. The Senate is expected to add its approval to the motor industry package in the next two days.

The industry's case has been helped by the fact that Michigan and Ohio, the two states most dependent on the car industry, are key swing states in the November 4 presidential election.

Executives of General Motors, Ford Motor and Chrysler and their suppliers have lobbied heavily for the loans. Both presidential candidates, John McCain and Barack Obama, have expressed support.

Shelly Lombard, analyst at Gimme Credit, a corporate bond research company, told clients this week that "blue collar workers are more sympathetic victims than 'rich' investment bankers. So it's easier to defend loans designed to save close to 100,000 jobs in the shrinking US manufacturing industry."

The go-ahead for the car industry loans has been written into a stop-gap spending bill, known as a continuing resolution, which must be passed to keep the federal government running beyond the end of the fiscal year on September 30. Congress and the White House have yet to agree on details of the fiscal 2009 budget.

The loans were originally authorised in an energy bill passed last December to finance the retooling of plants for more fuel-efficient vehicles, especially hybrid and electric cars. But they have become a crucial prop for Detroit carmakers.

The continuing resolution provides funding for \$7.5bn, which is the estimated subsidy on the loans - in other words, the cost to the government of providing them at well below market rates.

The loans will not take effect until the energy department has written detailed regulations dealing with, among other issues, which investments will qualify and conditions for repayment. Congress has directed the department to begin writing the regulations quickly, and will provide any extra staff required to do so. One lobbyist said he hoped the regulations would be completed by early 2009.

All carmakers and suppliers with operations in the US are theoretically eligible. However, the energy bill restricts benefits to plants that have been in operation for at least 20 years, thereby excluding most foreign carmakers.

A Toyota spokesman said his company was agnostic on whether or not it derived any benefits. It has kept a low profile in the debate on the loans.

The Detroit-based carmakers have insisted that the loans, known as the Advanced Technology Vehicles Manufacturing Incentive Programme, are not a bail-out, because they must be repaid. But critics have questioned the wisdom of supporting the motor industry with taxpayers' money, especially in the wake of the huge amounts being provided to Fannie Mae, Freddie Mac, AIG and Wall Street investment banks.

Fonte: Financial Times, London, September 25 2008, Primeiro Caderno, p. 4.