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SUBJECT: GM Calls for State Funds in Opel Plan: Germans Wary

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1. Summary. This week, GM presented the German government with its plan to partially divorce Opel by creating a holding company. The plan would require the German government to provide funding support to the new company. German Economics Minister zu Guttenberg promised a German government response in "several weeks," after he meets with U.S. government officials and GM in the U.S., but indicated to Charge in a March 6 bilateral meeting that he regarded the plan as "not too helpful." The Grand Coalition is in a bind. It hopes to avoid layoffs and plant closings in an election year by

extending loan guarantees, but is unwilling to provide the required direct capital investment. It is also acutely aware of the risk that any aid it provides to Opel will be seen as a precedent encouraging others to line up. To put off a painful decision, the government may pursue a "wait and see" approach in hopes of gaining wider European support and to gauge U.S. government plans for GM. Econ Minister zu Guttenberg travels to the U.S. March 15-17 and expects to raise the Opel issue with top U.S. officials. End Summary.

GM Aims to Partially Separate Opel
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2. On March 2, General Motors Europe Management presented its restructuring plan to Economics Minister Karl-Theodor zu Guttenberg. It calls for the creation of a holding company for Opel and British subsidiary Vauxhall. GM would retain a majority stake, with outside investors encouraged to buy in. The plan asks for 3.3 billion euros ($4.2 billion) in state aid for Opel. If granted in the form of a state investment, the German government would be a minority stakeholder until another buyer could be found. (Note: Such a move would not be unprecedented, as the Lower Saxony government already holds a minority stake in Volkswagen.) In creating a holding company, GM would reassure the German government, which wants to ensure that potential investors' funds stay within the new entity and do not flow back to the troubled mother concern in the U.S.

3. GM stopped short of full independence for Opel, as technology, platforms and development are too deeply entwined between the two producers. Industry experts also consider Opel, with a market share of 7.9% in Western Europe, too small to survive on its own. The plan may be fatally flawed, as there are few cash-rich entities willing to buy in, and the German government remains reticent to invest. Leading German carmaker Daimler has said it has no interest, although Opel employees and dealers have indicated a willingness to buy up shares. GM has also offered to contribute 3 billion euros ($3.8 billion) in non-cash items, such as patents.

4. Fully aware that without state help, Opel and GM face bankruptcy in the coming months, GM Europe Chief Carl-Peter Forster increased the pressure on March 4. Pointing out that GM needed to reduce its German operations as part of its European restructuring plans, Forster noted publicly that Opel would have to lay off more than 3,500 of its 26,000 workers and reduce capacity by 30%, as it has three too many plants in Europe. (Note: in a meeting with EMIN, TABD Vice Chairman Juergen Thumann speculated that lay offs could be as high as 7,000.) Forster held out hope that the proposed 3.3 billion Euro" interim aid" for the German government could be reduced if other countries with an Opel presence (Spain, Great Britain and Belgium) also take part. Regarding other EU countries, Guttenberg told Charge that there was an information exchange, but "a two-way flow" needed to improve.

German Government Resistant to Buying in
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5. With Opel facing bankruptcy in the coming months, the clock is ticking. Zu Guttenberg said it could take several weeks for his government to respond to GM's plan, during which time he will meet with U.S. government counterparts and GM officials. At a March 3 meeting of the CDU/CSU governing caucus, Chancellor Merkel said that Opel should apply for state aid like any other company. The caucus wants more clarity on Opel's legal separation from GM and its return of Opel patents. Merkel then wants Opel to find a "second investor," with GM reduced to a minority share-holder, while the state would, at the most, provide loan guarantees.

6. On March 4, Economics Ministry Parliametnary State Secretary Dagmar Whrl, CSU, told parliamentarians that the GM offer of 3 billion Euros might not be binding, while claiming that the concept had not been cleared by the GM parent. She said that the rescue plan stood on "feet of clay". Later than evening the governing

coalition agreed that Opel's rescue plan was not substantive enough to permit a conclusive decision, and agreed to intensify talks with Opel. The first meeting with senior Opel management took place on March 6 in the Chancellery. Chancellor Merkel had called GM Europe managers personally on March 5 to stress the need for more substance in the rescue plan. Her March 3 visit to Opel in Ruesselsheim (planned in September 2008) increases the pressure to have an answer by then.

7. In a March 6 meeting with Charge, Econ Minister zu Guttenberg confirmed his wariness of the GM plan, stating that the company needed to assume greater responsibility. Zu Guttenberg also referred to the on-going dialog between his Ministry and U.S. Treasury officials. Referring to a series of detailed questions that the German Economics Ministry provided to Treasury, zu Guttenberg said he needed answers before the German government could give serious consideration to the GM plan. Zu Guttenberg confirmed that during his March 15-17 Washington visit, he intends to discuss the Opel/GM situation with top U.S. officials. He added that Germany must "look at all the alternatives," to from finding potential buyers to GM/Opel declarations of "insolvency."

8. North-Rhine Westpahlia (NRW) Minister President Juergen Ruettgers and his counterpart in Hesse, Roland Koch (both CDU), have called on the government to keep all its options open (see reftel for more on Ruettgers's meeting with GM in the U.S.). Opel directly employs 26,000 workers at facilities in Hesse, NRW, Thuringia and Rhineland-Palatinate, and numerous supply firms would also be adversely affected should Opel fail. Ruettgers, who faces a state election in 2010, cannot weather another plant closing after Nokia pulled out in 2008.

9. On February 26, Social Democratic Party lead candidate Frank-Walter Steinmeier entered the fray. Speaking to 15,000 Opel

employees demonstrating outside Opel headquarters in Ruesselsheim, Steinmeier advocated a coordinated European-level solution that would also include GM entities in UK, Belgium, Spain, Sweden and Poland. However, Steinmeier did not endorse demonstrators' demand that the government directly invest in Opel. Other SPD leaders, Finance Minister Peer Steinbrueck and Party Chair Franz Muentefering, have similarly not endorsed state funds for Opel, although there is some support in the party for such a measure.

Comment

10. Comment: Minister zu Guttenberg, who has been in office for only a month, already faces a difficult challenge in the auto sector. He must be seen to be helping Opel, but does not want to commit German taxpayer money before GM's own future is certain and Berlin's action has been coordinated with its European partners. He is also aware that the line of applicants for state aid is growing longer and that his decision on Opel will have considerable influence on future requests for aid. Should Opel continue its rapid decline, the German government may face the Hobbesian choice of either caving in and investing directly in Opel, or, alternately, accepting the loss of jobs and the possible closure of plants during an election year. End Comment.

11. This cable was jointly drafted with ConGen Frankfurt and coordinated with ConGen Leipzig and ConGen Duesseldorf.
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