A deal that stinks

The forced sale of Opel to Magna defies both industrial logic and European rules.

Bloomberg

In the run-up to this weekend's general election in Germany, both Chancellor Angela Merkel and her main rival, Frank-Walter Steinmeier, are taking credit for saving Opel from bankruptcy and its four factories in Germany from closure. They have nothing to be proud of. In fact, it is hard to find anything good to say about the deal announced a fortnight ago, backed by €4.5 billion ($6.5 billion) of German taxpayers' money, to sell 55% of the European arm of General Motors to a consortium consisting of Magna, an Austro-Canadian auto-parts firm, and Sberbank, Russia's largest retail bank.

Three other countries in which Opel and Vauxhall (GM's British brand) have factories—Belgium, Britain and Spain—have asked Europe's competition commissioner, Neelie Kroes, to investigate whether Germany has breached EU rules. They are in effect accusing Ms Merkel's government of bribing Magna to ensure that most of the pain of restructuring the perennially lossmaking car firm is borne by non-Germans.

Furthermore, the deal forced through by the Germans was the worst of several options in terms of industrial logic, making it very likely that the loans lavished on Magna and Sberbank will never be repaid. And GM itself is far from happy about being forced to sell to Magna and its Russian partner. Sberbank intends to make Opel's technology available to its client, GAZ, Russia's second-biggest indigenous carmaker.

Ever since it became apparent that GM was heading for bankruptcy, the German government has been driven by short-term political expediency rather than by any concern for the interests of its taxpayers or the long-term health of the European car industry, which is so vital to Germany. Given the overcapacity in European carmaking, an orderly insolvency of Opel would have made sense. Although it makes some quite good cars, Opel is burdened with twice as many factories as it needs. In recent years it has lost market share to Volkswagen in Germany and Ford in Britain. Even with substantial restructuring, its future would be in doubt. But prompted and guided at every turn by Klaus Franz, the powerful chairman of the Opel works council, the German government's calculations appear to have taken little or no account of industrial reality.

Just say nein

The government made it clear that of the three proposals on the table—there were offers from Fiat and RHJ International, a Belgian private-equity firm—it had eyes only for Magna. Fiat's Sergio Marchionne had spoken too bluntly about the need to cut capacity in Europe, and RHJ

was portrayed as a vulture investor. Magna alone was prepared to promise that it would keep every Opel factory in Germany open regardless of its efficiency. Its boss, Frank Stronach, played cleverly on his Austrian roots. When GM, having emerged from bankruptcy with renewed confidence, explored the possibility of hanging on to Opel, it was brutally rebuffed by the Germans. The money being offered was for Magna, not for the Americans.

Not even the German government's two nominees to the Opel trust board, set up to run the company until it is sold, could bring themselves to support the plan. One of them, Manfred Wennemer, declared: "The state carries the entire risk. We don't have a solution that will eventually turn Opel into a competitive company." Were it not for Mr Stronach's lifetime ambition to own a carmaker, even Magna might be having second thoughts. Two of its biggest customers, BMW and Volkswagen, say they are worried about potential conflicts of interest and may take their business elsewhere. In short, this deal stinks. Once the dust has settled after the German election, Ms Kroes should say so, loud and clear.

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