

Proton, VW edge towards partnership
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National carmaker Proton and German auto giant Volkswagen AG are cautiously edging towards a partnership after a second round of talks in Thailand, officials said on Sunday.

"Negotiations between Proton and Volkswagen are ongoing," said Ahmad Shahizam, spokesperson with the government's investment arm, Khazanah Nasional. He declined to elaborate further.

The first round of talks was held in New York two weeks ago and the second round was held last week in neighbouring Thailand's capital, Bangkok.

Khazanah Nasional is the controlling shareholder in Proton, with a 42.74 percent stake in the company. State pension fund EPF and national oil firm Petronas own 12.07 percent and 8.84 percent respectively.

The remaining 36.35 percent is held by a mix of local and foreign companies.

Another official familiar with the talks said negotiations were centred on "working out a solution to allow Proton to have a strong foreign partner."

"The government is open to all positions. The idea is to make Proton a commercially viable company," the source told AFP on condition of anonymity.

"I suppose there will be several more rounds of discussions between the two parties. There is momentum set in place to form a partnership," the official added.

The Malaysian team comprises officials from the prime minister's department, ministry of finance and Khazanah.

Asked if Volkswagen would be allowed to hold a majority stake in Proton, the official said: "That could happen. Nothing should be ruled out. Volkswagen could have a majority stake in Proton."

A business concern

The Star newspaper Saturday reported that Volkswagen had indicated that "Proton should be run as a business concern, meaning that everything had to be evaluated from the quality, efficiency and commercial standpoint."

In the past, analysts have partly attributed difficulties in forging partnerships over the government's reluctance to cede control of a key national company to foreign hands.

Malaysia's government is under intense pressure to announce details of a partnership for Proton in a bid to provide it with expertise to stem a sharp decline in market share and cut financial losses.

The loss-making company last year lost its status as Malaysia's biggest-selling automaker to homegrown rival Perodua.

A previous attempt at forging a deal with Volkswagen broke down in January 2006 after Proton rejected what it said were "inappropriate" plans by the German carmaker to exert control over the Malaysian firm.

Proton recently reported larger than expected net losses of RM591.36 million for the year to March 2007.

The carmaker blamed weak sales and higher production costs for a reversal from the previous year's profit of RM46.69 million.

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