

**The New York Times** | <http://nyti.ms/1QSrCAj>

---

INTERNATIONAL BUSINESS

# Volkswagen Denied Deception to E.P.A. for Nearly a Year

By **JACK EWING** SEPT. 21, 2015

FRANKFURT — For more than a year, Volkswagen executives told the Environmental Protection Agency that discrepancies between the formal air-quality tests on its diesel cars and the much higher pollution levels out on the road were the result of technical issues, not a deliberate attempt to deceive Washington officials.

But early this month, Volkswagen executives finally made a startling admission: The diesels it sold in the United States used software deliberately designed to cheat on the tests.

The company was evidently concerned that actually meeting the federal emissions standards would degrade the power of the diesels, which it marketed as comparable in performance to gasoline engines. Meeting the standard would also undercut the fuel efficiency that is one of a diesel's main selling points.

The admission came only after the E.P.A. threatened to withhold approval for the company's new 2016 Volkswagen and Audi diesel models, according to

letters sent to company officials by the E.P.A. and California regulators.

Since news of that mass deception broke on Friday, Volkswagen has scrambled to conduct damage control. The chief executive issued an apology and the company said it would stop selling the remainder of its 2015-model diesels and not offer its 2016 diesel cars, which were just arriving in showrooms in the United States.

Those measures did not stop Volkswagen shares from plummeting when trading opened in Europe on Monday. And the apology has not relieved pressure on Martin Winterkorn, the Volkswagen chief executive, whom analysts say will have to answer tough questions — including when he and other top executives at the company, which is known for being a tightly controlled, autocratic organization, first learned of the diesel deception.

Those questions seem bound to be a focus of a meeting scheduled for Friday of Volkswagen's supervisory board, which Mr. Winterkorn reports to.

Volkswagen did not respond to a request for comment on Monday.

Adding to pressure on the company, the German government said on Monday that it would conduct its own tests to make sure that Volkswagen diesels were complying with laws on auto emissions.

The European Commission, the administrative arm of the European Union, has contacted Volkswagen as well as the E.P.A. for details about the accusations, a commission spokeswoman said.

“It is premature to comment on whether any specific immediate surveillance measures are also necessary in Europe and whether vehicles sold by Volkswagen in Europe are also affected,” the spokeswoman said in an email. “We are taking the matter very seriously.”

South Korea also planned to test Volkswagen cars to make sure they were in compliance with pollution rules, according to news reports.

The E.P.A. disclosed the correspondence with Volkswagen as part of accusations it made against the company on Friday. The agency will require the company to recall nearly half a million vehicles equipped with two-liter diesel engines dating from the 2009 model year. Volkswagen also faces fines that could run into the billions of dollars, as well as possible civil suits from disgruntled customers.

Volkswagen shares closed down 16.7 percent in Frankfurt on Monday, as investors registered alarm at the damage the company could suffer.

Mr. Winterkorn issued an apology on Sunday, saying the company had “broken the trust of our customers and the public.”

But the sophistication of the software used to manipulate emissions tests in the United States, and the extensive attempts by Volkswagen to deflect official scrutiny before admitting misconduct this month, are sure to raise questions about Mr. Winterkorn’s effectiveness only months after he survived an internal power struggle.

“Either he knew, or he didn’t know, which is even worse,” said Ferdinand Dudenhöffer, a professor at the University of Duisburg-Essen who is a longtime Volkswagen critic. “Any politician in his situation would have to resign.”

Volkswagen recently edged Toyota to become the world’s top seller of automobiles. But the company — whose brands besides Audi include Porsche, Bentley and Lamborghini — has struggled in recent years to build a following for its Volkswagen-brand cars in the United States. The new revelations are likely to undercut its effort to lure American consumers in part by promoting “clean” diesel engines that were supposed to be more fuel efficient than gasoline engines yet also peppy and environmentally responsible.

“I feel like I was misled,” said Tony German, a health care administrator in Austin, Tex., who owns a 2010 diesel Audi A3, one of the cars affected by the

E.P.A. action. “VW has been successful in promoting their high-mileage, clean diesel engines — and now they are telling us they are neither.”

