

THE DIESELGATE SCANDAL AND ITS IMPLICATIONS ON THE LABOR MARKET

Vlad CÂRSTEA

Abstract

ICCT (a small American NGO) after conducting some scientific tests on a variety of cars sold on the American market accused Volkswagen of forging the emissions tests. The cars in question were equipped with diesel engines, which are known for being more pollutant than their equivalents running on gasoline, but strangely enough, more economical. As a result, an investigation began to establish whether the allegations were true or not and if they were true, who were the culprits and which are the possible effects.

Keywords: Dieselgate, Volkswagen, emissions test, EPA

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This is probably the biggest scandal in the recent automotive history involving one of the biggest car manufacturers in the world – Volkswagen, but this was not the only circulated name. As such, other manufacturers had to explain themselves also whether they share this type of practice or not.

In 2013, International Council on Clean Transportation (ICCT), located in San Francisco – USA, in partnership with the University of West Virginia made some emissions tests on a number of cars. Among the tested cars there were a couple made by Volkswagen and one made by BMW. All the tested cars were equipped with the diesel engines. The results of those tests were quite surprising, as the more economical cars from VW exceeded 35 times the normal value of NO_x (nitrous oxides), while BMW had successfully passed the test, apparently.

At first, it was considered to be only a minor technical problem, but further tests proved that there was a much bigger issue as the cars produced by Volkswagen were built to cheat the emissions tests. How was that possible? The cars were equipped with a smart engine management unit that could detect when a test was being done. The control unit would reduce the car's performances in order to pass the test.

On September 18th 2015, EPA, (the United States Environmental Protection Agency) accused VW of manipulating the outcome of the emissions tests, offering all the necessary proofs for the cars sold only in the US. Three days later VW's shares plummet with 20% in one, recording the biggest drop in the history, despite the fact that the Group CEO apologized and announced that he would cooperate with the American authorities.

On September 22nd 2015, the scandal received its name of Dieselgate, since the cars in question had diesel engines and as a reminder one of the biggest scandals to hit the White House. Four days after the first official accusations were made, the German

Government, as well as the White House demanded an investigation for the entire range of cars sold in the US. Now, Alfa Romeo's bosses' suspicions were confirmed, as they all had been saying since 2010 that the results for Volkswagen's emissions' tests were "miraculous, magical or extraterrestrial".

The preliminary results from this investigation showed that an alarming 11 million cars with the cheating software were sold across the world, which according to statistics these cars pollute in one year just as much as the United Kingdom, in the same period of time.

In a scandal of such proportions, the CEO usually resigns, but this was not the case here. Moreover, the CEO, Martin Winterkorn announced that he was not going to resign and asked the public to keep the faith in his company and that all problems will be fixed. But, a few days later, he resigned in total appreciation from his board of directors who supported him till the end, stating that he never knew about this situation. The newly instated CEO was Matthias Mueller that came from the Porsche division and had the difficult task of reorganizing the entire group and its global activity in order to offer a better response to the crisis it was in.

In order to maintain their market share, Porsche quickly announced that their cars equipped with diesel engines were not the subject of this scandal as they tune and test the engines in a different manner than VW does, although they are part of the same automotive group.

Although Volkswagen was under this major investigation and the problem was becoming a global one not only a local or regional one, three European states (France, Germany and United Kingdom) demanded more relaxed environmental regulations for cars, but in the same time they wanted a thorough investigation in the Dieselgate scandal. As a result these states were accused of hypocrisy by the international community.

After this, Germany began in November 2015 an investigation on its own on a number of 51 cars sold on the domestic market, all equipped with diesel engines. The result of this inquiry revealed the fact that a number of 15 car manufacturers, apart from VW, cheat on the emissions tests as well. These companies are Alfa Romeo, Chevrolet, Dacia, Fiat, Hyundai, Jaguar, Jeep, Landrover, Nissan, Renault and Suzuki, not forgetting the German brands Opel, Volkswagen, Porsche, Audi and Mercedes. Although they tend to have the same faulty practice, the difference between the declared emissions and the real ones is not as big as Volkswagen's.

France took a stand as well and after a detailed examination concluded that Volkswagen's cars have emissions' levels way higher than normal. Following the same direction the French automotive group PSA (composed of Peugeot and Citroën) recently announced that they will publish the real life emissions and fuel consumption for some of their models. Of course, one could argue on the fairness of this statement and action as it does not comprise the entire range of cars produced by the French group.

During this crisis, another German car manufacturer was accused of forging the emissions tests, this time, not by an environmental agency but by a German car magazine. The company in question, BMW, was for a small period of time in the spotlights, close to VW, as emissions cheaters. Although the charges were dropped by the German magazine, their shares dropped with 10%.

Not many know the fact that Volkswagen is not involved in such a scandal for the first time, as the group had been accused of cheating the emissions tests 40 years ago,

when they equipped their petrol cars with thermo-sensitive devices in order to pass those tests. But back then, the scandal's proportion was way smaller than the current one.

