

U.S. auto bailout may trigger trade disputes

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GENEVA: A flurry of proposals to bail out automakers around the world, inspired by the United States, may provoke trade disputes over whether the Americans are unfairly trying to subsidize their industry or just making up for government aid that foreign rivals already enjoy.

As the U.S. government considers a lifeline for American automakers, officials in Europe, Canada and Asia are considering their own aid packages, even as the European Union threatens to lodge a complaint against any U.S. bailout. China may also complain, though its government is considering helping SAIC Motor and Guangzhou Automobile Group.

Any complaints to the World Trade Organization may bring to a head a long-simmering dispute over policies that General Motors, Ford Motor and Chrysler say unfairly help their rivals, like state-financed health care and retirement benefits and currency issues.

"Frankly, it's stones and glass houses," said Garel Rhys, professor of automotive economics at Cardiff Business School in Wales. "Everybody has been at this game for their own interests. Nobody is pure."

Neelie Kroes, competition commissioner of the European Union, weighed in on the debate Friday, urging its 27 members to avoid the "costly trap of a subsidy race" that would give some countries unfair advantages.

"The temptation may be greater now for member states to give subsidies that can result in their economic problems being exported to their neighbors, but that would only worsen the economic difficulties," Kroes said at a conference in Brussels. "The European economy and European taxpayers will be better off if politicians choose another, more effective, route."

She pointed to EU rules that allow limited aid that does not distort competition, including grants for entrepreneurs, research, education and environmental projects.

Congress is trying to reach a compromise on giving the automakers the \$25 billion that they say they need, either by speeding the use of money already approved for developing more fuel-saving technologies or providing a new source of money.

Now similar proposals are proliferating around the globe. "When one of the major powers grants subsidies to a high-profile industry, the other is inevitably led to react by defending its own interests," said Pierre Kirch, a trade lawyer at Paul Hastings in Paris.

In Europe, where car sales fell almost 15 percent in October from a year earlier, the sixth consecutive monthly drop, auto companies are lobbying the European Union for loans of 40

billion, or about \$50 billion. Paul Everitt, chief executive of the Society of Motor Manufacturers and Traders, responded to Kroes's comments by calling for either "collective action" or individual country bailouts.

Gian Primo Quagliano, head of research at Promotor, a research firm in Bologna, said that "If the U.S. gives aid to carmakers, it's fair to have them in Europe as well."

EU officials are drafting a plan to provide loans through the European Investment Bank to promote clean-car technology. The bank plans to increase overall financing levels by as much as €15 billion next year, its president, Philippe Maystadt, said this month. A portion would go to the auto industry.

Chancellor Angela Merkel said the German government would decide by Christmas on a request from Opel, a subsidiary of General Motors, for more than €1 billion in credit guarantees. The state government in Hesse, where Opel employs 15,000 people, agreed to give the company and regional parts suppliers loan guarantees of as much as €500 million.

Automakers in Britain, where sales slid 23 percent in October, have asked for tax cuts and permission for their finance companies to access financing available to British banks. The French finance minister, Christine Lagarde, recently called for national and European "actions" to "support" the industry.

In Canada, Prime Minister Stephen Harper said this month that his government might follow any U.S. effort with an aid package for his country's manufacturers and parts suppliers, including Magna International and Linamar.

Chinese carmakers also want aid. Slowing demand and rising competition have caused shares of SAIC, China's biggest domestic automaker, to tumble 78 percent this year in Shanghai trading. Chen Jianguo, an official with the National Development and Reform Commission, has said that Beijing is considering lowering sales taxes on alternative-energy vehicles. The government's recently announced stimulus package may also help, said Winfried Vahland, head of Volkswagen operations in China.

"The situation is really severe," said Zeng Qinghong, general manager of Guangzhou Automobile Group, a partner of Toyota Motor and Honda Motor. "We hope the government can introduce policies to stimulate demand."

The Japanese finance minister, Shoichi Nakagawa, told Bloomberg Television that his government probably would not object to the U.S. government aid for GM because its collapse "would be huge, not just for America but for Europe and Japan as well."

This does not mean that Japanese carmakers will refrain from asking for aid, too. "If the money is given because bankruptcy would cause a lot of problems, this may be unfair" to Japanese carmakers, said Takeshi Miyao, an analyst in Tokyo with CSM Worldwide, an automotive consulting company. "The question of why the Japanese government isn't helping the Japanese carmakers will definitely arise."

Any American package will be scrutinized by other countries to see if it runs afoul of World Trade Organization rules, which allow certain kinds of subsidies, like those intended to protect the environment, but bar others, including payments to exporters.

The European Union this month threatened to lodge a complaint against any U.S. auto package.

South Korea's president, Lee Myung Bak, told CNN that he supported a U.S. bailout but warned that it must "give more serious consideration to the method" because it "could run counter to WTO rules and set a bad precedent."

"Then, other countries may follow the example of the U.S. to directly subsidize their automakers," Lee said.

China may "quite possibly" lodge a World Trade Organization complaint if the U.S. government bailed out American automakers, said Kirch, the trade lawyer.

But American automakers scoff at the notion that they may be accused of benefiting from unfair subsidies.

"We're the only country in the world that expects its auto industry to exist without some government support," said Sean McAlinden, chief economist at the Center for Automotive Research.

One of the American automakers' biggest complaints involves the yen, which they say is kept artificially low against the dollar.

Rick Wagoner, the chief executive of General Motors, has repeatedly complained that it is disadvantaged by pension and retiree-health costs, benefits that are heavily subsidized in competitor countries, including Italy, Germany and France. Italy also helps companies like Fiat pay unemployment benefits, making temporary production cuts less expensive. But taxes in those countries tend to be higher, offsetting the advantage.

Rhys, the automotive economics professor, noted that many European carmakers that were once state-controlled - including Renault, Volkswagen and Alfa Romeo - received loans at preferential rates. Renault, in which the French government still holds a 15 percent stake and has enjoyed state largess, would have collapsed without it, Rhys said.

"Just about every one of the European automakers, apart from Mercedes," he said, "have had a rescue of some sort or another."

Carmakers get a deadline

American automakers have two weeks to show a skeptical Congress how a multibillion-dollar lifeline would help them keep their industry from collapsing, The Associated Press reported Friday from Washington.

Democratic leaders in Congress said they would not help the Big Three until they presented a plan showing how the federal financing would stabilize their industry. Senator Harry Reid, Democrat of Nevada and the majority leader, said General Motors, Ford Motor and Chrysler needed to submit their plan to Congress by Dec. 2. Hearings are expected and lawmakers could consider legislation during the week of Dec. 8, but only if the industry shows that taxpayers and auto workers would be protected, congressional leaders said.

The automakers quickly issued statements Thursday promising to submit the plan. But even if lawmakers return to vote, they are likely to insist on numerous conditions on any loans, including a chance to share in future profits by the auto companies and limits on executives' pay packages.