

The bidding war for Opel and German-Russian relations

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As more details emerge about the negotiations between General Motors and international automotive supplier Magna over the sale of GM's Opel division, it is becoming clear that strategic German foreign policy interests are playing an increasingly important role.

In partnership with the Russian state Sberbank and the second largest Russian car manufacturer GAZ, Magna intends to take ownership of 55 percent of the shares of GM's European operations—Opel and Vauxhall.

Last week, Magna improved its takeover offer, but in his blog, GM Vice Chairman John Smith wrote there was still much to do before a decision over the future of Opel would be finalised.

According to the latest information from Magna, the company has dropped some conditions that would have provided the Russian automobile industry with access to Opel technology as quickly as possible. Magna now stipulates that Opel will remain part of the worldwide GM group, but with special rights. Among other conditions, Opel will be allowed to assign the development of engines and transmissions to other companies.

In exchange, Magna has accepted some new conditions. Opel will not be allowed to sell vehicles in the Korean and US markets. Opel is also not allowed to sell in the Canadian market for the next two years, and in China, two of its models are excluded from sales for five years.

In addition, GM will maintain a veto when GM patents are used by other carmakers. The Sberbank will be allowed to resell its share (27.5 percent) only to the carmaker GAZ and the Russian bank VEB. Deals with any other prospective customers require the agreement of GM.

Magna's Russian partners

German Gref, the Sberbank boss and a former economics minister, is a close ally of Russian President Vladimir Putin. According to *Die Zeit*, Gref does what Putin "tells him to do"—i.e., "Act geo-strategically. Procure know-how for one's own industries through international co-operation. Open new markets abroad. Buy Opel." Gref is probably only a middleman.

Gref has admitted to the press that the takeover of Opel will permit access to the company's technologies at a very low price. His bank, which is one of the largest creditors of the Russian vehicle industry, has the task of restructuring the Russian auto industry.

The Russian auto industry is largely cut off from the highly developed centres of the major Western auto producers. The Russian

Trade and Industry Minister, Viktor Christenko, admitted recently that without fusions and takeovers, Russia will be unable to develop a global car company.

While the Russian government and its business leaders are striving to acquire international technical know-how, all of the international auto concerns are keen to establish manufacturing plants in Russia to supply the Russian market. This would enable international competitors to circumvent Russian import taxes on autos, which have been increased in response to the current economic crisis. At the same time, they hope to exploit the low wages, which prevail in the country where autoworkers typically earn around €200 per month.

A number of international auto companies including Toyota, Nissan, Ford, Volkswagen and GM have set up manufacturing plants close to Moscow and, in particular, St. Petersburg.

GM has been active in Russia since 2001 producing its Chevrolet brand in a factory in Togliatti on the Volga river run jointly with Russian auto company AvtoVaz Jeeps. Initial plans to produce the Opel Astra in Togliatti or shift the German Bochum Opel plant to Russia have failed to be realised.

In 2006, there was a dispute when the ownership of Avtovaz changed hands. The Russian armaments export company Rosoboronexport bought up a huge number of shares in the company and obtained a majority holding. The new owners then briefly stopped production. According to the German *Handelsblatt* newspaper in February 2006, "The Russians want to chase out the Americans and run the business alone in future." GM remained involved, and Magna also intends to increase production at this factory, which would then be part of the "new Opel company."

Less than a year ago, in November 2008, GM opened a new factory in St. Petersburg. Russian President Dmitri Medvedev attended the opening ceremony.

Now the sale of the European GM section including its Russian plants is at the centre of the struggle for the Russian market and GM technology.

Conflicts in the German Foreign Office

The relationship between Germany and Russia (and the former Soviet Union) has repeatedly been the source of fierce political conflicts. That remains the case today.

After its defeat in the Second World War, Germany was forced to subordinate itself to the military might of the US and stood in the front

line of the Cold War. At the same time, the rapidly expanding German economy sought access to the European and international markets.

For years, there have been conflicts in the political establishment over the issue of which countries should be given priority when it comes to business and trading relations. This was particularly the case with regard to the Soviet Union and the Eastern European states.

