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ANALYSES

Sell-off of Opel shares agreed – Angela Merkel's doubtful success

On September 11 another stage in the war of nerves between General Motors and the German government, in progress for a few months now, ended. It concerned the fulfilment of conditions of the preliminary agreement of May 2009 and General Motors' agreement to sell off 55% of shares in the German car company Opel. The offensive of German politicians forced General Motors (GM) to announce that the majority of shares in Opel will be taken over by Germany's favourite – the consortium of the Canadian-Austrian parts supplier Magna and the Russian state-owned bank Sberbank. Although the decision is not final and binding, it has been enthusiastically received by Chancellor Angela Merkel and Opel's workers. It has however caused considerable controversy in the country and abroad. The German government will have to explain itself to the opposition about the final terms and conditions of Magna and Sberbank's takeover bid which are shrouded in mystery and justify public aid provided to Opel plants in Germany to some EU countries and the European Commission (EC).

The preliminary agreement of May 2009

On May 30, due to the political involvement of German and Russian politicians, a framework agreement regarding the takeover of majority shares in Opel from GM by the consortium composed of the state-owned Russian bank Sberbank and Magna International – an Austrian-Canadian car parts supplier – was signed. The consortium promised the German government that it would keep Opel plants in Germany and slightly reduce the workforce. On June 1, GM filed for bankruptcy and the board of trustees (made up of two GM representatives, a German government representative and a representative of the federal states where the plants are located) started managing Opel. A bridge loan worth EUR 1.5 billion, granted by the German government, will enable Opel to run its current business. The May agreement has not however sealed Opel's ownership. After the restructuring, GM has been considering keeping the company. GM's management have also been examining bids coming from other bidders. Eventually, on September 2009 the takeover of 55% shares in Opel by the Magna-Sberbank was announced.

Another agreement without binding decisions

The US administration, which took over 60.8% shares in GM, has managed to influence the structure of ownership of the new Opel company and now Magna and Sberbank would obtain 27.5% of shares each (formerly, it was 20% and 35% respectively). The shares that GM will keep in the new Opel – 35% and 10% taken over by Opel workers – would remain unchanged.

Besides the already granted bridge loan, the German government is to guarantee an additional EUR 3 billion in state loan guarantees. The German government is planning to share part of these financial commitments with the countries where Opel plants are located. On September 15, a meeting of the interested parties was held in Berlin. The Magna-Sberbank consortium is intended to bring EUR 500 million to the company. Other, gradually revealed data indicate that 10,500 Opel workers will be laid off in Europe, it is not however known in which countries. In Germany itself 4,000 workers will lose their jobs, which is a thousand more than declared in May by Magna. It is not definitely known which plants will be closed down – in Germany all plants are intended to be kept, but it is confirmed the plant in Antwerp, Belgium, will be shut down. As with the previous agreement, the deal is not definite and GM and Magna-Sberbank are still holding negotiations. It is possible that GM will dictate such terms and conditions to the new co-owner that will make the takeover impossible. GM representatives will probably demand the right of first refusal of shares, the right to veto the transfer of particular technologies to Russia, the right to appoint 4 out of 8 members of the board, including key ones such as marketing director. The negotiations are set to end by the end of the year, that is after the Bundestag elections to be held on September 27, which is of key importance to Angela Merkel's government – a possible fiasco with the negotiations will not affect the electoral campaign.

Political decision and its shortcomings

In the atmosphere of the campaign before the Bundestag elections, the promises that Opel plants in Germany will remain open and job losses will be reduced as much as possible played a key role in the choice of the bidder by the German government. The Magna-Sberbank consortium satisfied the most important German demand, although only in the short term. It is not insignificant that by choosing this bidder the German government is fulfilling the premises of its foreign policy towards Russia as it is implementing the concept of the "modernization partnership".

By clearly favouring one bidder and quickly providing money to keep Opel operating the German government lost its advantages in the ongoing negotiations. Angela Merkel, in her dealings with GM and the American administration, has started playing the role of a lobbyist of the bidding offer she had selected, which in case of the failure of the German concept would mean a considerable loss of prestige. Also, arguments presented by representatives of the German government and federal states in Opel's board of trustees demonstrate the political context of the decision and the lack of its economic validity. The representatives did not want to agree to the takeover by Magna-Sberbank (the governmental representative voted against it and the representative of the federal states abstained). They say that Opel will not undergo real restructuring, the company's bankruptcy will only be postponed and the entire risk related to the transaction will be borne by taxpayers.

