

The Volkswagen scandal: a problem with standards in German business?

Konrad Popławski

On 20 September, the US Environmental Protection Agency accused Volkswagen (VW) of having fabricated emission results since 2009 by installing special software in the diesel engines in its cars, which may affect 15 million vehicles. In fact, they emitted 40 times more harmful substances than admissible under US standards. The firm has admitted its guilt and may face a penalty of US\$18 billion, the equivalent of one year's profit. Within the next few days, Volkswagen's shares fell by more than 40%, and those of other German companies by more than 6%. Chancellor Angela Merkel demanded an explanation from VW's CEO, and the German Minister for Infrastructure appointed an investigative commission to deal with this matter. Representatives of the Green Party, referring to the federal government's response to the interpellation submitted in parliament in July this year, stating that the emissions measurement system was defective, have accused the government of being aware of the dishonest practices of car companies. They are demanding that the CEO of Volkswagen be dismissed. The government can put strong pressure on a company given Lower Saxony holds a 20% of its shares. The governments of Australia, Canada, South Korea, Germany and Italy have ordered VW vehicles to be examined in use in their countries. The governments of the United Kingdom and Italy are insisting that the case be investigated by the European Commission.

Commentary

- The information made public will adversely affect the image of Volkswagen, Germany's largest car company and the world's largest car manufacturer, and this may also have a negative knock on effect for the German economy. It was diesel engines, promoted as 'pure diesel' which allowed the company to achieve a rapid increase in sales on the US market, which encouraged the entire German automotive industry to promote this technology in the USA.
- The scandal may be symptomatic of the German automotive industry's growing problems with implementing ecological standards. German carmakers specialise mainly in producing large cars with combustion engines, while for example manufacturers from Japan and the US use increasingly efficient electric engines. The EU's ecological legislation also poses serious problems to the largest carmakers. Over the past few years, the federal government has obstructed the European Commission's plans to

impose strict CO2 emission standards, since this would have had an adverse effect on German firms and was beneficial for car manufacturers from France and Italy which specialise in producing compact cars.

- The disclosure of Volkswagen's dishonest practices came as a shock not only for the German car production sector but also for the German economy as a whole. One year earlier it had been revealed that Germany's largest car club, ADAC, had falsified the results of the car of the year contest to the benefit of German manufacturers. Over the past few years, courts in Brazil, Greece and the USA have on several occasions imposed fines on German firms for money laundering (Deutsche Bank and Commerzbank) and using corrupt practices to win contracts (Deutsche Bank, Daimler, MAN, Siemens and Thyssen Krupp). Deutsche Bank has found itself in a particularly problematic situation, facing 6,000 court cases concerning, for example, dishonest practices and fraud during the sale of various financial products over the past few years.