During this crisis, the countries' governments where Volkswagen sold its diesel cars took different measures in order to reduce the negative impact on the environment. Starting from United States, where the VW dealers were forbidden to sell any of the cars they had on their lots (which meant a tremendous loss since dealers have to pay finance for all the VW cars they have, from the moment they are delivered by the manufacturer until they are sold by those dealers), continuing with Germany, where in Wolfsburg, VW's hometown, the City Hall had frozen their budget in waiting on the investigation's results and continuing with Romania, where RAR (Romanian Automotive Authority) had announced that all the Euro 5 VW compliant cars are forbidden to be sold.

Regarding the Dieselgate's implications on the labor market one can say that is a slap in the face for the entire automotive industry as the consumers' confidence (especially the American ones) in the car manufacturers and in the traditional ways of propulsion could be diminished. Moreover, the consumers were confident that their diesel car offered them lower operating costs found out that they were not so cheap to run after all. The statistics had shown that Volkswagen's sales plummeted with 25% during the last two months of 2015. It is quite possible for us to witness a dramatical change in the consumers' behavior.

For Volkswagen, the consequences will be probably the most important in history and basically its sole existence may be threatened. So, the company has to come up with a set of measures that would redeem it. These measures include buy-back options, cancelling leases, fixing cars and different ways of compensations for all the customers. As a result, the company announced that they had saved 6.7 billion euros, during the last quarter of 2015 just for the financial support of this scandal, naming it "Make This Go Away" fund. Apparently, this initial estimate was no way near the real value of expenditures as the most recent estimate is 16.2 billion euros. Although in the US, Volkswagen sold only approximately 500.000 cars, EPA will charge VW with fines far greater than the value of their sales.

Another consequence of this scandal is the fact that the German company will have to do some significant restructuring during the next months which means the merger of the American, Canadian and the Mexican markets into a single one. Furthermore, they said that they cancelled all the unnecessary future investments. This means that the future launch of some important models, like the Porsche Mission E, Audi e-tron quattro, which are both electric cars, and even more "exotic" models (Bugatti Veyron's successor) will be either cancelled or delayed. Another change of plans was dropping the release of the 2.0 liter diesel engines in 2016 on the American market. As a result, in all the countries where VW has plants, an increase in unemployment should be expected.

In the same time, as mentioned earlier, other manufacturers will bear some consequences as the investigations regarding the emissions are extended.

The latest victim of the Dieselgate scandal is the Japanese car manufacturer Mitsubishi. Although there were no related investigations regarding the Japanese market, the company's president Tetsuro Aikawa admitted in a press conference that they falsified the fuel economy data for more than 600.000 cars sold domestically. Although Mr. Aikawa didn't know about this conduct, during the press conference he stated that it was his responsibility. Unlike VW,

that used a clever engine management unit, Mitsubishi Motors resorted to a much easier method. The company's workers tampered with the tire pressure during their emissions tests in order to improve the fuel economy. It must be said that from all the cars affected only 157.000 were Mitsubishi cars, while 468.000 were made for Nissan.

The consequences of this scandal for the Japanese manufacturer will be quite important since the company's recent history recorded another scandal. During the 2000s there were some quality issues on critical car systems (transmission, brakes and fuel delivery system). Although in Japan their market share is relatively reassuring as they are the sixth car manufacturer, at the global level Mitsubishi struggles at the bottom of sales charts and this scandal will make the fight even harder.

Conclusions. This is the biggest scandal in the automotive industry during the recent years with implications that exceeded the borders of one country or one continent. The fact that more and more manufacturers are caught using different techniques that allow them to cheat the emissions tests leads to decreasing level of trust from the public. In the same time it must be said, that the end consumer has his fault as well, since the demand for cars that are more powerful, more comfortable, more luxurious, more versatile and cheaper in the same time is rapidly increasing. This has led to battle between all the manufacturers that will do almost anything in order to sell more than their rivals.

Just as the global economic crisis, reshaped the world, this automotive crisis will reshape the consumers, in terms of their behavior by emphasizing on the environmental impact of cars. And speaking of environmental impact, the future may offer us the surprise of tighter and tighter emissions standards in United States, in Europe as well as throughout the world, despite the latest statements from the European Union that the cars may be allowed to pollute twice as much, but the tests must be done in real-life scenarios.

Regarding Volkswagen's situation, the company started to promote cars with smaller environmental impact like electric cars and cars that run on gasoline instead of diesel, for the American market. For the other markets, VW will offer diesel engines but only if they truly obey the regulations without the help of any devices. It definitely can be said that this scandal reshaped the company as they reported a 5.5 billion euros loss for the last year and a 5% loss for this year is expected. Although the German company was considered for years a top company at the global level, the current strategy is to focus on the quality of their cars, not quantity while the objective of becoming the biggest car manufacturer was put aside until 2025.

The implications on the labor market are small on the short run and will be present inside the Volkswagen Group as well as different suppliers that work with the company. Other car manufacturers that were involved in the scandal of falsifying emissions tests will be also affected. All the employees that were suspected of creating and using the clever gadget got to keep their jobs as part of a deal made during the investigation. Only the VW's CEO lost his job as he resigned at the beginning of this scandal. On the medium and long term it is very possible to see some negative effects within the Volkswagen Group as well as in other automotive companies. The fact that a restructuring will be made in the German company will result in a number of closing down the branches that are considered inefficient.

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