Moreover, the Magna-Sberbank consortium is not bringing any substantial assets to the new company and a large part of them will anyway be invested in Russia (EUR 570 million, but it is counting on EUR 400 million of revenue from the Russian market). The negative consequence of this decision is stark criticism of the German government from the country's opposition, some EU

countries and the EC. The opposition is charging the government with unclear terms and conditions of the agreement, its provisional nature, the budget being affected by the risk of the transaction. The EC, alerted by Belgium and the UK, is warning Germany against protectionism and announces that it will carefully examine the principles of bailing out Opel plants by the government. Fears of representatives of other countries that due to the financial aid granted by the German government plants in Germany will be kept but profitable plants in other countries will be closed down are set to be quelled. The German government claims that the assistance is provided within the framework of crisis packages accepted by the EC and does not require separate approval. The German government's method of saving Opel demonstrates that now the priority is not the long-term restructuring of the company but the electoral interests of the parties forming the German government. It will be possible to decide about the position of Opel on the shrinking automobile market in Europe only after the Bundestag elections to be held in September 2009.

Anna Kwiatkowska-Drozdź

Foreign investors – a remedy for problems in the Russian car industry?

The Russian car industry is undergoing serious economic problems caused by fierce competition from foreign companies and a deepening global economic crisis. The Russian authorities do not want to allow the marginalization of domestic car makers. However, the measures taken to date (the customs and loan policies) have proven ineffective and consequently the market share of Russian cars has been systematically falling. For this reason over the last year the authorities have decided to improve the condition of the car industry, mainly through cooperation with foreign investors but trying to maintain a strong influence of Russian shareholders in such projects. The planned takeover of Opel by an investor from the Russian Federation (RF) and gaining through this access to the German car maker's technology is part of this strategy.

The crisis hits the car industry

The Russian car market has been dynamically expanding in the period 2004-2008 (despite poor results in the three last months, in 2008 sales of cars have risen by 20%) thanks to rising incomes of Russians and loans offered by banks (in 2008 50% of cars were bought on credit). However, this trend reversed the growing economic crisis. Negative consequences of the crisis hit the sector as early as in October 2008 (a 6% drop in sales, compared to the previous month), which was due to decreased demand, above all for passenger cars, triggered by more expensive loans and limited access to them. Problems with selling cars worsened in the first six months of 2009, where a fall in sales of over 50% (in comparison with the corresponding period the previous year) was seen. Poor sales results affected the financial situation of car makers, their debts to subcontractors and banks have been rising and warehouses have started filling up with unsold cars.

APPENDIX

The most important Russian car makers

AvtoVAZ – the largest car maker in Russia, whose plants are concentrated in Togliatti (Samara Oblast), it produces mainly passenger cars, including Lada – the most often sold car in Russia (90,000 cars in the first quarter of 2009). AvtoVAZ's main owners are: a Russian investment company Troika Dialog (25.64%), the Rostiechnologii *goscorporation* (25.1%) run by a close friend of Prime Minister Putin, Sergei Chemezov and Renault (25%). The company in the middle of 2009 had debts to banks worth RUB 53 billion, and RUB 25 billion in debts to subcontractors (altogether about USD 2.5 billion).

Uaz – part of the Russian group of Sollers manufacturers (formerly, Siewierstal-Awto), makes cross-country vehicles. In the first quarter of 2009 it was in 23th position in terms of the number of cars sold in Russia (2,700). The company's majority shares (58%) are held by Vladimir Shvietzov, the owner of the Russian metalworking company Siewierstal.

Gaz Group – its plants are spread across ten Russian regions, it makes passenger cars (Volga), lorries, buses, small buses and road machines. In the first quarter of 2009 it was in the 27th position in terms of the number of cars sold in Russia (2,300). Its majority shareholder (61.06%) is Oleg Deripaska's company Russkije Maszyny. Gaz Group had debts of RUB 44 billion (about USD 1.4 billion) in 2009. Its control package is now held by the state-owned Sberbank in pawn.

Kamaz – the biggest manufacturer of lorries in Russia, whose plants are located in Nabierezne Tchelny (Republic of Tatarstan). Kamaz' main owners are: Troika Dialog (44%), Rostiechnologii (37.8%), the German company Daimler (10%). In the last weeks the state-owned company Rostiechnologii informed its shareholders about increasing its shares in the control package, most likely at the expense of Troika Dialog.

The government's support for the sector

The government have been seeking to remedy the worsening problems of the Russian car industry. It has been decided, among other measures, that customs on cars imported to Russia would be increased (from 25% to 30%). A programme of subsidizing loans for buying cars has been elaborated (initially, the programme basically covered only Russian car makes, in June 2009 it was extended to some foreign cars manufactured in Russia). The government has also decided to pledge financial support to several companies. The biggest aid – RUB 25 billion (about USD 0.8 billion) in an interest-free loan was given to AvtoVAZ (whose debts reached about USD 2.5 billion in the middle of 2008). Another RUB 35 billion (about USD 1.1 billion) was offered to Russian car makers in the form of state loan guarantees (nearly 60% of those went to the Gaz Group owned by Oleg Deripaska). Additional support was granted to Russian car manufacturers by Russian banks, mainly state-owned ones, which agreed to restructure the car makers' debts. Interestingly, the financial support offered to the car industry was not dependent on the restructuring of production plants, improvement of their functioning and a future increased efficiency.

Poor effects of the government's support

Such huge budget support has not remedied the situation in the sector; it allowed, however, part of car makers' debts to be reduced and saved them from mass bankruptcies. Only the car maker Iz-Awto (the manufacturer of the Korean make Kia, among other car makes) filed for bankruptcy. Despite the assistance, Russian car makers were forced to halt production lines or switch to work in a limited number of hours. Job losses also proved inevitable, e.g. Gaz laid off 8,000 workers. Other layoffs are being prepared (AvtoVAZ has announced 36,000 job losses, which is one-third of its present workforce). The state aid, focused on supporting Russian companies, has not improved their position in the sector either.

The car industry's potential

The car industry is an important sector of the Russian economy, it generates about 3% of GDP. As this sector is closely linked with other sectors (metalworking, trade), its position is much stronger than would be inferred from these indicators. Although the car industry employs about a million of workers (i.e. 1.5% of working people), some car making plants are regional key employers and the car maker's condition impacts on the financial situation of particular towns. For example, in Togliatti, where there are 700,000 inhabitants, 110,000 people work for AvtoVAZ. Until the economic crisis the international importance of the Russian car market was growing. In 2008 Russia was fifth place in the world in terms of the number of sold cars (3.1 million cars were sold) and was Europe's leader in terms of the growth rate of sales. However, in the last years the market share of Russian cars in sales has been systematically falling (in 2008 by 3%), which consequently brought about the rise in the market share of foreign makes up to 75%. The car industry in Russia is mostly in private hands (see Appendix), mainly

Practically all foreign car makers are present on the Russian market. Due to Russia's protectionist policy defending the Russian market against imports of foreign cars, foreign car companies have opened their assembly plants in Russia. The most often sold new foreign cars in Russia are: Chevrolet (30.2 thousand cars in the first quarter of 2009); Ford (28.9 thousand); Nissan (22.9 thousand); Hyundai (21,000) and Toyota (19.3 thousand).

foreign investors who have opened assembly facilities in Russia. The state, through the Rostiechnologii *goscorporation* (a combination of a joint-stock company and a federal state-owned company), holds, among other ones, shares in AvtoVAZ (25.1%) and Kamaz (37,8%).

The authorities' concept for the car industry

The Russian authorities do not want to allow Russian car makers to be marginalized. The very costly administrative support provided to these companies has proven insufficient for them to be able to compete successfully with foreign car manufacturers. The Russian government has probably deemed that the restructuring, investments in modern technologies and a serious reduction in workforce are indispensable to stimulate the development of car companies (e.g. at AvtoVAZ one worker makes on average nine cars, whereas at Ford – it is nearly 26 cars). It seems that the Russian authorities are aiming to do this task with the participation of foreign companies but are trying to maintain strong Russian influences in joint projects. Already in 2008 the French producer Renault became the owner of the blocking package in AvtoVAZ and the German producer Daimler held 10% of shares in Kamaz. Due to a possible takeover of Opel, Gaz Group would receive technological support. According to agreements to date, Sberbank – the Russian investor intending to buy Opel shares – is playing the role of an intermediary in this transaction; in reality the bought shares will go to Gaz Group. In Russian plants owned by the company, cars of the German make would be mass-produced.

Forecasts

The Russian authorities have been long postponing the decision about changes in Russian car makers. In this period of time Western car companies have, to a large extent, divided the Russian market among themselves. Gaining the dominant position on this market can prove very hard and, without foreign technology, most likely impossible. The decisions about cooperation with foreign companies will probably positively impact on this sector. Effects of this collaboration will depend to a large extent on the readiness of Russian shareholders to introduce difficult changes, including socially painful group layoffs. Chances for changes are however growing together with the country's shrinking financial resources which have up to now made it possible to keep unprofitable plants alive.