“This is proactive deception,” Mr. German said by phone. “You can’t blame the low person on the totem pole for this.”

Technology exists to reduce the amount of nitrogen oxides emitted by diesels. But that technology also tends to reduce fuel economy as well as performance. The software installed by Volkswagen on vehicles sold in the United States sidestepped this trade-off by giving a misleadingly low nitrogen oxide reading during tests.

After being confronted last year with evidence that some diesel models did not comply with pollution standards under certain conditions, Volkswagen executives originally blamed various technical issues, according to letters of complaint sent to the company by the E.P.A. and the California Air Resources Board. Late last year, Volkswagen voluntarily recalled some vehicles, but failed to resolve the issue, the E.P.A. said.

The discrepancies were brought to the E.P.A.’s attention by the International Council on Clean Transportation, a research group with offices in Washington, San Francisco and Berlin that last year hired experts at West Virginia University to conduct tests of a Volkswagen Jetta and a Passat. The experts also tested a BMW X5 diesel S.U.V., which met pollution standards.

It was only on Sept. 3, according to the letters, that executives at Volkswagen of America, the company’s United States unit, admitted that its cars equipped with the two-liter diesel motors contained the software.

Some diesels, such as those used in Volkswagen S.U.V.s, are not affected by the E.P.A. action.

The manipulative software measured factors including the position of the steering wheel, the vehicle’s speed and even barometric pressure to sense

when the car was being subjected to testing, the E.P.A. said. The car's engine then configured itself to reduce emissions of nitrogen oxide, a gas that is a major contributor to smog and is linked to an array of respiratory ailments including asthma, emphysema and bronchitis, the E.P.A. said on Friday.

More than half of all vehicles sold in Europe are diesels, which are popular because they typically offer better fuel economy than gasoline. For years, in nodding to diesels' popularity in Europe, the European Union set emissions standards for the engines that were much more lax than in the United States. And so companies like Volkswagen would have found it easier to meet those standards, while offering drivers the performance they demanded, than when trying to conform to E.P.A. guidelines.

The European pollution rules have been progressively tightened. The most recent standard, known as Euro 6, took effect on Sept. 1 for all new cars sold; United States standards are still considered more stringent.

European Union officials have recognized that laboratory testing of diesel vehicle emissions is flawed and may substantially underestimate actual pollution levels. A new procedure designed to better replicate road conditions is scheduled to go into effect in the European Union on Jan. 1.

If there is any consolation for Volkswagen, it might be that diesel-powered cars account for only a tiny fraction of sales in China, which is the company's largest market.

And while Volkswagen's corporate reputation has probably been damaged by the diesel allegations, it may be some consolation to the company that its most profitable vehicles in the United States are Porsche sports cars — none of which are affected by the E.P.A. action — and Audi cars, only one model of which is affected.

Among Audi models, only the compact A3 is affected in the United States. The A3 accounted for less than a fifth of the 111,000 vehicles that Audi sold in

the United States from January through August, and only a fraction of those A3s would have been diesels.

The Volkswagen cars affected are Golf, Jetta, Beetle and Passat models from 2009 through 2015 that are equipped with two-liter diesel engines.

The plunge in Volkswagen's stock price on Monday was a clear indication that investors believe that company profit and sales could suffer because of the E.P.A. accusations. And yet, Volkswagen is relatively immune to stock market pressure because only 12 percent of its voting shares are traded. Porsche Automobil Holding, controlled by members of the Porsche family, holds a slight majority. The state of Lower Saxony owns 20 percent, and the sovereign wealth fund of Qatar owns 17 percent.

Stephan Weil, the prime minister of Lower Saxony, where Volkswagen has its headquarters and major manufacturing operations, said in a statement on Monday, "Manipulation of an emissions test is completely unacceptable and without any justification."

But Mr. Weil, who is also a member of the Volkswagen supervisory board, said consequences could be discussed only after a thorough investigation.

***Correction: September 21, 2015***

*An earlier version of this article misstated, in one instance, the likely effects of repairs to affected vehicles. As the article noted elsewhere, the repairs are likely to increase fuel consumption, not reduce it.*

Melissa Eddy contributed reporting from Berlin, and Keith Bradsher from Hong Kong.