The Social Democratic Party (SPD), led by Chancellor Willy Brandt at the end of the 1960s, initiated a course change in German foreign policy by establishing closer political and economic relations with the Eastern Bloc and Soviet Union.

The framework for German foreign policy changed once again following the reunification of Germany and the collapse of the Soviet Union at the start of the 1990s. Germany was able to increase its economic and political weight while, at the same time, intensifying its presence on global markets in competition with the US.

There was broad agreement in the government led by Helmut Kohl (Christian Democratic Union, CDU) that Germany alone could not challenge American supremacy but required the assistance of the European Union. Increasing international economic competition, however, had a negative effect on European unification, and, in particular, since the SPD government led by Gerhard Schröder (1998-2005), Germany has increasingly sought to realise its own global strategic goals independently of its European partners.

There are differences in the German ruling elite to what extent cooperation with Russia is necessary or useful. In the meantime, Schröder is on the payroll of Russia's Gazprom, the world's largest natural gas exporter, and works intensively to strengthen economic cooperation between Berlin and Moscow.

The role played by Gerhard Schröder in the latest Opel negotiations with Magna remains unclear. What is known, however, is that the Magna manager Siegfried Wolf was at Schröder's 65th-birthday celebrations in the middle of April this year.

The SPD, IGM and works councils promote Magna

The former head of chancellery under Gerhard Schröder and current SPD chancellor candidate and foreign minister, Frank-Walter Steinmeier, has also thrown his weight behind the Magna bid for Opel.

Last March, Steinmeier called on Franz Vranitzky, the former social democratic chancellor of Austria. Vranitzky sits on the Magna supervisory board and is the link to the Magna manager Wolf, whom Steinmeier has met on a number of occasions. Wolf told Steinmeier of his plans to take over Opel with his Russian partners.

When, at the end of April, the media reported on the planned involvement of the Sberbank in Opel, both Sberbank and Magna disclaimed the reports. Then sources close to Fiat—which was also bidding for Opel—made the claim that Schröder had met with Russian President Vladimir Putin in Moscow to finalise the sale of Opel to Magna, Sberbank and Gaz. Schröder's own office denied this report.

The GM headquarters in Detroit has made clear it favors the rival offer by the Brussels-based investment group RHJ International, not least because Magna wants access to GM patents and technology.

The German works councils have announced protests if RHJ's bid is successful. At the same time, trade unions at European GM locations in Spain and Britain support RHJ. The dispute is largely

based on reactionary nationalist considerations, with each trade union encouraging the new owners to carry out the bulk of the plant closings and mass layoffs in countries other than their own.

At the beginning of July, IG Metall Chairman Berthold Huber traveled to Russia to meet Putin. After the meeting, Huber told the German press agency DPA, "I have no doubts that Magna and its Russian partners will win the bidding".

For their part, both Steinmeier and Chancellor Angela Merkel (CDU) have been in contact with the US, with Merkel speaking to Barack Obama on behalf of the Magna bid just last week.

Merkel has also met with the Russian president on several occasions recently. A whole series of investment projects were on the programme when the two leaders met last week at Medvedev's holiday home on the Black Sea. The takeover of the insolvent German Wadan shipyard by the Russian Gazprom supervisory board member Igor Jussufov and his son was sealed, and Merkel also endorsed the involvement of the Russian conglomerate Sistema in the ailing German microchip producer Infineon and the insolvent subsidiary Qimonda.

Both Merkel and Medvedev once again spoke out in favour of the Magna bid for Opel. Last month, *Wirtschaftswoche* wrote, "Business experts expect that any failure of Russian involvement in Opel would put a heavy burden on German-Russian relations." Germany is currently Russia's biggest trade partner, and trade between the two states grew by more than €47 billion last year.

The German chancellor's invitation for Russian investors to invest in Germany has met with criticism from several European countries and provoked disputes in the European Union. In response, the government stressed last weekend that state credit guarantees for Opel were not restricted to the Magna bid but could also be made available to the rival RHJ.



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