

Volkswagen sets aside \$7.3 billion over emissions scandal

September 22 2015, by Geir Moulson



The VW Logo is photographed at a car at the Car Show in Frankfurt, Germany, Tuesday, Sept. 22, 2015. Volkswagen has admitted that it intentionally installed software programmed to switch engines to a cleaner mode during official emissions testing. The software then switches off again, enabling cars to drive more powerfully on the road while emitting as much as 40 times the legal pollution limit. (AP Photo/Michael Probst)

The crisis enveloping Volkswagen AG, the world's top-selling carmaker,

escalated Tuesday as the company issued a profit warning following a stunning admission that some 11 million of its diesel vehicles worldwide were fitted with software at the center of a U.S. emissions scandal.

In a statement, the German company said it was setting aside around 6.5 billion euros (\$7.3 billion) to cover the fallout from the scandal that is tarnishing VW's reputation for probity, raised questions over the future of its CEO Martin Winterkorn and seriously undermining its share price.

In the wake of its statement, VW's share price was down another 18.7 percent at 108.75 euros and near a four-year low. The fall comes on top of Monday's hefty 17 percent decline and means the company has lost an eye-watering 25 billion euros or so in just two days of frenzied trading.

The trigger to the company's market woes was last Friday's revelation from the U.S.'s Environmental Protection Agency that VW rigged nearly half a million cars to defeat U.S. smog tests.

The company then admitted that it intentionally installed software programmed to switch engines to a cleaner mode during official emissions testing, and apologized for it. The software then switches off again, enabling cars to drive more powerfully on the road while emitting as much as 40 times the legal pollution limit.

In its statement Tuesday, Volkswagen gave more details, admitting that "discrepancies" related to vehicles with Type EA 189 engines and involved some 11 million vehicles worldwide.

"A noticeable deviation between bench test results and actual road use was established solely for this type of engine," it said. "Volkswagen is working intensely to eliminate these deviations through technical measures."

To cover the necessary service measures and what it says are "other efforts to win back the trust of our customers," VW said is setting aside some 6.5 billion euros in the current quarter. There was no mention of any fines or penalties. The EPA has indicated that it could, in theory, fine VW up to \$18 billion.



The VW Logo is fixed on a wall at the Car Show in Frankfurt, Germany, Tuesday, Sept. 22, 2015. Volkswagen has admitted that it intentionally installed software programmed to switch engines to a cleaner mode during official emissions testing. The software then switches off again, enabling cars to drive more powerfully on the road while emitting as much as 40 times the legal pollution limit. (AP Photo/Michael Probst)

The costs, VW conceded, may be subject to revaluation in the light of

ongoing investigations. As a result, it said 2015 earnings targets will be adjusted but it didn't specify by how much.

The company added that the software is also installed in other vehicles with diesel engines but that for the "majority of these engines the software does not have any effect."

Volkswagen said that new vehicles with EU 6 diesel engines currently on sale in the European Union comply with legal requirements and environmental standards.

The company's statement was clearly a shock in the markets, not least the number of vehicles involved, which is more than VW's 2014 sales of around 10 million vehicles.

Christian Stadler, professor of strategic management at Warwick Business School, said he was surprised at the scale of the VW's potential infringement but noted that companies which transgressed U.S. regulations rarely pay the full fine that local authorities say could be imposed.

"I don't think this is a life-threatening event but it's clear it's going to be very expensive," he said.

VW's troubles appear to be escalating around the world.



In this May 23, 2011 file photo Martin Winterkorn, CEO of Volkswagen, participates in a news conference at New York's Museum of Modern Art. Winterkorn promised full cooperation with the government following the company's admission it rigged nearly a half million cars to defeat U.S. smog tests. (AP Photo/Richard Drew)

South Korea said Tuesday it would investigate emission levels of Volkswagen diesel vehicles in the wake of the rigging scandal in the U.S. that has heaped pressure on Winterkorn. The German government is to also conduct new emissions tests in VW's diesel cars, while France called for a wider Europe-wide investigation into Volkswagen's practices—and into those of French carmakers.

Even before Tuesday's statement, a member of Volkswagen's supervisory board suggested that heads will roll in the wake of the

scandal, though he said it was too soon to start assigning blame.

Speaking on Germany's Deutschlandfunk radio, Olaf Lies cautioned against "over-hasty calls for resignations."



In this March 12, 2012, file photo, a Volkswagen New Beetle is lifted inside a delivery tower after the company's annual press conference in Wolfsburg, Germany. Volkswagen CEO Martin Winterkorn promised full cooperation with the government following the company's admission it rigged nearly a half million cars to defeat U.S. smog tests. (AP Photo/Michael Sohn, File)

Lies, who is also the economy minister of the German state of Lower Saxony, which holds a 20 percent stake in Volkswagen, said he was sure there would be "personal consequences" once the investigation is complete.

The shockwaves from the scandal enveloping Volkswagen were being felt far and wide across the sector as traders wondered who else may get embroiled. Germany's Daimler AG, the maker of Mercedes-Benz cars, was down 6 percent, while BMW AG fell 5.3 percent. France's Renault SA was 5.5 percent lower.

"It's an auto sector shaking incident," said Connor Campbell, a financial analyst at Spreadex.



In This June 24, 2015 photo Volkswagen CEO Martin Winterkorn arrives for an official state dinner for Britain's Queen Elizabeth II, in front of Germany's President Joachim Gauck's residence, Bellevue Palace, in Berlin. Winterkorn promised full cooperation with the government following the company's admission it rigged nearly a half million cars to defeat U.S. smog tests. (AP Photo/Markus Schreiber)

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