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1. German minister tells Volkswagen to clear up emissions scandal; Shares fall by almost a fifth as economy minister says US claims over falsified data threaten reputation of German car industry

German minister tells Volkswagen to clear up emissions scandal; Shares fall by almost a fifth as economy minister says US claims over falsified data threaten reputation of German car industry

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Body

The German government has warned that the Volkswagen emissions fixing scandal is putting at risk the reputation of the country's automotive industry, as shares in Europe's largest carmaker slumped by nearly 20%.

Shares plunged as investors responded to US accusations that the German carmaker falsified emissions data, an action that could attract penalties of up to \$18bn (£11.6bn). The German economy minister, Sigmar Gabriel, expressed concern over the impact of what he called "a bad case" for the country's vital car industry and he urged VW to clear up the allegations.

"You will understand that we are worried that the justifiably excellent reputation of the German car industry and in particular that of Volkswagen suffers," Gabriel said.

The Environmental Protection Agency in the US said on Friday that VW had installed illegal "defeat device" software to cheat emission tests, allowing its cars to produce up to 40 times more pollution than allowed. The US government ordered VW to recall 482,000 VW and Audi cars produced since 2009.

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VW shares closed down 18.6% at (EURO)132.20 on the DAX index in Frankfurt.

In the wake of the scandal, two senior VW executives cancelled a planned appearance at a media event in New York with singer Lenny Kravitz scheduled for Monday evening. Herbert Diess, the chairman of the VW brand's management board, and Heinz-Jakob Neusser, VW's board member in charge of technical development, had planned to attend the event to introduce the latest version of the Passat midsize sedan.

The chief executive of VW's US arm, Michael Horn, will still attend the event. He is expected to provide a statement about the situation but will not be available for media questions.

On Sunday, the German carmaker's chief executive apologised for the scandal. "I personally am deeply sorry that we have broken the trust of our customers and the public," Martin Winterkorn said. "Volkswagen has ordered an external investigation of this matter."

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VW suspended sales of cars containing the company's four-cylinder turbo direct injection (TDI) engine on Friday after the investigation. The "clean diesel" engine is commonly used in models including VW's Beetle, Golf, Jetta, Passat and the A3 luxury compact made by VW-owned Audi. VW could face penalties of \$37,500 for each car not in compliance with clean air rules.

David Bailey, professor of industrial strategy at Aston University, said: "This could be very bad indeed. They are recalling cars and that will cost them. There may be a reputational issue and there could be fines that could run into billions. If it is the case that they have been trying to hoodwink regulators, it's a really dumb thing to do."

Bailey said the US allegations could have wider reverberations for the car industry's efforts to reassure regulators about its environmental impact. Shares of VW's German rival carmakers also fell in Germany. BMW shares dropped 3.7% and Daimler's lost 4.2%

"Regulators will look at this more closely now," Bailey said. "There has been growing concern about diesel cars and nitrous oxide emissions. The industry has been trying to make the case that the latest regulations largely deal with that issue but regulators will now look more closely at whether they have."

The accusations by the agency emerged as VW was seeking to shake off doubts about its leadership at a supervisory board meeting on Friday. Former chairman Ferdinand Piech quit in a power struggle with Winterkorn over strategy five months ago. The company is also grappling with falling sales in China and efforts to boost profitability.

"This disaster is beyond all expectations," Ferdinand Dudenhöffer, head of the Center of Automotive Research at the University of Duisburg-Essen, told Reuters.

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