

The crisis at Volkswagen presents a significant political challenge for the German government

Michał Kędzierski, Aleksandra Kozaczyńska

On 10 September, Volkswagen's executive body terminated the collective labour agreements previously signed with the IG Metall trade union, affecting employees at VW car manufacturing facilities in Germany. This decision enables the company to implement layoffs starting in 2025. A week prior, the company's executives announced that, in addition to the layoffs, an intensified austerity programme may involve the closure of one or two unprofitable manufacturing plants (Germany has a total of 10 facilities producing VW cars and their components).

The VW brand's declining financial performance in recent years directly motivated the decision to intensify the austerity initiative, which has been implemented since 2023. The aim of these measures is to enable the brand to reach a profit margin of 6.5% (having fallen to just 2.3% in the first half of 2024) and to save €10 bn by 2026. In comparison, other German automotive companies, such as BMW and Mercedes, achieve significantly higher profit margins of 10.9% and 9.9% respectively. The announced layoffs and the potential closure of manufacturing plants are both unprecedented. Since 1994, VW facilities located in Germany have provided employment guarantees to all permanent employees. Furthermore, in the company's nearly 90-year history, there has never been a single closure of a manufacturing plant. Although the current crisis affects just one brand, rather than the entire VW group, it has been viewed as further evidence of the poor state of the German economy under the SPD-Greens-FDP coalition, putting significant pressure on the administration.

Commentary

- **The crisis at VW has become a central issue in German public debate and presents a serious challenge to the government.** It is one of several developments in recent months highlighting the poor state of the German economy and its various sectors. Due to VW's economic and symbolic importance as the global leader and the pride of the German economy, as well as to the unprecedented nature of the measures currently being considered, the brand's difficulties are having a profound impact on German voters. For critics of the Olaf Scholz government, in particular the opposition CDU/CSU and the AfD, and certain media outlets, these problems have provided a convenient argument to support claims of the negative consequences of the ruling coalition's economic policies. In light of the significant political risks posed by the crisis at VW, Chancellor Scholz, Vice Chancellor and Federal Minister for Economic Affairs Robert Habeck, and Minister-

President of Lower Saxony Stephan Weil (SPD) have become actively involved in addressing the situation.

- **The crisis is limited to the Volkswagen brand, while the VW group as a whole continues to deliver stable financial results.** In the first half of 2024, the Group's profit from sales reached €10.1 bn (compared to €22.6 bn for the entire year of 2023), with an operating margin of 6.3%. The company owns a total of ten brands, including Volkswagen, Škoda, Seat/Cupra, and Volkswagen Commercial Vehicles, which form the Core group. In this group, unlike VW, Škoda and Seat/Cupra have performed particularly well, as their operating profitability was 5.2% and 8.4% respectively. The overall results of the company have been further bolstered by the strong performance of brand groups such as Progressive (which includes Audi, Lamborghini and Bentley) and Sport Luxury (Porsche), which recorded operating margins of 6.4% and 16.4% respectively.
- **The primary causes of Volkswagen's current difficulties include high production costs in Germany (especially labour and energy costs), low productivity, and the brand's dependence on the Chinese market.** In Europe, demand has yet to return to pre-pandemic levels, and VW is producing 2 mn fewer cars than in 2019, despite the workforce remaining nearly the same in size. Some manufacturing plants have reported alarmingly low utilisation of production capacity, with rates as low as 20–30%, while the company as a whole is operating at only two thirds of its capacity. As regards China, VW has recorded a sharp decline in sales due to strong domestic competition. In 2023, profits from its Chinese joint ventures were 20% lower than in 2022, and the company expects them to fall by a further 40% in 2024, down to an estimated €1.5–2 bn. VW's dependency on the Chinese market has become problematic, as it has generated up to 40% of its revenues from China in recent years. Another contributing factor to the crisis is the failure of Cariad, a subsidiary of the VW group, in its attempts to develop software (ID. Software) for the company's vehicles.
- **Another issue affecting VW is the poor sales performance of its electric vehicles.** In recent years, in response to global trends and political expectations, the brand has placed a strong emphasis on electromobility development. However, its electric cars have not been commercially successful. Additionally, the EV market is developing at a slower pace than expected. In the first half of 2024, the European EV market grew by just 1.6%, while in Germany, a significant decline of 16.4% was recorded following the government's abrupt decision to halt subsidies for the purchase of electric vehicles, (see ['Unplugged. The uncertain future of electromobility in Germany'](#)). In response to this stagnation, which has placed a financial strain on German automotive companies, Berlin has announced its intention to introduce new tax incentives this autumn for companies opting to purchase electric cars. Some politicians, including Weil, have called on the government to reinstate the subsidy programme to support domestic manufacturers.
- **Barriers to VW's restructuring also stem from its political nature and its rigid structure.** Many of the brand's issues, particularly those regarding low productivity and an excessively large workforce, have been evident for years. However, successive attempts to implement thorough reforms have been obstructed by powerful trade unions and the government of Lower Saxony, which holds a 20%-stake in the company, giving it the power to veto important decisions. Weil has publicly expressed his expectation that no

VW manufacturing plant will be closed. It is possible that the announcement of drastic measures, ahead of the negotiations with employee representatives regarding a new collective labour agreement, was intended to pressure them into retracting previous demands, particularly the call for a 7% salary increase from 2025. Nonetheless, some experts argue that permanently improving VW's financial performance may require the closure of one or two of its least profitable manufacturing plants in Germany. The facilities in Osnabrück and Dresden are among the most likely candidates for closure. This may explain why company executives decided to postpone the public announcement until after the *Landtag* election in Saxony.