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GM opts to keep Opel, scraps sale to Magna

By Kevin Krolicki and Philipp Halstrick

DETROIT/FRANKFURT, Nov 3 (Reuters) - General Motors reversed course on Tuesday by abandoning a long-expected sale of its Opel to a group led by Canadian auto supplier Magna and opting to keep the European unit after a year of uncertainty and high-stakes political negotiations.

GM said improving business conditions and the strategic importance of Opel had prompted the unexpected move by its 13-member board of directors appointed in the wake of its own bankruptcy just four months ago.

The decision represented a setback for German Chancellor Angela Merkel, raised the risk of conflict with Opel's European unions and left open the question of how GM would finance its plan to go it alone by restructuring Opel.

The move also marked a startling shift in direction from the course for Opel endorsed by GM Chief Executive Fritz Henderson, who two weeks ago had said a sale of the European unit was the most likely outcome.

German's government had lobbied hard for the Magna deal and on Tuesday night said it wanted GM to repay 1.5 billion ($2.2 billion) in bridge financing extended by German state banks.

"The government regrets the decision of the General Motors board to restructure Opel itself and to keep it in the group," government spokesman Ulrich Wilhelm said in a statement.

GM said it expected that restructuring Opel on its own would cost about 3 billion euros ($4.41 billion), costs expected to cover job cuts and plant closures.

Senior GM executives were caught unaware by the move by the automaker's board, led by plainspoken former telecommunications executive Ed Whitacre, an outsider who became the face of the new GM in a recent TV ad blitz in the United States.

Whitacre, whose appointment was vetted by the Obama administration, has shown a hard-charging streak, showing up at GM factories unannounced and putting tough questions to management, people familiar with his tenure have said.

Henderson, a career insider who has vowed to shake up the slow-moving culture of the 101-year-old automaker, had argued that the Magna deal was the best remaining choice for GM, after seven months of painstaking talks with bidders.

The GM board decision to keep Opel came after European Union officials challenged the terms of the funding Germany had pledged to support the sale of Opel to Magna.

Germany had promised 4.5 billion euros ($6.58 billion) in aid to help close the Magna deal, which was widely seen as the option for Opel most likely to preserve jobs.

But EU officials said GM needed to confirm that it would have agreed to sell Opel if Germany had made clear that the same funding would have been available to any buyer.

GM's board had opted to sell a 55 percent stake in the loss-making Opel unit to Canadian group Magna and its partner Sberbank (SBER03.MM: Quote, Profile, Research) after the seven months of talks, which had included a competing bid from Brussels-listed RHJ International.(RHJI.BR: Quote, Profile, Research)

LONG-RUNNING TALKS, LIGHTNING DECISION

The Opel saga has been running for a year. GM first asked Germany for loan guarantees in November 2008. The automaker had been seeking a buyer for the unit, which includes the Opel and Vauxhall brands, since March.

GM's reversal of course on Opel was met with anger and bitterness in Germany, where support had run deep for the Magna transaction and plans were already under way to distance the Opel brand from GM. Opel workers even claimed GM was playing local politics in its on-again, off-again positions.

"Unfortunately my suspicion seems to been confirmed that the decision to sell Opel to Magna was connected with the elections later that month in Germany," Opel's senior labor leader in Bochum, Rainer Einenkel, told Reuters. [ID:L3480651]

The German state of Hesse's premier, Roland Koch, said he was angered by GM's decision not to sell Opel to Magna, and that he wanted GM to pay back its bridge loan by Nov. 30.

Buying Opel would have fulfilled a long-held ambition by Magna founder and chairman Frank Stronach, who left Austria at age 21 as an impoverished toolmaker but went on to build one of the world's biggest car parts groups.[ID:nN10272678]

But by taking control of Opel, Magna would have been competing with the automakers who buy its parts and some investors had viewed the deal as risky for that reason.

Shares of Magna have gained 18 percent over the past year, lagging some rivals, including Johnson Controls (JCI.N: Quote, Profile, Research), up 39 percent, and BorgWarner (BWA.N: Quote, Profile, Research), up 30 percent.

"We will continue to support Opel and GM in the challenges ahead," Siegfried Wolf, Magna's co-chief executive, said in a statement in response to the GM decision.

'NO OTHER CHOICE'?

Auto analysts said keeping Opel would allow GM to maintain control of vehicle development and share parts across a few global platforms, much as Ford Motor Co (F.N: Quote, Profile, Research) has done.

Opel's Russelsheim operations in Germany have been the center for developing vehicles that are crucial to GM's vehicle line-up and its effort to deliver better sales of more fuel-efficient cars.

The Chevrolet Malibu and the Buick LaCrosse mid-size sedans are both built on Opel platforms. That is also the plan for the upcoming Chevy Cruze compact sedan, which represents GM's big bet it can make a small car profitably in the United States.

"If they are going to be competitive on a global scale, they really don't have much choice but to keep Opel," said Autoconomy analyst Erich Merkle.

Opel's workforce -- which was to be cut by a fifth under the new owners from 50,000 -- was supposed to receive a 10 percent stake in the new company in return for 265 million euros in annual cost concessions.

GM would have kept a 35 percent stake in the unit under the now-scrapped deal.

GM had $13.6 billion remaining in an escrow account from the U.S. Treasury as of October, but the terms of its bailout by the Obama administration prohibit it from using those funds for its overseas operations.

Brad Coulter, a restructuring specialist at O'Keefe & Associates in Detroit, said GM's move to keep Opel suggested "they are not under as much pressure to sell assets to raise cash."

Earlier on Tuesday, GM reported its first increase in U.S. sales in nearly two years. [N03411936]

Peter Morici, an economist at the University of Maryland, said the GM board could be vindicated in the decision to keep Opel if it can line up the financing.

"If they can get out of the German government what some of these buyers were going to get, it could turn out to be a good deal for them," he said. (1 euro=$1.47) (Reporting by Kevin Krolicki and Philipp Halstrick; Additional reporting by Gernot Heller in Berlin, John Crawley, Jui Chakravorty, Soyoung Kim, John McCrank, David Bailey in Detroit and Ben Klayman in Chicago; Editing by Matthew Lewis, Gary Hill)

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