

California will test diesel engines from VW's Audi, Porsche

The California Air Resources Board will broaden its testing of Volkswagen AG cars with diesel engines to include those with 3.0-liter V6 engines sold by two subsidiaries, a spokesman for the state regulator said on Tuesday.

The latest models to be examined are the Porsche Cayenne and the Audi A6, Stanley Young, communications director for the Air Resources Board, told Reuters. Porsche declined to comment. Audi did not respond to a request for comment. Volkswagen said on

Tuesday that engine software connected with a scandal over falsified US vehicle emission tests could affect 11 million of its cars worldwide as investigations of its diesel models multiplied.

The California Air Resources Board's testing uncovered software in several Volkswagen models that allowed the company to cheat state and federal emissions requirements by switching performance levels between testing and real-world conditions.

"That investigation looked at two-liter

four-cylinder engines," said Young. "Now we're going to start looking at six-cylinder, three-liter diesel engines."

Young said VW engineers acknowledged the use of a so-called defeat device — in fact, a software algorithm — to circumvent state and federal emissions standards during a Sept 3 meeting in the board's El Monte, California testing headquarters, attended by senior engineering executives of the regulator and the car company. RTRS)

diesel cars loiter in lots as VW dealers, owners sit and wait

At the Volkswagen of Oakland dealership in California, the German company's "clean diesel-" powered cars were a big hit with eco-friendly customers.

Now, following VW's admission that it rigged emissions tests of its diesel cars in the United States, a line of 2015 diesel Golf Sportswagens sit unsellable in the lot, because sales are suspended until further notice.

"We definitely feel betrayed," said

sales manager Chris Murphy, calling the scandal "a hit for the brand."

The world's biggest carmaker by sales told the Environmental Protection Agency that it used special software to lower emissions during vehicle inspections by US regulators.

"I'd be pissed if I were a consumer. A lot of people may have bought it for the eco-friendly elements," Murphy said.

Although consumers in all states

are affected, the sting is particularly acute in California, which prides itself on its environmental record and where most VW diesel car owners live.

Californians own 14 percent of all VW diesel cars affected in the scandal, compared with Texans at 7 percent and Floridians at 5.7 percent, according to Kelly Blue Book.

California's regulators were first alerted to emissions problems in VW's diesel cars in 2014. (RTRS)

Business Plus



Flawed EU engine tests caught in Volkswagen's headlights

VW stock shock recalls BP debacle as 'investor nightmare'



This file photo shows the assembly lines at the Volkswagen auto works plant, which manufactures nearly 900 automobiles each day, in Wolfsburg, West Germany. Volkswagen's share price swung wild on Sept 23 as the future of CEO Martin Winterkorn hung in the balance amid the company's growing emissions scandal. Above and beyond legal problems, the scandal is a huge problem for a brand long identified with trustworthiness and reliability. And there are concerns that could spill over into a wider image problem for goods 'Made in Germany.' (AP)

'I got burnt on BP in 2010 because I initially bought it on the dips. So with Volkswagen, I would suggest going short and selling every time Volkswagen rallies'

Volkswagen's battered shares pose the same risks for traders as BP's oil spill in 2010, which also threw up tempting trading opportunities but burnt investors who got their bets wrong.

Volkswagen's stock has slumped some 30 percent since the US Environmental Protection Agency said last week that the company could face penalties of up to \$18 billion for cheating on emissions tests on some of its diesel cars.

Several traditional fund managers, who invest in assets on a time frame of two to three years or longer, reckoned VW shares had already fallen down to such an extent that the stock was bound to bounce back further down the road.

Brokerage Bernstein wrote this week that even though the situation was serious, "the reality is VW will recover from this". Yet others were more cautious and Deutsche Bank described the matter as an "investor's nightmare".

For many who bought BP shares shortly after news of the Gulf of Mexico oil spill broke in April 2010, it's a case of 'once bitten, twice shy'. BP's stock has roughly halved in value since then.

"I got burnt on BP in 2010 because I initially bought it on the dips. So with Volkswagen, I would suggest going short and selling every time Volkswagen rallies," said Beaufort Securities' sales trader Basil Petrides.

One problem with BP was estimating the legal costs of its problems with US authorities after the oil spill.

When BP's shares fell immediately after the well blow-out, several analysts said it was a buying opportunity.

