Written by Michael Tennant on October 17, 2012

Electric Car Battery Maker Goes Bankrupt Despite $500M in Subsidies

Another day, another subsidized "green energy" firm going bankrupt. This time it's A123 Systems Inc., a Massachusetts-based manufacturer of batteries for electric cars that received about $500 million in state and federal assistance, including a $249-million grant from the U.S. Department of Energy (DOE).

A123, which has tumbled in value from $2.3 billion to just $11 million, filed for bankruptcy in Delaware on October 16 after missing an interest payment on $143.8 million of debt. The company said it plans to sell its assets to Johnson Controls Inc. of Milwaukee, Wisconsin.

"This action is expected to allow the company to provide for an orderly sale of the automotive business assets and all other assets and business units," A123 said in a press release.

If the court approves the sale, Johnson will "acquire A123's automotive business assets, including all of its automotive technology, products and customer contracts; its facilities in Livonia and Romulus [Michigan]; its cathode powder manufacturing facilities in China, and A123's equity interest in Shanghai Advanced Traction Battery Systems Co., as part of the $125 million deal," according to the *Detroit News*.

As *The New American* recently reported, A123 had announced a deal with Wanxiang Group Corporation that would have seen the Chinese auto parts maker invest up to $465 million in A123 and take control of its operations. That deal, however, fell through "as a result of unanticipated and significant challenges to its completion," according to A123 CEO David Vieau.

One of those challenges came from Sens. Charles Grassley (R-Iowa) and John Thune (R-S.D.), who last week wrote Vieau to express their concern that taxpayer dollars or the technologies developed with them might end up in the hands of a foreign company.

Like the now-infamous Solyndra, A123 Systems, Inc. was a beneficiary of politicians' fondness for spending taxpayer dollars on so-called "green energy" projects in defiance of economic reality. In 2007 the company, then just six years old, received a $6-million grant from the Bush administration; two years later it got the $249 million from the Obama DOE, of which it has spent $123 million to date. It also raked in $238 million from Michigan taxpayers. Michigan's then-Gov. Jennifer Granholm, a Democrat, lobbied the Obama administration for the 2009 federal grant.

"In 2010," reports the *Detroit News*, "President Barack Obama invited the CEO of A123 to the Rose Garden to tout the impact of green jobs and he said the company would add more than 3,000 jobs by the end of 2012."

Obama also called Granholm and A123 employees “to congratulate A123 Systems on this tremendous milestone” (obtaining the DOE grant).

“This is about the birth of an entire new industry in America — an industry that’s going to be central to the next generation of cars,” Obama said.

“For a long time, our economic policies have shortchanged cutting-edge projects like this one and it put us behind the innovation race,” he declared. “And so we’re starting to reverse that slide. And anybody who doubts that has to go and see what you guys are achieving…. The work you’re doing will help power the American economy for years to come.”

Obama also thanked Energy Secretary Steven Chu “for his extraordinary work to get the money out the door quickly and wisely.”

Quickly, yes. Wisely, no.

Just as happened with Solyndra, economic reality finally caught up with A123, as *Forbes*’ Martin LaMonica observes:

> Despite having world-class battery technology, A123 Systems suffered from a lack of demand for its electric vehicle batteries. Although the technology has improved and the prices have come down, batteries are an expensive component and mean higher upfront costs for consumers. Sales data [show] that consumers have been showing more interest in plug-in hybrid and hybrid vehicles, over all-electric cars which have a limited driving range.

In addition, A123 had to recall batteries it had produced for a luxury car manufactured by Fisker Automotive, another federally subsidized company, because they failed in the middle of a test drive. That move, notes Bloomberg, “cost A123 $55 million and helped put it on the financial brink.”

The company never created the 3,000 jobs Obama claimed it would; it has only about 1,763 active employees, and some of those were hired before 2009. And, of course, it is hardly driving the economy — at least not in the direction the president had hoped.

A123’s bankruptcy could not come at a much worse time for Obama. He is already under fire from his Republican opponent, Mitt Romney, over earlier green-energy “losers” his administration has bankrolled. To compound Obama’s woes, some of those companies are also making less-than-positive news this week, notes the *Wall Street Journal’s* Tom Gara:

> Tomorrow [October 17], bankrupt solar panel maker Solyndra is due to have its reorganization plan evaluated by a court, which may approve it and allow the company to emerge from Chapter 11 as a shell company whose main asset will be large “tax attributes” — losses that can be used to offset future tax payments. Electric car maker Fisker yesterday [October 15] said it had delayed the production of its Atlantic sedan, which was planned to be made at a former GM factory in Delaware.

Add to that the fact that, writes Bloomberg, “top A123 officials have contributed to Democratic political candidates including Obama,” and Romney’s charges of “crony capitalism” in the administration’s green-energy program stand a good chance of sticking.

Romney’s running mate, Rep. Paul Ryan (R-Wis.), has called for the elimination of all green-energy subsidies. Ryan is correct, though not just because the subsidized companies have tended to fail. Even backing winners is unconstitutional.

A Romney administration might end these subsidies, or it might simply dole them out to its own favored companies under pretenses other than green energy. Given that previous Republican administrations have subsidized their pet causes and that Romney's much-touted experience as the head of Bain Capital was itself an exercise in crony capitalism (according to former Reagan budget director David Stockman), the notion that a Romney administration would do away with all corporate welfare seems highly unlikely.