

US lawsuit turns up heat on VW

FRANKFURT: The decision by the US government to sue Volkswagen over the massive pollution-cheating scandal turned up the heat on the former paragon of German industry on Tuesday, 5 January, and fuelled speculation about how much the affair will finally cost the embattled auto giant.



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The lawsuit comes three and a half months after VW was plunged into its biggest-ever crisis when it was revealed to have installed software in 11-million diesel engines worldwide that intentionally subverted clean-air regulations.

The civil penalties could run well above \$20bn (€18.6bn) according to the suit, filed by the US Justice Department on behalf of the Environmental Protection Agency.

"The fact that the US Justice Department is getting involved is a surprise. And it is a sign that the US authorities are highly dissatisfied" with the way VW has handled the affair so far, said Ferdinand Dudenhoeffer, expert at the Center for Automotive Research at the university of Duisburg and Essen, Germany.

"The anger in the United States is tangible," he said.

"VW can no longer play for time."

The development sparked fears that the US authorities could slap much bigger fines on VW than have previously been expected, with figures of as much as \$90bn circulating in media reports.

That has spooked investors, with VW shares - which in recent weeks have managed to regain some of the ground lost since the scandal broke in September - the biggest loser on the Frankfurt stock exchange Tuesday with losses of 4.0%.

But Equinet analyst Holger Schmidt suggested the fines could be exaggerated and would actually come out much lower in the end.

Dudenhoeffer agreed.

"These numbers are completely unrealistic," he argued.

Until now, most observers had suggested that VW could face fines of up to \$18bn in the US.

"The US authorities clearly want to set an example," said another auto industry expert, Stefan Bratzel of the Center of Automotive Management in Bergisch Gladbach, western Germany.

But it was unlikely that VW would be fined the maximum amount, he said.

The final amount was "highly speculative, but it will probably come out in the single-digit billions," or not more than \$9bn, Bratzel predicted.

Nevertheless, VW is being sued by private customers in the US who are seeking many more billions in possible compensation. In December, VW announced it has hired US lawyer Kenneth Feinberg to handle the complaints.

Feinberg is known for handling large consumer compensation cases such as the deadly ignition switches used in some General Motors cars. In Europe, VW is scheduled to start recalling some 8.5-million affected vehicles in Europe this month, which is expected to cost a relatively modest €500m.

But the company is still a long way from reaching an agreement with the US authorities who exposed the scam in the first place.

"The anti-pollution regulations in the US are a great deal stricter than in Europe, and the easy and inexpensive technical solutions agreed in Europe won't be sufficient on the other side of the Atlantic," said Bratzel.

"In the extreme case, VW won't be able to find a technical solution for the United States. That means that a re-fit would not be viable" and VW would simply have to buy back all the vehicles affected, Bratzel said.

US authorities could even impose a deadline for VW to find a solution and if it fails, it would have to withdraw all 600,000 affected vehicles from the roads in the US, the expert suggested.

VW itself did not respond directly to the news of the US lawsuit, saying simply that it was examining the complaint. And it stressed that it would continue to cooperate closely with US authorities.

VW's new chief executive Matthias Mueller is scheduled to travel to the United States next week where he will meet "political leaders", the group said, without revealing any details.

The so-called "diesel-gate" affair has hit VW's sales and in a magazine interview last month, Mueller said the carmaker was abandoning its ambition to become the world's biggest carmaker ahead of Japanese rival Toyota.

The company said Tuesday its sales in the US fell by nine percent in December, and by 5% in 2015 overall.

Source: AFP

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