A week after the blast, Goldman Sachs wrote: "We believe this reaction is overdone."

More than a fortnight after the accident, Exane BNP Paribas said "BP's \$30 billion market value decline is excessive" and that a \$10 billion provision would be fair.

Yet, BP's final bill is now expected to top \$60 billion, and for a three-month period as the well leaked, analysts struggled to assess the impact and amend their forecasts.

VW and BP are just two examples of major corporate mishaps, but the past 15 years have been scarred by other debacles which led to rapid declines in the shares of companies.

Fund managers and traders said there were several ways to best handle situations such as VW or the BP spill.

Paul Mumford, fund manager at Cavendish Asset Management, said it was vital that no single stock represented too big a holding in a fund, so that if that stock collapsed, the entire fund did not go down with it.

SVM Asset Management's Colin McLean said another tactic entailed buying shares in rival companies which could come out looking better if their competitor got embroiled in a corporate violation. Mumford said he had bought shares in British engineering group Senior Plc. Its diesel technologies help carmakers to meet emissions standards, and the VW affair could make its business all the more important for such companies, said Mumford.

Timing and speed of movement, rather than fundamental evaluation, is everything when playing a rapid share price slump such as VW or BP in 2010, said dealers.

Admiral Markets' Darren Sinden said those with "short" positions betting on further declines in VW could get caught out if rival carmakers made a bid for VW, or if Porsche bid for more control of the VW company in which it has a stake.

Phoebus Theologites, co-founder of SteppenWolf Capital, also said "shorting" VW shares was too risky at present, and favoured instead trading the credit default swaps (CDS) of European car stocks, in case VW's problems spread to its rivals. Further risks stemmed from trading in VW bonds impacting how the company's stock performed.

All of those contacted by Reuters said trying to call a bottom to VW's stock price and trying to predict when its problems would ease off was a bet not worth taking.

"The way I view these things is that even the biggest of companies can get unstuck," said Mumford.

Meanwhile, the outing of Volkswagen as a US emissions test cheat has cast an unflattering light on regulatory failings closer to home, adding momentum to a

push underway to close gaping European loopholes.

Environmental groups such as the International Council on Clean Transportation, which first spotted VW's diesel trickery, have warned for years that tests are being "gamed" by the industry — a view now broadly shared by the European Commission.

Lax regulation in Europe, where half of cars sold are diesels, may have given VW confidence that its deception would go unnoticed in the United States. For five years, it did.

Amid mounting calls for an investigation and crackdown, the European Parliament environment committee on Wednesday backed tougher new testing rules designed to resist manipulation by carmakers and dilution by governments, chiefly Germany.

"The VW news is intensifying the pressure," Green deputy Bas Eickhout told Reuters.

"This has been a long time coming," said one EU official, speaking on condition of anonymity. "It's a fine line between flexibilities and really breaking the law."

Prior to certification, new car models are hooked up to a dynamometer, or "dyno", with their wheels resting on rollers and a hose running between test equipment and the exhaust pipe.

The stationary car goes for a simulated drive — the test cycle — consisting in Europe of a sedate 20-minute cruise made up of several fixed periods at different speeds averaging 34 kilometres per hour (21 mph).

The standard test is both unrepresentative and intimately familiar to auto engineers, carmakers say. Pressured by ever-tightening limits on carbon dioxide, nitrogen oxide (NOx) and particulate emissions, they tune engines to perform best on the regulator's bench.

They do so by optimising the engine to run cleanest at the sluggish rev counts and throttle inputs typical of the test cycle, at the price of greater fuel consumption, CO2 emissions and pollution in more normal driving.

"All manufacturers deliberately engineer their cars to do well in the test," said Max Warburton, auto analyst at Bernstein, a brokerage.

If anything, he added, "the risk of manufacturers playing games to hit the standards has probably increased in recent years."

The US test regime differs in some details but not its predictability — which is why VW was able to go further by programming an illegal "defeat device" to spot tests and temporarily suppress NOx emissions that were otherwise up to 40 times the legal limit.

VW's secret test mode was even referred to internally as the "dyno calibration", according to the US findings, which the German firm has not contested. Chief Executive Martin Winterkorn is apologising almost daily as he fights for his job.

