GM Gets Cold Feet, Abandons Opel Sale

Melissa Eddy, Associated Press Writer

BERLIN (AP) — Germany's politicians fumed with anger and Opel workers cancelled cost concessions and readied walkouts after General Motors Co. abandoned the sale of its European subsidiary to parts maker Magna International and Russian bank Sberbank.

Klaus Franz, Adam Opel GmbH's top employee representative, called it a "black day" and said workers would start brief work stoppages Thursday.

GM's decision Tuesday to abandon the deal was a sharp blow to government and labor officals who supported it as the restructuring option that would save the most jobs in Germany.

The German government had put up a euro1.5 billion bridge loan to keep Opel afloat as a buyer was sought, and promised euro4.5 billion in further financing so Magna and Sberbank could take a 55 percent stake.

The cancellation took the newly elected government by surprise, coming just after Chancellor Angela Merkel left the U.S. after a well-received speech to a joint session of Congress.

In Berlin, Economy Minister Rainer Bruederle vowed Wednesday to recover the euro1.5 billion in bridge financing.

"We will get the taxpayers' money back," he told reporters, adding that GM's move was "totally unacceptable."

GM Europe spokeswoman Karin Kirchner said the company was prepared to repay the euro1.5 billion. "If we're asked, GM will repay the bridge loan in question," she said.

GM's decision also caught the Russian goverment unawares. Dmitry Peskov, spokesman for Russian Prime Minister Vladimir Putin, called it "astonishing."

The mood was opposite in Britain, where GM Europe builds its Vauxhall brands. British workers had feared the strong German government support for Magna meant they — along with Opel workers in Spain and Belgium — would take the brunt of any restructuring.

Tony Woodley, a former Vauxhall worker and joint leader of the Unite union, called GM's move a "fantastic decision" for the 5,500 workers at the plants in Ellesmere Port and Luton.

"There's no logic in breaking up the company. I believe it is the right decision in

spite of a good deal that we'd struck with Magna," he said. "It is the best decision for Britain and our plants. I am absolutely delighted that General Motors have finally done the right thing for them and for us."

Opel was transferred to a trust to keep it out of GM's now-completed bankruptcy restructuring in the U.S. Initially, GM's board hd favored a rival bid by investment firm RHJ International, in part for fear that Magna and Sberbank could create competition for Chevrolet in Russia, a key market.

The offer from RHJ International required less government aid but appeared likely to involve more job cuts in Germany, something Merkel had been keen to avoid as it headed into elections in September.

Across Germany, where Opel employs some 25,000 people, the anger was palpable.

Juergen Ruettgers, the governor of North-Rhine Westphalia criticized GM's decision and vowed to fight for jobs at the Bochum factory, where Opel produces the Astra and Zafira models.

"After many promises and months of negotiations, the head of GM has left workers out in the cold," Ruettgers said. "This attitude from General Motors shows the ugly face of turbo-capitalism. It is completely unacceptable."

The industrial union IG Metall said workers at Opel's four plants would halt work Thursday, followed by similar moves Friday at other Opel locations in Europe.

GM Europe, which employs around 50,000 workers, also markets brands including Cadillac and Chevrolet in Europe. It produces the Vauxhall brand in Britain.

GM Chief Executive Fritz Henderson said late Tuesday that the decision by the company's board was the result of an overall improvement in Europe's business environment and GM's health since it put the division up for sale late last year.

But Europe is a fiercely competitive market and analysts said that for GM to keep hold of Opel would mean major cuts in staffing and, likely, production.

Howard Wheeldon, senior strategist at BGC Partners in London, warned that given the strength of the euro and fierce competition for market share, GM has no option but to cut jobs, scale back production and close plants.

"Indeed, whatever is done to prop up GM Europe in the short term with money provided form European governments we must brace ourselves for eventual crushing and burning of plants and the cutting of vast numbers of jobs across GM Europe at some point in the future," he wrote in a research note.

"How long away? That I do not know but I do know that in the meantime governments will do what they can to put that day off as long as they can."

Henderson said GM will work with Europe's unions "to develop a plan for meaningful

contributions to Opel's restructuring."

Opel worker representative Franz said no. "We won't help shape the way back to General Motors," he said."Instead, we'll take up our classic function of defending the workers."

He said that workers' representatives won't agree to the "extortion" and will cancel concessions they had agreed to make to help the Magna deal go through.

Opel's employee council on Tuesday said that European workers had agreed with Magna to offer cost-cutting contributions worth euro265 million a year. In Germany, workers had agreed to forego pay increases through 2011 and give up part of their traditional Christmas and summer bonuses.

"This is an unbelievable action," Berthold Huber, IG Metall's president said. "Opel has been brought to this difficult situation, through years of mistakes by GM's management. Therefore, it's not likely that GM will be able to produce a viable solution" for Opel.

Ferdinand Dudenhoeffer, a professor of auto economics at the University of Duisburg-Essen, said GM appeared to be driving forward with the "highest possible risk" by not selling Opel.

He said the European market has seen lagging growth and boasts ferocious competition among car makers, including Volkswagen AG, Fiat SpA and PSA Peugeot Citroen SA.

GM Europe has the fourth-highest auto sales in Europe, after Volkswagen, PSA and Ford Motor Co., according to the European Automobile Manufacturers' Association. European sales had fallen 6.6 percent through September, but sales of Opel and Vauxhall cars have fallen even further, with a drop of 11.4 percent.

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AP Business Writer George Frey in Frankfurt contributed to this report.

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