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GM to change company it keeps

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Will “Government Motors” be as eager to cooperate with the Obama administration after the government sells off its controlling share in the company?

The administration Tuesday detailed plans for a $10 billion stock offering Nov. 18 ultimately aimed at reducing its 61 percent stake in General Motors to 35 percent over the next few years.

The stock sale will mark the end of an unprecedented U.S. government intervention in such a large and important U.S. industry. It may also end an unusual era of cooperation between the government and automakers on fuel economy standards and climate change.

Environmentalists and auto industry officials said that they expect more conflict with the administration as government control of GM and Chrysler diminishes, especially when Republicans take over the House next year.

“I think you are going to see the industry pushing back on CAFE standards and maybe on safety standards,” said one veteran auto industry representative in Washington.

Government assistance to the auto industry was “certainly a factor” when automakers reached a deal in May 2009 to raise average fuel economy standards for passenger cars to 35 miles per gallon by 2016, according to Martin Zimmerman, a business professor at the University of Michigan.

Until then, automakers had successfully fended off efforts to raise fuel economy rules for 19 years. The average fuel efficiency had been 27.5 miles per gallon since 1990, when the hulking Ford Taurus was the second best-selling car in America.

But a lot of things came together in the spring of 2009, according to Deron Lovaas, director of transportation policy at the Natural Resources Defense Council.

For one thing, the oil price shock of 2007 had transformed public attitudes about fuel efficiency, and the car companies were retooling for smaller cars already. California had raised its fuel economy standards, and auto companies suddenly faced the prospect of different standards in different states.

More important, General Motors and Chrysler were on life support, after years of poor management and the effects of the recession, which shrank the U.S. market by 40 percent in two years. In addition to the tens of billions of dollars in loans that the two companies received under the Troubled Asset Relief Program, auto makers were also benefiting from the $3 billion Cash for Clunkers program, which helped prop up auto sales in 2009.

“In the spring of 2009, the auto industry had a lot on the table,” said the industry representative.

But the end of government control of General Motors means that it will be free to resume its long-standing efforts to resist fuel economy standards, according to Dan Becker, director of the Safe Climate Coalition.

Becker said that GM fought the 2009 deal every step of the way, just as it fought efforts to regulate carbon emissions until court decisions compelled it to go along with the Obama administration.

Environmentalists and auto industry officials say that there is no prospect of undoing the 2009 deal on fuel economy standards, which automakers have built into their car designs for the next six years.

But a fight has already begun about what happens after 2016. On Oct. 1, the Obama administration released its proposal to continue upping average fuel economy standards between 2017 and 2025. The administration proposed annual increases of 3 percent to 6 percent a year, yielding a 2025 standard of between 47 and 62 miles per gallon.

The rules don’t take effect for more than a decade, but the standard will be finalized by next October.

The auto industry official said that auto companies will resist the high end of that range, and he used the traditional rhetoric of the industry to argue that “consumers should be making these decisions, and not the government.”

Becker said that the government will retain a sizable piece of GM for years, and that he hopes this influence will deter the company from fighting to weaken the next round of fuel economy rules.

More complicated is GM’s role on climate change, according to Lovaas. Under a Supreme Court ruling that effectively mandates federal rules on carbon dioxide emissions from cars, GM and other auto companies became one of the few U.S. industries to support a cap on carbon emissions.

With Republicans in control of the House and other industries on the other side working against federal rules climate change, will GM remain as willing to pay the price for carbon regulation? “It is an interesting question,” Lovaas said.

Treasury officials have always argued that managers appointed by the government have acted independently, and they point out that a majority of GM’s campaign contributions have continued to go to Republicans.

GM spokesman Greg Martin said that government ownership had no impact on the company's about-face on fuel economy, attributing it to California's move. He said that GM, with 20 percent of the U.S. market in 2009, couldn't have dragged nine other carmakers along in supporting the deal.

But the auto lobbyist scoffed at this. "Foreign car companies always deferred to the Big Three" U.S. automakers. "There were a lot of good reasons to make a deal then, and there will be fewer in the future, and [government] ownership is one of them.