Magna force

Canadian and Russian companies win the battle for GM's European arm.

Reuters

The collapse of General Motors into bankruptcy and government control was a startling reminder of how a once-mighty company could fall. But amid the gloom came hope that, after a short period of financial restructuring in Chapter 11 protection which ended in July, GM would be reborn able to survive in the tough business of carmaking. An announcement by Germany's chancellor, Angela Merkel, on Thursday September 10th gives an indication of how lean GM might turn out to be. GM has decided to sell its European arm, Opel/Vauxhall, to a consortium headed by Magna, a Canadian car-parts firm. The new model is starting to look rather different from the old one.

GM was at its lowest ebb when it decided to offload Opel/Vauxhall. The failing giant needed to shed debts and workers and its European unit was losing over $1 billion a year. Potential bidders emerged with a variety of schemes for Opel/Vauxhall, but these needed to satisfy both GM and the German government, which had propped up Opel/Vauxhall with loans. Germany is prepared to give another big slug of state aid to Magna, its favoured bidder, because Opel is based in Germany and employs around half of its 50,000 workers at four plants there.

The decision by GM followed four months of wrangling and unseemly arguments over a rival bid from RHJ International, a Belgian finance firm, after potential offers from Fiat and a Chinese carmaker fell away. But Magna, in league with Sberbank, a Russian bank, and Gaz, a Russian carmaker, always seemed a firm favourite. Its pledge to keep job losses to a minimum encouraged the German government to promise another €4.5 billion ($6.6 billion) in state aid that it was not prepared to give to a rival bidder. RHJ had planned more fundamental restructuring that would have seen many more jobs lost. Germany had no truck with that, as Mrs Merkel's government feared the political consequences with elections looming.

GM was exasperated by the demands of Germany's government and unions, which threatened "spectacular actions" if Magna were not victorious. The Americans first favoured RHJ and then even pondered trying to raise funds to keep Opel/Vauxhall. But cash-strapped GM would have had to repay a €1.5 billion bridging loan to the German government. America's government now owns 61% of GM and is reluctant to provide more aid for the sake of saving European jobs.

The Magna deal will give Gaz access to Opel/Vauxhall's intellectual property. This might help to put the Russian carmaker into pole position in Russia, which is likely soon to become the biggest car market in Europe. RHJ was only interested in turning around the carmaker and offered GM the right to buy back its shares when the process was completed. A dispute over GM's unwillingness to let go of its technology has apparently been resolved.

GM seems to have come to the conclusion that it had no option but to do a deal with Magna. It will retain a 35% stake in Opel/Vauxhall. This will give the American carmaker a grasp on the small-car technology that seems vital for continued success in an American market battered by the credit crisis and pricey oil. But it remains to be seen whether Magna, in a European car market suffering from overcapacity, can make good on promises to preserve jobs by using Opel/Vauxhall's plants to make cars for other manufacturers.

GM's brief hopes that it might hang on to Opel/Vauxhall and cling to the idea that it is still a global car company have gone. As Americans trade down to smaller vehicles it may serve GM well to prepare for a lowlier role too.

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