Battery maker A123 got U.S. funds as it sought bankruptcy

Ayesha Rascoe, Reuters

(Reuters) - The Obama administration provided struggling battery maker A123 Systems Inc with nearly $1 million on the day it filed for bankruptcy [1], the company told lawmakers investigating its government grant.

The company, which makes lithium ion batteries for electric cars, filed for Chapter 11 bankruptcy [1] protection last month after a rescue deal with Chinese auto parts [2] supplier Wanxiang Group fell apart.

That same day, October 16, A123 received a $946,830 payment as part of its $249 million clean energy grant from the Energy Department, the company said in a letter, obtained by Reuters, to Republican Senators John Thune and Chuck Grassley.

In the letter, dated November 14, A123 said the October payment was the most recent disbursement it had received from the government, with an additional $115.8 million still outstanding on the grant.

Thune and Grassley have pressed the Energy Department for more details about its funding of A123 as the company has faltered.

"The Department of Energy needs to answer for why it appears to put federal grants on auto-pilot to the detriment of U.S. taxpayers," the two senators said in a statement. "This can't stand."

A123 said it may still need to use the rest of its grant money if it decides to update or expand its current manufacturing capacity.

"The Energy Department takes its responsibility to be good stewards of the taxpayers' money very seriously," a department spokesman, Bill Gibbons, said in a statement.

Under the department's grant program, companies receive funds only after work is completed toward the ultimate goal of a grant.

Gibbons said the department's investments have helped to build U.S. advanced battery manufacturing, supported American workers and ensured the country can compete in a fiercely competitive global market.

Republicans on the campaign trail ahead of national elections earlier this month pointed to A123 as an example of failed clean energy investment from the Obama administration.

The Obama administration has defended its efforts, arguing that despite some high-profile bankruptcies, most of its investments have been successful and have helped to double renewable energy output from wind and solar.

The administration launched a stimulus-funded $2.4 billion initiative in 2009 to bolster U.S. advanced battery production, but the sector has struggled with overcapacity and weak demand for electric vehicles.

POTENTIAL CHINESE BUYER?

Thune and Grassley have also raised concerns about Chinese firm Wanxiang's attempts to acquire A123's battery business [3], saying military and taxpayer-funded technology should not be allowed to fall into foreign hands.

The Energy Department has stressed that none of the government's grant would be allowed to fund facilities abroad.

Wanxiang, one of the largest non-government-owned companies in China [4], is currently locked in a battle with U.S.-based Johnson Controls Inc to buy A123.

Wanxiang had attempted to bail out A123 prior to the company's filing for bankruptcy, but the $465 million deal collapsed when A123 was unable to meet some conditions of the agreement.

The senators questioned why the Energy Department continued to fund A123 even after it learned about the potential rescue deal. The company said it informed the department about the initial deal in early August.

A123 received several military contracts, including two worth a total of more than $4 million, to develop batteries for the Air Force.

In its letter to the senators, A123 confirmed it had received one federal government contract with a "secret" security classification.

The company said that it would expect the Committee on Foreign Investment in the United States (CFIUS) would lay out conditions to protect sensitive U.S. military data if the company is acquired by a foreign firm.

CFIUS is an interagency panel that vets foreign deals for security concerns.

(Reporting by Ayesha Rascoe; Editing by Gerald E. McCormick, Phil Berlowitz and Leslie Adler)

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