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## Up in smoke: the fall of the electric car

By Jonathan Michaels

The plan was seemingly perfect. Put all of America's might behind the emerging electric car industry and help the U.S. automakers reclaim their place as global leaders. GM was positioned to be first to market with its Chevrolet Volt — the car would pave the way for the company's future — and the Obama administration was in full support. In his 2011 State of the Union Address, President Barack Obama told the nation that he wanted the U.S. to be “the first country to have one million electric vehicles on the road by 2015.”

GM had just completed its public stock offering at \$33 per share, and it sought to boost public enthusiasm by proclaiming that it would sell 10,000 Volts by the end of 2011. The Department of Treasury was bullish on the outcome. In April 2011, the Treasury announced that it would sell off its 25 percent ownership in GM in late 2011, and recover its multi-billion investment in the automaker. But needing a price of \$53 per share to break even, everything needed to go right — and it seemingly was.

In mid-2011, President Obama announced that the 2025 Corporate Average Fuel Economy (CAFE) regulations would carry a standard of 54.5 miles per gallon, and that special credits would be provided to manufacturers of electric cars. The announcement cemented electric cars as the technology of the future, leaving market forces to reward companies that embraced the concept.

And with this, the stage was perfectly set: The U.S. would recapture its investment in GM, the country would reduce its dependence on foreign oil, and the domestic automakers would start their march toward global relevance. So, when a routine crash test involving a Chevrolet Volt took place on May 12, 2011 in the Burlington, Wis. — a town of 11,000 — few took notice.

The test was supposed to be a standard rating test administered by the National High-

way Traffic Safety Administration (NHTSA) — and at first it was. The Volt showed impressive structural integrity, receiving a five-star rating by the agency. However, three weeks following the test, while parked in the neighboring NHTSA storage facility, the Volt's 288 lithium ion batteries began to ignite, engulfing the vehicle and three others in flames.

The Volt fire was remarkable for the manner in which the event's aftermath was handled, as for the event itself. Following the fire, NHTSA officials discussed the event with GM executives, but failed to disclose the matter to the public or conduct further testing on the Volt's battery. Of particular concern was the fact that the Regulatory Affairs Subcommittee held Congressional hearings on Oct. 12, 2011 into whether the new CAFE regulations would impact vehicle safety — and NHTSA said nothing of the Volt fire.

It wasn't until Bloomberg News broke the

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story on Nov. 11, 2011 that the public was finally informed. The following week, NHTSA conducted simulated crash tests on three additional Volt batteries, with one of the battery packs emitting sparks and another catching fire. NHTSA then announced that it was opening a safety investigation into the Volt battery system.

After the story broke, the Treasury Department reversed its decision to sell off its GM stock, and indicated that it was now expecting a \$24 billion loss on its GM investment. The prognosis may not even be that good, as the company's stock has sunk to \$20 per share and is trending downward.

The failure of NHTSA to come forward about the Volt fire has some members of Congress brewing. In December, three U.S. House members sent a letter to NHTSA Administrator David Strickland, accusing the agency of “deliberately suppressing” known safety risks of the Volt. And former NHTSA Administrator, Joan Claybrook, appears to agree. In a recent statement, Claybrook said that the

failure to disclose “makes no sense” and that in her view the event was delayed “because of the fragility of [Volt] sales.” Last month, GM publicly announced that it was far from reaching its sales goal of 10,000 Volts by the end of 2011.

U.S. Transportation Secretary Ray LaHood denies allegations that NHTSA withheld information about the Volt, but members of Congress remain unconvinced. The Regulatory Affairs Subcommittee has announced that it will be holding Congressional hearings later this month about whether NHTSA intentionally failed to disclose the fire in an effort to support the Obama administration's push for electric cars. Expect the hearings to garner attention from GM's top brass, as the subcommittee has also demanded an explanation from GM CEO Dan Akerson.

Pundits might say that the Obama administration was trying to ride into an election year with a turnaround of the slumping auto industry and a recovery of the billions handed out to automakers during the global financial crisis. Certainly, had GM's Volt been the darling the company had expected and its stock price risen precipitously, the administration would have received resounding applause for the miraculous turnaround.

But, that didn't happen, and now the administration and the automaker are caught in a public relations nightmare. What is at issue is not whether the Volt's battery design is faulty, but whether information was timely disseminated in an unvarnished manner. It would be offensive for an automaker to withhold safety information about one of its vehicles; it is unforgivable for a governmental agency that is charged with policing automakers to do so. Recall that not long ago NHTSA extolled a maximum \$16.4 million fine from Toyota for hiding safety defects related to sudden acceleration — an event that cost the company countless sums in lost sales, product recalls and damaged goodwill.

With a 25 percent ownership in a company that distributes products around the world, we cannot afford even an appearance of favoritism. Whether real or perceived, a governmental cover-up of safety defects can cost us dearly, both in terms of domestic confidence and global credibility. In such fragile times, this is a cost far too great to endure.



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