

July 19 2017

# Daimler's story, another German emission scandal

- **After VW also Daimler is getting deeper in the diesel scandal**
- **Germany's luxury car maker recalls millions of cars**
- **VW had to pay huge penalty because of cheating with emissions**
- **Car makers made their products look less harmful than they were**

Daimler, the German motor manufacturer and parent of the iconic Mercedes-Benz brand announced yesterday that it would be "recalling" \* three million Mercedes cars in Europe for an update to reduce their diesel emissions.

\*Daimler itself has declined to call the process a recall, however, being honest, what else is it? How curious that it is being undertaken just at the time the company faces investigations in Europe and North America over this "diesel deception".

This is an effort to address the issues to be raised at an inquiry and a public backlash over allegations that the manufacturer evaded the rules and regulations controlling vehicle pollutants.

The software update Daimler said would take about an hour. It will allow the emissions controls to operate under a broader set of conditions. Previously, the pollution equipment was programmed to operate at maximum effectiveness only under a narrow range of temperatures. That range will now be expanded.

## **Under pressure**

The Daimler Group has been caught in the spotlights harsh glare of the German press when reports intimated that the scale of the diesel deception was far larger than had initially been suspected. Of course, one would expect the board to say there has been no illegal practice, yet it is hard to overlook the fact that several line managers were summoned to Berlin to be grilled by federal state officials.

## **Avoiding the fate of Volkswagen**

The voluntary action to upgrade the emission systems of three million vehicles suggests that Daimler is hoping to avoid the fate of Volkswagen (VW). The motor group had to pay out over \$22 Billion in civil and criminal penalties [1] and legal settlements in the US after it admitted manipulating diesel emissions controls.

The financial penalties incurred by VW were so high because it was guilty of staging a cover-up after regulators began asking questions in early 2014.

**July 19 2017**

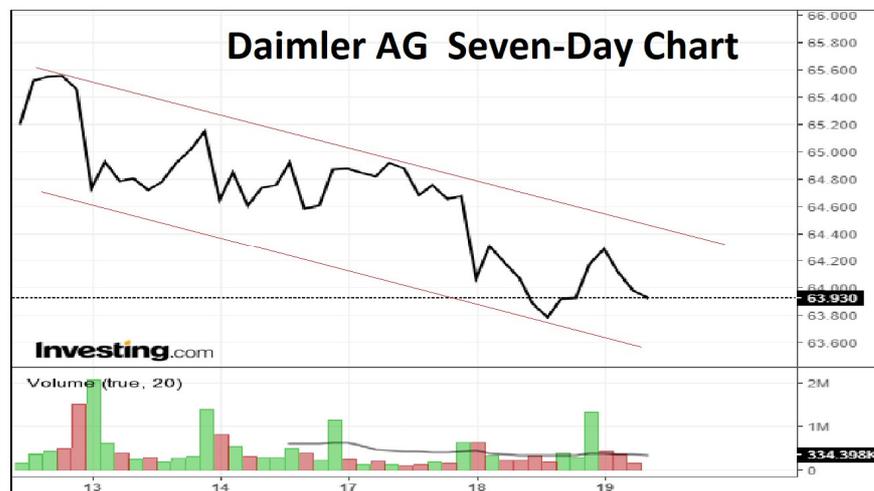
Suspicion have been running high about other manufacturers across Europe; for example:

- On May 19, this year Fiat Chrysler announced it would modify 100,000 vehicles following accusations of emissions cheating.
- German prosecutors searched Daimler's offices on May 23 as part of an ongoing diesel emissions Inquiry.

As at 10:10 GMT I noted that of five key European motor manufacturers three were trading higher and two lower:

**BMW +0.35%**   **VW +0.25%**   **FIAT +0.03%**   **RENAULT -0.23%**   **DAIMLER -0.46%**

The swing of 0.81% in relative terms in favour of BMW over Daimler will be a particularly bitter pill to swallow.



Source: [www.investing.com](http://www.investing.com), Spotlight Ideas

### Can anyone be trusted?

Daimler and its peers have faced mounting criticism from environmental groups (some facts on car emissions in this piece in The Environmentalist [2]) and some governments for being too quick to exploit loopholes in regulations that allowed the manufacturers to restrain emissions control activation to protect the engine.

Now, I am not going to applaud the motor manufacturers for their behaviour...but using loopholes is not illegal but at times one wonders if free markets want to shoot themselves in the foot? Surely the architects of the legislation that allowed such loopholes to exist in the first place should be held to account as well.

**July 19 2017**

One must wonder about the wisdom of the Daimler board as reports suggest the software update will not initially be available in the US. There are discussions between the US Department of Justice, the Environmental Protection Agency, and the California Air Resources Board but surely knowing how the US harpooned VW on this issue everything and anything should be done at double quick speed to avoid a highly expensive punishment.

The investigation in the US appears to focus on whether Daimler fulfilled its duty to tell regulators when the emissions controls might be turned down. It is starting to look like Daimler did not.

### **The diesel dilemma**

European motor manufacturers have looked to diesel engines to comply with regulations intended to combat climate change.

Diesel vehicles do emit lower levels of carbon dioxide compared with their gasoline counterparts and have better fuel efficiency, however, they are pouring out nitrogen oxides, which lead to asthma and are carcinogenic.

In many cases the software has been restricted to allow for a more competitive degree of pricing in what is one of the most price sensitive markets today.

From what is currently in the public domain the allegations against Daimler are less severe and involve fewer cars than the allegations against Volkswagen who were found to have manipulated the programming on 11 million vehicles.

### **A pointing political finger**

Still, there will be a repercussion beyond the world of motor manufacturing. Questions will have to be asked as to who knows what and when? Was a blind eye turned given that Germany is the third largest exporter in the world?

Of the €1.087 Trillion of exports cars account for 12.3% or €133 Billion and car parts 4.5% or €49.2 Billion. During the last five years the exports of Germany have increased at an annualized rate of 0.9% and of all the value-added Germany earns from exports, 16% of that is down to the motor industry. (Source: [www.destatis.de](http://www.destatis.de) and Alphametrics)

Chancellor Angela Merkel has been accused of ignoring signs that nearly all German diesel vehicles were emitting more harmful nitrogen oxides in normal use than EU regulations allow. This has a political dimension as well for with the national elections just two months away (September 24), the opposition SPD will look to make political capital as Merkel has long been accused of being too close to the auto manufacturers. She should be concerned about today's news regarding Daimler. At the start of July her CDU party held a 16 percentage point lead over the SPD... a fresh statistic shows, that has fallen to 11 percentage points (other polls, however, still see CDU further ahead).

**Market Comment**  
**Daimler's story, another German emission scandal**

**July 19 2017**

For Merkel...remember May...another European centre right political leader who held a commanding lead only to see it crumble in the heat of an election.

How the Chancellor has to hope this is the end of diesel debacle in Deutschland.

**References:**

[1]

<http://www.dw.com/en/us-judge-approves-another-vw-dieseldgate-settlement/a-38540206>

[2]

<https://www.environmentalisonline.com/article/automakers-climate-action-ranked>

<https://www.tradingfloor.com/posts/daimlers-story-another-german-emission-scandal-8819272>