

Arrest of Nissan chairman Ghosn roils global auto industry

Shannon Jones

22 November 2018

The arrest Monday by Japanese authorities of the leader of one of the world's largest automotive alliances has drawn in the governments of France and Japan and shaken investors.

On Wednesday, a Japanese court extended the detention of Carlos Ghosn for an additional 10 days on charges of financial malfeasance, including hiding tens of millions in income from tax and other government authorities. Ghosn presides over an alliance of Japanese-based Nissan and Mitsubishi and French-based automaker Renault.

Prosecutors allege that Ghosn understated his income by about five billion Yen or \$44 million in securities filings and that he used company assets for personal purposes. Authorities also arrested another Nissan executive, Greg Kelly, who they say helped in the scheme.

Under Japanese law suspects can be held for a period of time without the filing of formal charges and questioned by authorities without the benefit of legal counsel, though detainees can meet with attorneys.

Ghosn, who was credited with saving Nissan from bankruptcy, became a celebrity in corporate, media and political circles in Japan and around the world for his ruthless cost cutting. After a stint at Renault, Ghosn was assigned to Nissan where he carried out a restructuring involving the elimination of 21,000 jobs and the closure of five factories. *Forbes* anointed Ghosn "Businessman of the Year" in 2002 for his work at restoring Nissan to profitability. Later he carried out a similarly brutal restructuring at Renault earning him the appellation "Le Cost Killer."

Ghosn stepped down as CEO of Nissan last year but remained the company's chairman. He became CEO of Renault in 2005 and in 2016 he became chairman at Mitsubishi, receiving hefty compensation packages from all three companies.

The alliance sells some 10.6 million vehicles annually and if considered as a single entity was the largest auto

producer in the world in 2017, ahead of Toyota, Volkswagen and General Motors.

The future of the Nissan, Renault, Mitsubishi alliance is now in question following Ghosn's arrest. Nissan shares fell 15 percent on the news.

By some reports a full Nissan-Renault merger spearheaded by Ghosn was in the works, possibly just months away.

Opposition had emerged to the proposal for a Nissan-Renault merger. For one, the French government is a large shareholder in Renault and is unlikely to in effect cede control to Japanese-based Nissan, the most profitable of the three. There was also reported strong opposition on the Nissan board.

The arrest of Ghosn comes at a time when global automakers are under pressure because of slowing sales and the threat of disruptions due to trade war measures being enacted by the Trump administration in the United States and countermoves by the other major economic powers.

Moody's credit ratings agency said that the arrest raised questions about Nissan's governance and could affect its borrowing costs. Standard and Poors said it could lower the company's credit rating. S&P said that Nissan's profitability could suffer if it turned out that Ghosn's alleged misconduct had hurt the company's alliance with Renault and Mitsubishi.

The development of new technologies, including electric cars and autonomous vehicles, is sucking up enormous amounts of capital for research and development. It presages major changes in the auto industry whose ramifications are hard to foresee at this point. Whatever changes take place will entail sharp attacks on autoworkers.

Ghosn, a French citizen, was born in Brazil to Lebanese parents and was educated in France. His foreign heritage is unusual among CEOs in Japan.

There is speculation in some circles that Ghosn's arrest may involve behind the scenes machinations by various parties, including possibly factions within Nissan. In a statement issued after Ghosn's arrest, the Nissan board of directors said that CEO Hiroto Saikawa would introduce a motion to remove Ghosn and Kelly from their positions.

The Nissan board of directors is due to vote Thursday on the removal of Ghosn, and as of this writing appears to be divided on the issue. Many Renault senior executives are standing behind Ghosn and French President Macron indicated the government would not seek Ghosn's ouster from leadership at Renault without proof that his illegal actions involved activities in France.

Meanwhile, Renault appointed an interim chairman and CEO to take over Ghosn's duties while charges are pending.

The Lebanese foreign minister, Gebran Bassil, issued a statement saying he had instructed the Lebanese ambassador in Tokyo to follow the case and ensure fair treatment for Ghosn. Bassil said Ghosn "represents a model of Lebanese success abroad, and the Lebanese Foreign Ministry will stand by him in his crisis to make sure he gets a fair trial."

There were apparently differences at Nissan over Ghosn's focus on sales volume instead of profitability and quality. In particular, Ghosn sought to increase Nissan's presence in the American market through heavy discounting. The new CEO at Nissan has questioned that approach.

The Ghosn affair is the latest of a number of scandals involving Nissan. In July the company admitted it had found that the majority of its factories in Japan had reported falsified emissions data. In 2017 the company acknowledged that it had allowed unqualified personnel to carry out preproduction tests at some of its plants, leading to the recall of vehicles.

Similar emission-rigging scandals have hit VW, Fiat Chrysler, GM, Daimler and Mitsubishi and Renault themselves.

Ghosn's lifestyle illustrates the rapacity so typical of top-level corporate executives. He maintained homes in Paris, Amsterdam, Beirut and Rio de Janeiro and traveled around the world on a corporate jet. In 2016 he rented out the Grand Trianon at the Versailles Palace in France to celebrate his marriage to his second wife. The theme was based on Sofia Coppola's film "Marie Antoinette" with guests dressed in pre-revolutionary costumes of the doomed nobility and featured extravagant desserts in homage to the queen's supposed penchant for cake.

Nissan and Mitsubishi paid Ghosn some US\$8.5 million in cash and stock and he received \$8.4 million from Renault, enormous sums of money but still relatively modest in comparison to American CEOs. However, Ghosn's compensation generated controversy in both Japan and France, where CEOs typically earn much less. Takeshi Uchiyamada, chairman of Toyota, for example, received \$1.6 million in 2017.

In 2018 Ghosn agreed to take a 30 percent cut in compensation at Renault in order to ensure the backing of the Macron administration for another four-year term as head of the automaker.

According to a piece in the *Washington Post* one reason Ghosn may have sought to hide his income was to avoid further such problems.

Japanese broadcast organization NHK reported Nissan had paid Ghosn "huge sums" for luxury residences that were not for legitimate business purposes. The purchases were not declared on stock market filings while Ghosn did not pay, or underpaid, rent on the residences.

NHK alleged that nearly \$18 million had been funneled through a Dutch subsidiary of Nissan to buy properties on the Copacabana strip in Rio de Janeiro and in Beirut. It went on to claim that Ghosn had secretly siphoned off money meant as compensation for other Nissan executives.

Kelly, Ghosn's alleged accomplice and a reported "mastermind" of the scheme, is an American and the first US citizen to sit on Nissan's board of directors. He first joined the company in 1988 as senior manager and associate legal counsel at Nissan North America. He was later named director of human resources.

These revelations only highlight how, under capitalism, the wealth produced by the sweat and blood of workers is squandered each day on to satisfy the grotesque appetite of the corporate and financial oligarchy.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact