

VW diesel 'defeat device' scandal will test CEO



Winterkorn: 'Deeply sorry' that VW broke public's trust.

Photo credit: Bloomberg

Staff and wire reports

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MUNICH -- Volkswagen CEO Martin Winterkorn may face a leadership challenge after it was disclosed that the automaker cheated on U.S. air pollution tests for diesel cars, analysts said.

VW faces fines of up to \$18 billion and a backlash from consumers in the U.S. after the company admitted that software that it designed for VW brand and Audi diesel cars gave false emissions data.

Today, Volkswagen shares plunged as much as 23 percent to 125.40 euros in Frankfurt, extending the stock's slump for the year to 31 percent. The drop wiped out about 15.4 billion euros (\$17.4 billion) in value at the time. The shares closed the day in Germany down 19 percent to 132.20 euros.

In Washington, the White House said it was "quite concerned" about reports it was seeing concerning VW's conduct in complying with U.S. Clean Air Act requirements.

"It's fair to say that we're quite concerned by some of the reports that we've seen about the conduct of this particular company, but ultimately this is the responsibility of the EPA (Environmental Protection Agency) to take a look at it and that's exactly what they're doing," said White House spokesman Josh Earnest.

Arndt Ellinghorst, a London-based analyst for Evercore ISI, called the move "worthy of a back-street garage looking to get a used car through a mandated vehicle inspection." The issue may help to catalyze further management changes at VW, he said.

Winterkorn, whose contract renewal is scheduled for a supervisory board vote on Friday, now faces a serious challenge to his leadership, Ellinghorst said in an investors note today.

Analysts at Bernstein said the issue is a serious setback for VW. "This is not your usual recall issue, an error in calibration or even a serious safety flaw. There is no way to put an optimistic spin on this -- this is really serious."

Trying to pin the blame on rogue engineers probably will not appease U.S. regulators, said Bernstein analyst Max Warburton. The best-case scenario is a multibillion-dollar fine, damage to its diesel market share and "pariah status in the U.S. with government, and possibly consumers," he said.

Ferdinand Dudenhoeffer, director of the Center for Automotive Research at the University of Duisburg-Essen, said Winterkorn should resign. Winterkorn should have known about the manipulation in his role of head of VW's r&d or, if he didn't, it shows that he does not have the automaker under control, Dudenhoeffer told a German newspaper. Either way, Winterkorn's role as CEO is no longer tenable, the academic said.

"If this ends up having been structural fraud, the top management in Wolfsburg may have to bear the consequences," said Sascha Gommel, a Frankfurt-based analyst for Commerzbank.

VW said on Sunday that the company is cooperating with an investigation by the EPA and has ordered its own external investigation. **In a statement** Winterkorn said: "I personally am deeply sorry that we have broken the trust of our customers. He said VW would do "everything necessary in order to reverse the damage this has caused." Bernd Osterloh, the head of VW's works council and a supervisory board member, backed Winterkorn but said the CEO would resign if investigations proved he was personally responsible for the alleged manipulations, Reuters reported. "As employee representatives we will push for a thorough investigation and will ensure that the people responsible are held accountable," Stern magazine quoted Osterloh as saying today.

The carmaker's second-largest shareholder, the German state of Lower Saxony, said decisions would have to wait until the crisis had been "fully and thoroughly" examined.

Winterkorn ran the VW brand between 2007 and 2015 in addition to his group CEO role, including the six-year period when some of its models were found violating U.S. clean air rules.

A source close to Volkswagen said any decision on emissions control mechanisms would have been taken at the group's Wolfsburg, Germany, headquarters and not by regional divisions.

VW panel to meet early

A panel of senior supervisory board members at Volkswagen will meet on Wednesday to discuss the issue, three people familiar with the matter said. The steering committee of VW's supervisory board was already due to hold a regular meeting on Wednesday evening but has now scheduled extra time Wednesday morning to discuss the emissions scandal, one of the three people said.

Germany's Robert Bosch supplies diesel emissions control devices to VW, an industry source said. Asked whether Bosch had supplied the electronic control module central to the EPA test findings, a company spokesman

said: "We supply components for exhaust after-treatment to several manufacturers. The integration is the responsibility of the manufacturer."

Earlier this year, Winterkorn won a power struggle with his former mentor and chairman, Ferdinand Piech, forcing Piech's ouster from the automaker. As investigators seek to establish complicity within the company, Winterkorn will need to walk a fine line to shield himself and VW from a backlash in the U.S., a market where VW, despite being the world's biggest carmaker, has struggled for decades.

The VW brand's struggle to compete in the U.S. was one issue Piech cited in his failed attempt to oust Winterkorn earlier this year. Clean, powerful diesel vehicles were supposed to be VW's ticket to growth, and the company has big plans for the U.S. It spent \$1 billion on a factory in Tennessee in 2011, then said it would invest an additional \$7 billion in North America by 2018.

VW brand and Audi sold about 482,000 diesel vehicles in the U.S. with illegal emissions control software designed to make their cars appear cleaner in testing than they are in the real world, according to the the EPA.

The software, included on VW and Audi vehicles from the 2009-15 model years with 2.0-liter turbodiesel engines, detects when a car is undergoing EPA emissions testing and turns on the vehicle's full emissions controls.

The software then switched off the full emissions controls during real-world driving, the EPA said. Officials called the software a "defeat device" that allowed VW and Audi vehicles to fulfill emissions standards in lab testing, but emit nitrogen oxides at up to 40 times allowable levels in real-world driving.

VW said it has told U.S. dealers to halt sales of some of its diesel cars. Diesel models can account for 20 to 25 percent of the VW brand's U.S. sales each month. The ban is expected to put a major dent in the company's volume and slow its turnaround efforts in coming months.

The vehicles affected include the VW Passat, Jetta, Beetle and Golf, and Audi A3.