VW braces for hit to business from emissions scandal

Financing arm freezes hiring; engine factory cuts a shift; U.S. law firm Jones Day to lead external probe

Andreas Cremer

September 30, 2015 - 11:34 am ET

BERLIN (Reuters) -- Volkswagen has imposed a hiring freeze at its financing business and cut a shift at a German engine factory as it braces for a hit to business from cheating in diesel emissions tests.

Senior officials at the German carmaker will examine later today the initial findings of an internal investigation into the biggest business crisis in the company's 78-year history, a source familiar with the matter told Reuters.

Meeting at group headquarters in Wolfsburg, the supervisory board's executive committee will also prepare for an external investigation by a U.S. law firm Jones Day, with an official from that firm to join part of the meeting, the source added.

Europe's largest carmaker has admitted to using software to rig diesel emissions tests in the United States. Germany's transport minister says it also manipulated tests in Europe, where Volkswagen sells about 40 percent of its vehicles.

It is under huge pressure to get to grips with a crisis that has wiped more than a third off its market value, sent shock waves through the global auto industry and could damage Germany's economy.

VW Financial Services, which makes loans to car buyers and leases vehicles to fleet operators, said today it was introducing a hiring freeze for the rest of the year.

"We are reacting to the current situation. It is a purely precautionary measure," a spokesman said.

At its Salzgitter engine factory, Volkswagen also cut one shift per week which it had initially put in place to meet higher demand.

New CEO Matthias Mueller, who took over from Martin Winterkorn last Friday, has promised to find those responsible and to create a new business culture.

"Those people who allowed this to happen, or who made the decision to install this software -- they acted criminally. They must take personal responsibility," supervisory board member Olaf Lies told the BBC.

Winterkorn, CEO for almost nine years, is being investigated by German prosecutors over allegations of fraud. The company suspended three top engineers on Monday and two sources familiar with the matter said today that communications chief Stephan Gruehsem was expected to step down.

Investors view an external investigation as particularly important, given the close links of Mueller and chairmandesignate Hans Dieter Poetsch to the Piech-Porsche clan that controls Volkswagen.

Shareholder advisory firm Hermes EOS said on Monday it had "real doubts" about Volkswagen's decision to appoint company insiders to top jobs to tackle the crisis.

German newspaper *Handelsblatt* reported today that some investors were calling for Poetsch to stand aside. However, a spokesman for Porsche SE, the Piech-Porsche clan's holding company, said it continued to back Poetsch as chairman.

Management focus

Volkswagen said on Tuesday it would refit up to 11 million diesel vehicles installed with the "cheat" software in one of the biggest such recalls by a single automaker. It has promised to submit details to regulators next month.

Johannes Kleis, communications chief for the European Consumer Organisation, told Reuters it was pressing Volkswagen to give customers information as quickly as possible about any implications for fuel consumption and emissions.

But analysts say the refit may not be straightforward, and Volkswagen's Czech division Skoda has informed the government in Prague that it will need until the end of October to find a technical solution.

Around 1.2 million Skoda vehicles are affected.

The source familiar with the matter told Reuters an engineer questioned in the company's internal probe had warned of illegal practices in emissions measurement as far back as 2011, but that no action was taken.

http://www.autonews.com/article/20150930/OEM02/150939985/vw-braces-for-hit-to-business-from-emissions-scandal

On top of its own inquiries, VW faces investigations by regulators and prosecutors across the world, plus potential lawsuits from customers, investors and environmentalists.

Some analysts are concerned management will not have enough time to focus on rebuilding the brand and tackling long-standing areas of underperformance, such as the mass-market VW division, flagging sales in China and a struggling U.S. business.

In a sign of the potential impact of the scandal, a car valuation tracking guide on Wednesday said the value of used Volkswagen diesel cars sold in Britain trailed the wider market in September.

Industry publication *Green Car Journal* also said on Tuesday it was rescinding "Green Car of the Year" awards given to Volkswagen's 2009 VW Jetta TDI and 2010 Audi A3 TDI models.

However, Skoda said it had not seen any impact on sales or orders from the crisis, and analysts said a halving in sales tax on small cars in China could provide a boost to Volkswagen.

German embarrassment

The company's troubles have been an embarrassment for Germany, which has for years held Volkswagen up as a model of its engineering prowess and has lobbied against some tighter regulations on automakers. The German car industry employs more than 750,000 people and is a major source of export income.

German Finance Minister Wolfgang Schaeuble said today the crisis did not pose a danger to the country's economy, Europe's largest, but added: "In the end, VW will not be the same company it once was. A lot will change from a structural perspective."

http://www.autonews.com/article/20150930/OEM02/150939985/vw-braces-for-hit-to-business-from-emissions-scandal

Car manufacturers fear the crisis could lead to more costly regulations and hit sales of diesel cars.

http://www.autonews.com/article/20150930/OEM02/150939985/vw-braces-for-hit-to-business-from-emissions-scandal