Analyses OSW

CENTRE FOR EASTERN STUDIES 9.08.2017 www.osw.waw.pl

The diesel scandal in the German car industry

Konrad Popławski

On 2nd August an extraordinary meeting was held between the ministers of finance, economy, science, environment and transport, the minister-presidents of nine German states, and the chief executives of car manufacturing companies. The meeting was devoted to the continual exceeding of nitric oxide pollution norms observed in German cities. During the meeting the car manufacturers committed to changing the software in 5.3 million cars equipped with diesel engines which make it impossible to manipulate emissions data. However, no agreement was reached to replace specific equipment in cars with diesel engines, which the Federal Ministry for the Environment had been demanding. The car makers also pledged 250 million euros to a planned fund which would serve to develop low-carbon public transportation systems in German cities. A section of the car manufacturers intends to offer subsidies for customers buying a new car in exchange for returning the old diesel one. These talks are being held in the context of announcements made by the largest European cities, including ones in Germany, that they will ban cars with diesel engines from circulating in their streets.

The meeting was organised due to the diesel scandal which began in 2015 following the revelations that Volkswagen had manipulated emissions. At present the scandal is widening as it appears other German car manufacturers have been implicated in it. In July the German weekly *Der Spiegel* reported the existence of an alleged car cartel in which German companies such as Audi, BMW, Daimler, Porsche and Volkswagen, for over 20 years had secretly agreed on the principles of co-operation with their subcontractors, the development of new technologies and ways of circumventing environmental regulations. During that time over 200 employees of these companies would meet as part of the Centre for Car Emissions which had been established by the five car manufacturers and co-financed from public funds. Foreign car makers which had manufacturing plants in Germany, such as Ford or Opel, were not allowed to join the project despite the fact that they tried to take legal action against the German companies at the Federal Cartel Office. Given the information presented by the media, it appears all German car manufacturers, not only Volkswagen, have introduced software which manipulated emissions data. The European Commission has announced that it will examine whether the German companies have broken EU competition law.

Commentary

- The diesel scandal has become an important issue in the campaign for the Bundestag. It represents an opportunity for improved election results in particular for the Green Party, which has recently seen its support levels falling. On the other hand, the manifesto of the populist party Alternative for Germany (AfD) includes a demand to guarantee the use of cars equipped with diesel engines until 2050. The scandal has also affected the CDU, which has been accused of close collaboration with the car industry. In the previous years Germany has tried to weaken the EU carbon emissions regulations for passenger cars in order to protect German car makers. In 2013 Merkel put Ireland, which held the EU presidency at that time, under pressure to remove the issue of toughening regulations regarding carbon dioxide emissions for cars from the agenda as this question put German car manufacturers at a disadvantage. The German government seems rather reluctant to punish Volkswagen since it holds a 20% stake in the company via the intermediary of Lower Saxony. Volkswagen has already paid fines on the foreign markets for manipulating emissions data.
- The fact that the scandal has extended to other German car companies affects their long-term strategy of promoting cars equipped with clean diesel engines as a pro-environmental solution. The car manufacturers from Germany have argued that diesel cars emit less carbon dioxide than petrol-engine cars thanks to a lower rate of fuel consumption, and they have been persuading their customers that innovative solutions have reduced the harmful impact on the environment due to noxious nitric oxides. Following this strategy, the German car makers have been focusing on diesel technology, while paying less attention to the development of alternative engines such as hybrid or electric ones. Before the Volkswagen scandal erupted, this approach was paying off and the sales of German cars were increasing in Japan or the US. Further news about the German car companies tampering with the data of nitric oxide emissions seem, however, to completely compromise the reputation of the diesel technology as a pro-environmental drive for cars. Growing distrust of this technology in Germany itself is also becoming a problem. In the cities with high rates of air pollution, such as Stuttgart, urban activists have been taking local governments to court and demanding that cars equipped with diesel engines be banned from city centres. In the recent months other countries have declared that they will introduce a ban on sales of internal combustion engine cars: Norway from 2025, India and Sweden from 2030, France and the UK from 2040.
- The diesel scandal will result in high costs for German car makers. Until now Volkswagen has paid approximately 18 billion euros in total as part of fines and court settlements, mainly in the US. Bosch, which has provided equipment to manipulate emissions data to Volkswagen, has also paid approximately 300 million euros. Mounting pressure from society may lead to the car makers incurring substantial losses not only in the US but also in Europe. It remains unknown whether the car manufacturers have infringed EU competition law, which could see them paying billions in fines. In this case the German car companies will face many court cases brought against them by subcontractors, shareholders and customers and this will limit their possibility to work on innovations.
- Changes in technology also present a challenge for German car manufacturers since they will call the future of diesel engines into question. In the recent years new competitors have emerged in Asia and the US, such as BYD and Tesla, which are focused

mainly on developing autonomous electric cars. Given the German economic interests, it is an important threat since the country may lose jobs linked to the production of internal combustion engine cars and may not build such a strong position in the production of electric car engines. To date the German car manufacturers have not displayed particular determination to develop models of electric cars. Furthermore, car batteries, which are a key component of the value of electric cars, are manufactured mainly in Asia.