

A spanner in the works

Magna's plans to acquire Opel, GM's European arm, may face a problem.



As the week commences when General Motors is set to conclude a deal to sell Opel, its European arm, the American car giant finds that the European Union has thrown a spanner into the engine bay. Late on Friday October 16th the European Union's competition commissioner, Neelie Kroes, tentatively suggested what everyone else saw plainly when the bidding process for Opel concluded in early September: the winner got a big push from Germany that gave it an unfair advantage. Mr Kroes belatedly has come to the conclusion that this might fall foul of the EU's competition rules.

The potential area of dispute is over €4.5 billion (\$6.7 billion) of German state aid to Opel that was apparently only available if GM chose Magna, a Canadian car-parts maker, and its partners, Sberbank, Russia's largest retail bank, and GAZ, Russia's second-largest carmaker, to take over the business. Magna's bid was alluring to Germany's government as the Canadian firm promised to keep open all four of Opel's factories in Germany with minimal job losses, regardless of their efficiency. This would look appealing at any time but saving German jobs was a priority as elections loomed at the end of September. Without a favourable deal for Opel Chancellor Angela Merkel may have suffered at the polls and thus found it trickier to pull together her favoured coalition.

Now Mrs Kroes suggests in a letter to Germany's economy minister, Karl-Theodor zu Guttenberg, that the bidding process may have been a bit lopsided. Germany's government had long made it known that it favoured the Magna-led consortium. Other companies with an interest in acquiring Opel dropped out as the race went on, including Italy's Fiat, and GM settled on RHJ, a Belgian private-equity firm, as its preferred bidder. A deal with RHJ would have allowed GM to buy back Opel if its fortunes improved. But letting Magna take over Opel will mean that GAZ, a rival car company, will get its hands on GM's valuable small-car technology.

Late in the bidding battle GM even emerged as a potential saviour for Opel itself, as rumours swirled that its improving fortunes after emerging from bankruptcy might allow it to keep and restructure its European arm. But Magna had captured the hearts of German politicians with their hands on the purse strings. Magna's victory prompted immediate complaints from the British, Belgian and Spanish governments, which feared that Opel plants in their countries would be hit disproportionately by the deal. Now the indignation at Germany's manipulation of the bidding for Opel has sparked some action from the EU. Mrs Kroes has said that there are "significant indications" that the state aid was contingent on Magna's winning Opel and has asked that Germany reconsider the bidding process.

Mr zu Guttenberg insisted on Saturday that any misunderstanding over the state aid would be cleared up swiftly. And indeed on Monday Germany cheerfully said that the money was of course available to all bidders. Confidence was no doubt buoyed by the fact that RHJ is no longer interested in Opel—having found fresh takeover targets. Fiat ruled out a revival of its interest in Opel in September. Even Beijing Automotive, an outsider in the stakes to acquire Opel, has turned its attentions to Saab, a European cast-off of GM, and will be unlikely to re-enter the fray.

It remains to be seen whether the EU's competition watchdogs are placated by Germany's assurances and Magna is allowed to finalise its deal to acquire Opel this week. Mrs Kroes rightly wants to shed light on the affair now rather than allow a deal that could become bogged down in a lengthy legal wrangle after the event. But Germany's convenient claim should not be enough to satisfy Mrs Kroes.

Adding to intrigue, rumours have begun to circulate that GM may revive its attempt to hang on to Opel. This would undoubtedly result in far bigger job cuts than those planned by Magna, and Germany would not be spared. And perhaps GM will now be eligible for the German government's hand-out. Mrs Merkel will at least be grateful that she managed to avoid this mess until after she was safely re-elected.

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