

Race to finalise Chrysler deal

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General Motors and Cerberus Capital Management are racing to finalise a deal for the carmaker to acquire the private equity group's stake in Chrysler before next week's US election.

While many motor industry experts question the benefits of a tie-up between Detroit's number one and number three carmakers, they increasingly recognise that the companies have few other options. Both are bleeding cash and are in danger of running out of liquidity sometime next year as sales fall sharply in their core US market.

The scale of the crisis facing Chrysler was underlined yesterday when the carmaker said it would cease production of its first hybrid petrol-electric vehicles just three months after they went on sale because the models were built at one of the plants it was closing.

Sudhir Chopra, a Chrysler dealer in Toronto, said that "what is becoming very clear is that some sort of merger has to happen".

With government support set to play a crucial part in a deal, the participants are eager to nail down details before the election outcome potentially blurs authority between the Bush administration and its successor.

Some industry executives and advisers to the carmakers questioned whether a deal could be done by next week because the positions of constituents including unions and the government have not been firmed up.

Rick Wagoner, GM's chief executive, has been in Washington in recent days pleading the case for financial assistance.

A person close to the deal yesterday put the size of a proposed aid package at \$10bn. Reuters reported that the amount would include \$3bn in preferred shares.

The Bush administration has for now ruled out aid through its capital purchase programme for federally regulated banks and savings companies, so the government will not be taking any direct stake in GM, Chrysler, or a combination of the two through that programme.

Instead, officials are considering accelerating disbursement of \$25bn in loans authorised by Congress this month to help carmakers invest in the transition to production of more energy-efficient vehicles.

The administration could also assist carmakers by allowing the Treasury department to buy troubled car loans.

One banker raised the possibility of Washington providing loan guarantees along the lines of the rescue of Chrysler in 1979.

Fonte: Financial Times, London, October 29 2008, Companies & Markets, p. 15.