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February 14, 2013, 7:55 pm

U.S. Report Criticizes Battery Company's Grant Management

By [JIM MOTAVALLI](#)



Carlos Osorio/Associated Press

President Obama speaking at a groundbreaking ceremony on July 15, 2010, for the LG Chem plant in Holland, Mich.

[A new federal report](#) released Wednesday painted a devastating portrait of how a battery supplier, LG Chem Michigan, handled a 2010 grant of more than \$150 million in Recovery Act financing to build a battery cell plant. The report describes an idled company with workers using company time to volunteer for organizations like [Habitat for Humanity](#), animal shelters and nature centers, to watch movies and to play board and video games. The company says that slower-than-expected [electric vehicle](#) sales are to blame.

The special report from the Energy Department's Office of Inspector General grew out of a complaint last fall that the company was misusing its federal money. "We confirmed the allegations," said a memo from Gregory H. Friedman, the inspector general, that accompanied the report. "We found that work performed under the grant to LG Chem Michigan had not been managed effectively."

"The allegation that the department reimbursed LG Chem Michigan for labor costs that did not support the goals and objectives of the grant was substantiated," he said.

The plant in Holland, Mich., has yet to "manufacture battery cells that could be used in electric vehicles sold to the public," the memo said.

LG Chem Michigan has reimbursed the Energy Department for \$842,000 in labor costs that the federal investigation found to be "unreasonable and unallowable," the memo said. Some employees interviewed, the report said, admitted to volunteering for noncompany work from one to five days a week. "We leave it to each reader of the report to make their own judgment as to the significance of a \$842,000 reimbursement," the memo said.

LG Chem Michigan [said in a statement](#) that it had put reforms in place that would ensure that federal money would not be misused going forward. “LG Chem Michigan is acutely aware of the disappointment arising from the delays in our start of production,” the company said. “These market-driven delays have been very difficult for our team members, for our community and for our company.” The company said it was developing “specific plans” for starting production in Holland.

The Washington Post [quoted LG Chem’s spokesman](#), Randy Boileau, as saying that LG Chem “has a significant interest in the long-term success of this facility.”

The company “is doing everything it can to find an economically viable way to get commercial production started here,” he said.

LG Chem has spent \$142 million of its stimulus money, the report said. The company was to have begun by late this year producing enough battery cells annually to power 60,000 electric cars, the memo said, with assembly to have begun last year. Some 440 jobs were to be created. Among the report’s findings:

- Only about 60 percent of the production capacity laid out by LG Chem has been built, despite expenditure of 94 percent of the Energy Department’s share of the project financing.
- Production of cells did not move from South Korea to Michigan in 2012, as outlined in grant documentation. According to the report, LG Chem Michigan said this was because sufficient demand had not materialized for the [Chevrolet Volt](#) plug-in hybrid, which uses the company’s cells. The report admits that the slow pace of electric vehicle sales in the United States was “a significant factor” affecting the American plant. But it adds that demand for the Volt averaged 1,955 vehicles a month in 2012 and “that volume could have readily been produced by using the then built-out capacity of the Michigan plant.”
- Less than half the expected number of jobs have been created.

LG Chem Michigan also received a state grant and local tax breaks. This new report concludes that until the company begins production in Michigan or develops some alternative use for the plant, “U.S. taxpayers will receive little direct benefit from a plant for which they provided at least half of the funding.”

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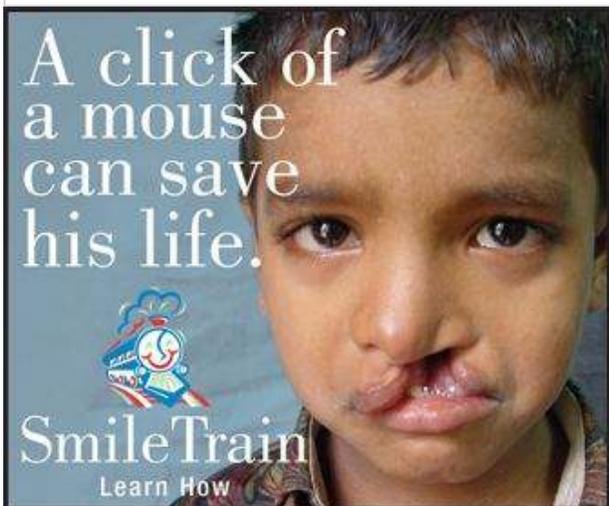
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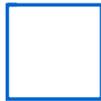


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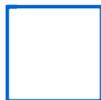


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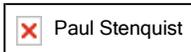
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