BMW chief highlights risk of state aid

By Daniel Schäfer and Richard Milne in Geneva
Published: March 4 2009 02:00 | Last updated: March 4 2009 02:00

The chief executive of BMW yesterday warned against government intervention in the car industry, saying it could lead to a situation where there would be only two independent carmakers left in Europe.

Norbert Reithofer, the head of the German luxury carmaker, told the Financial Times he was worried that bail-outs of manufacturers could lead to irrational consequences and the wrong businesses being propped up.

Governments across Europe have set up state-aid packages for the car industry, which is reeling from the biggest downturn in decades.

The French government has recently come under pressure from the European Commission after offering €6bn ($7.5bn) in aid to Renault and PSA Peugeot-Citroën, while Germany is debating whether to help rescue Opel, the European mass-market arm of General Motors. Part of GM Europe's proposal for state aid is that governments or state-related entities act as interim investors in a future Opel-Vauxhall holding company.

"If we go further, then there is the danger that we will have only one or two independent manufacturers and the rest will be state or semi-state companies," Mr Reithofer said, adding that BMW would be one of the two. "I have an understanding when it is about banks because they are central elements of an economy. But for the rest, where do you start and ... stop?"

His comments underline the concerns BMW and Mercedes, the world's two largest makers of luxury cars, have about governments propping up mass-market producers and not tackling the underlying causes of the crisis in the industry, such as massive overcapacity.

Dieter Zetsche, chief executive of Daimler, told the FT that state help was only acceptable when it was a "bridging loan" for an otherwise healthy company. He said: "Every industry needs structural development and this is not something that should be influenced in the long term by governments."

Both BMW and Daimler, the owner of Mercedes, have relatively strong liquidity positions compared with some cash-strapped volume producers that are making large losses.

Mr Reithofer said: "If governments would not get involved we would have a much stronger selection process. Because then only companies with high liquidity, net financial assets and no, or almost no cash-burn would survive."

Both the BMW and Daimler chiefs denied any interest in Opel. Mr Zetsche alluded to Daimler's misadventure in buying Chrysler of the US a decade ago and then selling it in 2007 when he said: "I think we have given an answer to that in the last 10 years and we don't want to repeat that."

Their words came as both premium carmakers were preparing for further cost cuts in the light of drastically falling sales.

Mr Reithofer said BMW was looking for ways to cut material costs by another several hundred million euros. He added that BMW would further reduce its workforce by 1,500 this year through attrition.

See Lex www.ft.com/geneva