

<https://blog.en.erste-am.com/2017/08/16/german-car-emission-cartel-excluded-from-responsible-investment-universe/>

## German car (emission) cartel excluded from responsible investment universe

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Did VW, Audi, Porsche, Daimler, and BMW collude to form a cartel? Did they deliberately try to suspend competition? The media seem to have discovered a violation of anti-trust law, and their research suggests a link between the diesel emissions scandal and the agreements reached in joint task groups.

*“A quick update (of course free of charge as special service for the esteemed customer), and that should do it for this tedious emissions topic.”* This might as well be the result of the Berlin diesel summit in a nutshell. A summit that the bosses of the biggest car manufacturers attended, but the head of government did not. The absence of Frau Merkel may be due to the fact that the emissions scandal does not translate into votes, regardless of one’s position. Besides, it’s all familiar faces anyway (NB. The chief lobbyists of BMW, Daimler, and VW had worked in leading roles in politics prior to their automotive engagements – for CDU, CSU, and SPD [\[1\]](#)).

### Undisclosed agreements on the diesel emission treatment

The diesel summit had been triggered by the suspicion of operating as a cartel in the German car industry raised by Spiegel magazine [\[2\]](#). According to the magazine, Volkswagen, Audi, Porsche, BMW, and Daimler had been colluding since the 1990s. Articles also addressed the treatment of diesel emissions and the goal of a standardised size of “AdBlue” tanks; except, the free market was not interested. (NB. “AdBlue” is a name protected by the German Association of the Automotive Industry that denotes a urea compound that is injected into the emission flow of diesel engines in order to convert nitrogen oxides and

ammonia into steam and nitrogen.) On the one hand, car manufacturers did not want to force their customers to top up the urea compound at every third or fourth trip to the petrol station, which would probably have made the diesel engine significantly less attractive. On the other hand, bigger tanks come with higher costs and also eat into the space for interior equipment. The only alternative left was to reduce the injection of “AdBlue”. However, this led to the following chain of questions: How can the statutory limits be complied with at a reduced rate of injection? Do we need to comply? Would it be possible to manage injection via a special software in such a way that would permit compliance only at the test stand?

### **The bursting of the urea bubble**

This was the starting pistol for (cheating) software to “optimise” the urea injection. However, the bubble burst as a result of the confession letter by Volkswagen in September 2015. The use of this software does not only constitute the violation of laws, but it also means that the air was being deliberately polluted because of the increased emission of poisonous nitrogen oxides, and as a result, the health of many people was put at risk<sup>[3]</sup>. As pioneer and market leader, the German automotive sector bears a huge responsibility. But instead of free competition for the development of the cleanest and most efficient car, it seems backroom deals were made (and tolerated by politicians), geared towards stifling said competition. While the free update of the current software possibly improves the efficiency of injection, it remains to be seen whether this solution will suffice without additional technical measures or an increase of the frequency of “AdBlue” top-ups<sup>[4]</sup>.

### **Effects of the sustainable investment universe**

One thing is for sure: our update of the investable companies will bear the consequences of this situation. Due to the diesel emissions scandal, the companies affected by the suspicion of collusion, i.e. Volkswagen, Audi, and Porsche, were not investable for the sustainable ERSTE RESPONSIBLE line of funds anyway (NB. That also applies to the supplier Robert Bosch GmbH.)

The agreements that have now come to light and that can be seen as the point of origin of the diesel scandal, the clear lack of willingness to solve this issue by politicians, and the loose supervision by the Federal Motor Transport Authority (KBA)<sup>[5]</sup> will translate into an update for BMW and Daimler. These companies have also been excluded with immediate effect and until further notice from the investable universe of sustainable investments.

<sup>[1]</sup> <http://www.politico.eu/article/das-auto-kartell-more-questions-than-answers/>

<sup>[2]</sup> <http://www.spiegel.de/wirtschaft/soziales/volkswagen-audi-porsche-bmw-und-daimler-unter-kartellverdacht-a-1159052.html>

<sup>[3]</sup> 57 % of the urban air pollution stations close to traffic registered the violation of the annual maximum limits. (<http://www.umweltbundesamt.de/daten/luftbelastung/stickstoffdioxid-belastung#textpart-2>)

<sup>[4]</sup> <http://www.sueddeutsche.de/auto/diesel-gipfel-in-berlin-warum-software-updates-das-diesel-problem-nicht-loesen-1.3613983-2>

<sup>[5]</sup> WirtschaftsWoche, 04/08/2017, edition 32: “Die Verwalter der Lüge” (“Administrator of the lie”), pp.26 et seqq.

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