Looking for reverse

General Motors switches gear in its row with Germany's government.

EVER since General Motors, on the verge of bankruptcy earlier this year, proposed selling Opel/Vauxhall, its unprofitable European arm, it has found itself at odds with the German government. The latter wants to save as many of the 25,000 jobs at Opel's four German factories as possible; the former to minimise the losses of a business in which it will maintain a stake. The dispute has become so heated that GM, which emerged from bankruptcy last month, is now toying with scrapping the sale altogether.

GM's board, exasperated by the onerous conditions being imposed by both politicians and unions, has rejected a proposal to sell over half of Opel to Magna, a Canadian car-parts firm backed by two Russian partners: Sberbank, a state-owned bank and Gaz, another carmaker. The government had offered €4.5 billion ($6.4 billion) to finance this deal, but said it would provide nothing to a rival buyer, RHJ International, a Belgian financial firm, for fear that it would cut more jobs. This blatant grandstanding in the run-up to the country's general election in late September infuriated GM's new directors.

Now Fritz Henderson, GM's boss, is dusting off a plan originally drafted back in March, before GM collapsed, to raise money to revive Opel without selling it. The unions have threatened "spectacular actions" if the Magna deal does not go through soon. Angela Merkel, Germany's chancellor, is also horrified by the prospect of the rescue she backed collapsing before the election, putting thousands of jobs at risk.

Opel/Vauxhall is not competitive in its present state, despite presentable products and a 7% share of the market in western Europe. Its nine vehicle factories and losses of over $1 billion last year compare badly with Ford's five European factories and $1 billion profit. GM's managers believe some jobs and factories must go. Moreover, Ford has declared its European business vital for its expertise in making small cars so much in demand now even in America. GM belatedly sees similar virtue in Opel.

That leads to another problem: the Magna deal involves a rival. Gaz would gain access to Opel's intellectual property and use it to boost its position within Russia, which is vying to overtake Germany as the biggest car market in Europe. Magna and its partners were also insisting on the use of the Chevrolet brand (which has recently been making inroads in Europe) and its network of dealers in Russia.

RHJ, by contrast, was only interested in turning Opel around, just like GM. It offered GM the right to buy back its shares if such a turnaround materialised and it was ready to cash in. Without such a deep-pocketed partner, GM will struggle to raise the €3 billion reckoned necessary to keep Opel going. America's government (which holds 60% of GM's shares) does not want to see its largesse used to save German jobs. GM's board hopes it can persuade Britain, Spain and Poland (where Opel/Vauxhall also has factories) to join the German government in providing loans. Meanwhile Fiat, which dropped out of the bidding for Opel in May, says its offer (involving heavy job losses) is still on the table. Opel can probably stagger on until January before it runs out of cash—leaving plenty more time for argument.

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