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GOP senators question loan for Fisker Automotive

BY DAVID SHEPARDSON DETROIT NEWS WASHINGTON BUREAU 0 COMMENTS

Washington -Two U.S. senators want the Energy Department to answer new questions about the decision to loan \$529 million to luxury auto start-up Fisker Automotive Inc. and award \$249 million in grants to battery start-up A123.

Fisker didn't immediately comment on the letter.

In a letter to Energy Secretary Steven Chu on Monday, Sens. Chuck Grassley, R-Iowa, and Sen. John Thune, R-South Dakota, questioned why the Energy Department invested in Fisker when it is partly owned by the Qatar Investment Authority: "Why should the American taxpayer have to accept the credit risk of a company owned by a foreign government?"

In April, Fisker said it is delaying production of its next-generation family sedan and may not build the vehicle in Wilmington, Del., after suffering several setbacks with its first plug-in hybrid batteries.

Fisker's battery supplier, A123, said it will replace about 600 batteries at a cost of \$55 million after it said it found manufacturing flaws.

Grassley and Thune asked the Energy Department if the A123 recall will impact the government's decision to release the remaining portion of the A123's \$249 million grant under the stimulus. "Will DOE consider A123's ongoing financial struggles before distributing the rest of the grant?" the letter asked.

This month, Massachusetts-based A123 plans to hire as many as 400 workers in coming months for its manufacturing plants in Livonia and Romulus — a move tied to fulfilling promises made for state and federal subsidies.

A123 has about 780 employees in Michigan. New workers would be added at a 100-per-month pace beginning this month, the spokesman said.

If the company follows through with its plan, by fall it will have replaced the workers it lost late last year after a round of layoffs.

A123 in April received a two-year extension on its deadline to spend a \$249.1 million grant from the federal government, originally received in 2009. The money was to be used for the construction of new lithium-ion battery manufacturing facilities in Michigan. A123's Livonia plant opened in 2010, and its Romulus plant opened last year. The company had \$120 million left of the \$249.1 million grant.

In 2011, A123's loss grew 69 percent to \$257.7 million from the year earlier. And in April the company reported a first-quarter loss of \$125 million — a 133 percent increase from the \$53.6 million loss during the same quarter in 2011.

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A123 then said it had "retained an outside adviser to provide financial strategic advisory services in connection with our ongoing strategic efforts and evaluation of strategic alternatives." One of the strategic alternatives that money-losing companies often consider is selling parts or all of the business."

In 2010, Fisker won \$529 million in low-cost Energy Department loans, and has drawn \$193 million, mostly for use in developing the Fisker Karma that was designed and engineered in the United States but assembled in Finland.

But the Energy Department froze the rest of the loan last year amid talks about the company's business plan.

In an earlier letter in April, Grassley and Thune Chu asked a series of questions about the loan from the \$25 billion Advanced Technology Vehicles Manufacturing program.

The department did not answer or said it could not answer many of the specific questions the pair asked, and instead largely reiterated statements the department has already made about the program.

The senators sent a follow-up letter Energy Department again requesting that the Obama Administration explain its selection of Fisker.

"The response doesn't address the questions we asked regarding the accuracy of the department's statistics. That's cause for concern," Grassley said. "There's also a lot of discussion of the due diligence that went into making the loan but no evidence to show what that due diligence actually was. The riskiness of loans to companies that may or may not be able to pay them back deserves scrutiny."

Thune said "it's unfortunate that with millions of taxpayer dollars at stake the Obama administration will not answer our specific questions about the troubled Advanced Technology Vehicles Manufacturing program."

Energy Department spokesman Damien LaVera defended the program.

"The Department's loan program invests in advanced hybrid electric vehicles because they have the potential to significantly improve performance and fuel economy for American consumers. Our loans and loan guarantees have strict conditions in place to protect taxpayers, requiring borrowers to meet strict milestones and conditions prior to receiving loan proceeds. As has been widely reported, Fisker has experienced some delays in its sales and production schedule — which is common for start-ups," LaVera said.

"As Fisker works through those issues and incorporates lessons learned from the production of the Karma, the Department is working with Fisker to review a revised business plan and determine the best path forward so the company can meet its benchmarks, produce cars and employ workers here in America."

The Energy Department heralded the loan in 2010 when it said it would create 2,000 factory jobs at a former General Motors assembly plant in Delaware that Fisker bought during GM's bankruptcy restructuring. Vice President Joe Biden even traveled to Wilmington after the department announced the loan for Fisker to tout the project for his home state.

The Project Nina vehicle, now renamed the Fisker Atlantic, was to start being production this summer in Wilmington. Now, LaSorda said, he won't decide where to build the vehicle until the end of summer, and said it might not come out late this year or next.

Canceling the Wilmington project would be another blow to the Energy Department's \$25 billion struggling auto bailout program, which hasn't made a new loan in more than a year. Many companies say politics are to blame for the lack of loans.

Fisker laid off 26 workers in Delaware and 40 workers in California in February.



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The company suffered a setback when Consumer Reports bought a Fisker and it died soon after.

Fisker also issued a recall for the first 240 Fisker Karma vehicles in December to address coolant leaks that could have led to a battery fire.

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