Paying up

Under pressure, GM is now putting up half the money needed to rescue Opel

THE mood at this week's Geneva motor show, if not exactly upbeat, was in contrast to the fear that gripped the event last year. Europe's car market is expected to fall in volume terms by around 10% in 2010 as the scrappage schemes that helped underpin demand for smaller cars last year are withdrawn. But slowly returning sales of larger, more profitable vehicles should underpin revenues. Moreover, the action carmakers have taken to strengthen their balance sheets is working: most are expecting to generate cash this year. The big exception is Opel/Vauxhall, the European unit of General Motors.

On Tuesday March 2nd, the first day of the show, GM staged a surprise by announcing it was tripling to €1.9 billion ($2.6 billion) in loans and equity the contribution it was ready to make to its original €3.3 billion plan for restructuring Opel. It was an admission both of how fragile Opel remains and how cross with the German government still is with GM.

At last year's show GM, facing bankruptcy in America, put a majority stake in Opel up for sale. It eventually chose as preferred bidder a consortium consisting of Magna, an Austro-Canadian auto-parts firm, and Sberbank, Russia's largest retail bank. In fact, GM had little choice in the matter. The German government held all the cards. It was providing Opel with critical bridging finance and was willing to support Magna with up to €4.5 billion to restructure the business. With an election imminent, the coalition government wanted to ensure that Germany, where more than half of Opel's capacity is based, escaped the brunt of the 10,000-odd job losses the firm had planned.

All that changed when under pressure from the European Commission's competition directorate, the German government was forced to declare (through gritted teeth) that the money it was putting up would be available for anyone with a viable restructuring plan. To the fury of the Germans, that opened the door for a newly-confident GM, which had emerged from bankruptcy and had never really wanted to sell such an important asset, to scrap the deal with Magna last November. GM hoped that by promptly repaying the bridging loan and offering €600m of its own money, the German government, after some initial huffing and puffing, would support its cheaper and more realistic plan to restoring Opel's fortunes itself.

GM was to be disappointed. The jilted Germans called on GM to put up at least 50% of the money required under its restructuring plan. Although Britain and Spain, the other two countries where Opel has significant capacity, were less demanding, they both argued that if GM was going to retain 100% of Opel, it followed that it should put more of its own money in. One of the three governments demanded that GM add €415m to the plan to allow for a worse market outlook, says Nick Reilly, the experienced manager appointed to run GM Europe. Mr Reilly adds: "There had also been reports in recent weeks that Opel was going to run out of money in 2013. Speculation about Opel not surviving damages the business." To stop the rot and get the deal done, GM capitulated.

It is some concession. Although Mr Reilly denies it, the more GM pumps into Opel, the longer it will surely take to repay the money it owes American taxpayers and thus to cast off the unwelcome tag of "Government Motors". Last month Ford, which fought successfully to avoid bankruptcy, sold more light vehicles in America than GM for the first time since 1998.

Mr Reilly believes that the Germans, who are now being asked to contribute about €1 billion, "will not want to be left out" and that an agreement should be quickly reached. It will need to be. Mr Reilly says that Opel will require the bulk of the money in the second and third quarters, but should be cash neutral by the end of the year.

However, even after the restructuring is implemented, Opel will still have a long, hard road to negotiate. It will have cut its capacity, but political pressures have stopped others from doing enough of the same. As long as the European industry is running at about two-thirds of its productive potential, prices will stay soft. And while Opel's cars are improving, the competition is relentless. The new Astra hatchback is a good car that already suffers in some comparisons against the older Volkswagen Golf and is likely to be still more outgunned when Ford's latest Focus, is launched next year. The sooner Mr Reilly can concentrate on running Opel rather than just battling to save it, the better.

Fonte: The Economist. Disponível em: <www.economist.com>. Acesso em: 5 mar. 2010.