

German minister snubs carmakers' calls for state aid

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Calls for state help to counter the drastic downturn in the European car market have sparked a row among leading German politicians, undermining governments' bipartisan efforts to tackle the fallout of the financial crisis.

Peer Steinbrück, Germany's social democratic finance minister, yesterday contradicted promises from Angela Merkel, the conservative chancellor, and rebuffed calls from lobbyists to support one of Germany's key industries with public money.

"I am not prepared to announce a bail-out plan for the auto sector or promise tax breaks just because the industry is applying pressure," Mr Steinbrück said in an interview with German weekly Die Zeit. Mr Steinbrück's words laid bare a rift in Germany's coalition government, in which the right-wing CDU share power with the left-wing SPD.

The government is trying to come to grips with how to deal with the ramifications for the broader economy amid a bipartisan effort to pass legislation on a massive bank bail-out plan.

Earlier this week, Ms Merkel pledged support for carmakers, which form the core of Germany's automotive industry, which is the country's biggest private sector employer. Manufacturers, such as Volkswagen, Daimler and BMW, directly employ around 750,000 but that rises to one in seven of private sector posts when indirect jobs are included.

"Given American measures, we will probably have to strongly support the automobile industry ... though that poses questions about European competitiveness," Ms Merkel said this week. The US government recently adopted a \$25bn loan package, aimed at helping struggling Detroit carmakers adapt to stricter emission standards. This prompted Europe's biggest carmakers to appeal to the European Union to provide €40bn (\$54bn) in low-interest loans, as they feared US rivals would enjoy an unfair competitive advantage.

Last week, the French government unilaterally approved €400m in aid for French carmakers over the next four years to fund research and development. Mr Sarkozy also said he would extend tax breaks for ultra-low emission vehicles like electric cars until 2012.

This move has sparked fears of disparate actions and competition between European countries over subsidies for their car industries. Matthias Wissmann, president of Germany's auto association VDA, said Germany should keep an eye on the state loans in other countries and consider "appropriate reactions".

Carmakers have been squeezed by a combination of a drastic demand slump, higher refinancing costs and raw material prices. The rapid slowdown - European new car registrations in September were the lowest in 10 years - hit the industry at a time when they were investing billions of euros in research into low-emission technologies and alternatives to the internal combustion engine.

Several German carmakers already announced production cuts, which they pledged to handle without redundancies. This week, truckmaker MAN became the first to announce job cuts. However, the European industry is in a much better position than the ailing "big three" US carmakers General Motors, Ford and Chrysler. Germany's carmakers especially are among the most profitable in the world.

Fonte: Financial Times, London, October 16 2008, Companies & Markets, p. 18.