Iwona Wiśniewska

EVENTS

Parliamentary elections in the Czech Republic postponed

On September 15, the Social-Democratic party CSSD withdrew from its plans to shorten the term of the Chamber of Deputies. Due to this move the parliamentary elections will be held at the end of May 2010 instead of autumn 2009. The suspension of the electoral campaign means a relative stabilization of the political situation and allows the government to take measures in order to tackle the economic crisis. It also strengthens the position of the interim government of Jan Fischer, which was formed after the collapse of Mirek Topolanek's government.

In line with the earlier all-party agreement of September 15, all Czech deputies had to vote for the shortening of the term of the Chamber of Deputies, which was intended to make possible early elections in November this year. Following the decision of CSSD, the elections will be held in the constitutional term, in May 2010. In this situation the government will have the possibility to undertake actions curbing the effects of the economic crisis, including above all the austerity budget law. Jan Fischer, not a member of any party, declared he is ready to remain in his position until the elections in May 2010, on condition that the mandate of his government would be renewed, and the Parliament's approval of radical cuts in public spending. The major political parties expressed their wish to cooperate with Jan Fischer's government; the austerity package can however turn out to be too difficult for them to accept. CSSD argued that its decision to block the shortening of the term of the Chamber of Deputies was taken as the party feared that the term of the early elections might be questioned by the Constitutional Court. However, the Social Democrats, who are leading the polls, preferred to leave radical budget cuts to the interim government, hoping to take over power in more favourable economic conditions. Postponing the elections until May 2010 means that the interim government will hold key talks on the composition of the new European Commission. <grosz>

Bulgaria: the dispute between the government and the President over energy policy

On September 8, a long article written by Bulgaria's President Georgi Pырvanov was placed on his Internet site. In the article President decidedly criticizes the new centre-right government of Prime Minister Boyko Borisov for a lack of a coherent concept of energy policy. The president's criticism demonstrates that the two centres of power have different visions of the energy policy – the President clearly supports projects with Moscow's strong involvement, whereas the government seems much more sceptical of them.

In his article the president reproaches the government for a lack of active support for three energy projects: the South Stream gas pipeline, the Burgas-Alexandroupolis oil pipeline and the nuclear power plant in Belene. In all these

projects Russia is directly or indirectly involved. Since Boyko Borisov's centre-right government came to power in July this year, Bulgaria's energy policy has been modified. Although the government declares support for the three mentioned projects, it also expresses serious doubts about them (particularly about the plant in Belene and the Burgas–Alexandroupolis pipeline). Equally, it is committed to a larger extent to the EU-backed Nabucco project than to the rival South Stream. Officially, these actions are explained by doubts about the profitability of the projects. It appears, however, that groups of interests connected with the former government are the key factor in the matter. The conflict between the two centres of power will continue, however; due to the president's limited competences it is the government that will have the decisive impact on energy policy. <dab>

Germany: the grand coalition still wants to rule?

On September 13, a TV-broadcast pre-electoral debate was held between candidates for the position of German Chancellor: the incumbent and seeking reelection Angela Merkel (CDU) and the Foreign Minister Frank-Walter Steinmeier (SPD). The participants of the debate avoided direct attacks and controversial issues, emphasizing good cooperation within the grand coalition and the government's achievements. It proves once again that despite declarations about the wish to build a new government with other parties, the scenario preferred by both Chancellor Merkel and Minister Steinmeier would be a continuation of the grand coalition.

The discussion mainly focused on internal politics, combating the effects of the economic crisis, the future of Opel and the healthcare system, among other issues. Angela Merkel and Frank-Walter Steinmeier presented similar positions on those questions; the divergence in views concerned only the issues of a possible reduction of tax thresholds and the future of nuclear energy in Germany. Foreign policy was not a subject of the debate – it appeared only once, in the context of the Bundeswehr's mission in Afghanistan. Chancellor Merkel and Minister Steinmeier confirmed the position of their parties, presented since the beginning of the electoral campaign, about a lack of willingness to continue the grand coalition after the Bundestag elections. Despite this rhetoric it seems that such a scenario would be more comfortable for both Merkel and Steinmeier. For SPD the continuation of collaboration with the Christian Democrats is now the only chance of staying in the government and for the Christian Democrats it means preserving the dominant position in the coalition as the liberal FDR would be a much more difficult and demanding partner than the Social Democrats who are experiencing dwindling social backing. The economic ideas of the Liberals and Christian Democrats are increasingly diverging, which is demonstrated by the escalating conflict between FDP and the Bavarian CSU. <zawil>

OSW

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