Linked to heart disease and respiratory problems, NOx pollution is blamed for hundreds of thousands of premature deaths in the US and Europe. (RTRS)

'The testing we did kind of opened the can of worms'

US engineer proves to be a David to VW's Goliath

'(We) saw huge discrepancies. There was one vehicle with 15 to 35 times the emissions levels and another vehicle with 10 to 20 times the emissions levels'

MORGANTOWN, W.V., Sept 23, (RTRS): Daniel Carder, an unassuming 45-year-old engineer with gray hair and blue jeans, appears an unlikely type to take down one of the world's most powerful companies.

But he and his small research team at West Virginia University may have done exactly that, with a \$50,000 study which produced early evidence that Volkswagen AG was cheating on US vehicle emissions tests, setting off a scandal that threatens the German automaker's leadership, reputation and finances.

"The testing we did kind of opened the can of worms," Carder says of his five-member engineering team and the research project that found much higher on-road diesel emission levels for VW vehicles than what US regulators were seeing in tests.

The results of that study, which was paid for by the nonprofit International Council on Clean Transportation (ICCT) in late 2012 and completed in May 2013, were later corroborated by the US Environmental Protection Agency and California Air Resources Board (CARB).

Carder's team — a research professor, two graduate students, a faculty member and himself — performed road tests around Los Angeles and up the West Coast to Seattle that generated results so pronounced that they initially suspected a problem with their own research.



In this file photo, worker Maik Neubert checks a Passat Variant car during the visual inspection during a press tour at the plant of the German manufacturer Volkswagen Sachsen in Zwickau, Germany. (AP)

"The first thing you do is beat yourself up and say, 'Did we not do something right?' You always blame yourself," he told Reuters in an interview. "(We) saw huge discrepancies. There was one vehicle with 15 to 35 times the emissions levels and another vehicle with 10 to 20 times the emissions levels."

Despite the discrepancies, a fix shouldn't involve major changes. "It could be something very small," said Carder, who's the interim director of West Virginia University's Center for Alternative Fuels,

Engines and Emissions in Morgantown, about 200 miles (320 km) west of Washington in the Appalachian foothills.

"It can simply be a change in the fuel injection strategy. What might be realized is a penalty in fuel economy in order to get these systems more active, to lower the emissions levels."

Carder said he's surprised to see such a hullabaloo now, because his team's findings were made public nearly a year and a half ago.

"We actually presented this data in a

public forum and were actually questioned by Volkswagen," said Carder.

The ICCT's research contract to Carder's team was sparked by separate findings by the European Commission's Joint Research Centre, which showed a discrepancy between test results and real world performance in European diesel engines.

The diesel vehicles chosen for the West Virginia study were the VW Passat, the VW Jetta and the BMW X5. Unlike the VW vehicles, Carder said the BMW vehicle "performed very nicely — at, or below, the certification emission levels."

West Virginia University is not new to ground-breaking emissions research, having helped create the first technology to measure vehicle emissions on the road more than 15 years ago.

Carder belonged to a 15-member West Virginia University team that pioneered portable emissions testing as part of a 1998 settlement between the US Justice Department and several heavy duty diesel engine makers including Caterpillar Inc and Cummins Engine Co.

The manufacturers agreed to pay \$83.4 million in civil penalties after federal officials found evidence that they were selling heavy duty diesel engines equipped with "defeat devices" that allowed the engines to meet EPA emission standards during testing but disabled the emission control system during

normal highway driving.

When the news about Volkswagen broke last Friday, Carder heard from some of the heavy diesel engine manufacturers that were part of the consent decree.

"They saw what had happened and called to say: 'Good job, you guys,'" Carder said. "Some folks said: 'How did they not learn from our mistakes 15 years ago?'"

Regarding his role in unearthing the current scandal, Carder said there was no particular sense of excitement when his team confirmed that the higher VW emission results were real and not a consequence of faulty measurements.

"There's no incentive for us to pass or fail," he said. "Obviously, we don't want to see something spewing emissions and polluting the environment. But we really have no horse in the race, as they say."

Less than four days after the US Environmental Protection Agency announced that Volkswagen had designed some of its diesel models to cheat emissions tests, lawyers have brought at least 25 class actions on behalf of scores of car owners in all 50 US states.

One reason class action lawyers were able to mobilize so fast is that the company's marketing to upscale professionals had backfired: Plaintiffs lawyers didn't have to look far for clients because many of their friends and colleagues owned the cars.