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UPDATE 2-Volkswagen says to recall up to 850,000 cars

Tue February 04, 2003 02:40 PM ET

(Adds analyst comment, background)

By Nick Tattersall

FRANKFURT, Feb 4 (Reuters) - German carmaker Volkswagen AG [VOWG.F](#) said on Tuesday it was recalling up to 850,000 Audi, Skoda, Seat and Volkswagen cars due to possible problems with their ignition systems, sending its shares sharply lower.

A company source told Reuters the recall of the cars, equivalent to around a sixth of VW's annual production, could cost up to 85 million euros (\$92 million), although much of that cost was likely to be borne by the supplier involved.

"This action is not going to be done for 10 euros per car. More or less we are talking about 100 euros per car," the source said, adding that talks were underway with a supplier about sharing the financial burden.

The company said the problem affected Audis [NSUG.DE](#), Skodas, Seats and VWs fitted with 1.8-litre turbo, V5, V6 and W8 petrol (gasoline) engines built in the 2001 and 2002 model years, as well as some cars built at the start of the 2003 model year.

"The failure of an ignition coil could affect the engine's operation and is noticeable by rough running or reduced power output," Volkswagen said in a statement.

Volkswagen stock extended losses on the news to trade down 6 percent in late Frankfurt trade, underperforming a drop of around 3.5 percent by the DJ European autos index [.SXAP](#).

The stock had already been underperforming the broader German market after disappointing U.S. sales figures from German carmakers including VW late on Monday.

"Of course there is a cost problem with 850,000 cars affected," a Volkswagen spokesman said.

"We are in the process of talking to the supplier, but first of all we had to fix the problem for customers and build up a new line with the supplier to build the spare parts we need... then we looked at the costs," he added.

He declined to identify the supplier.

Analysts said the recall was unlikely to have any noticeable impact on Volkswagen's earnings.

"Issues like these hurt brand sentiment, but from a material point of view all the expenses will likely be charged to the supplier," Sal Oppenheim autos analyst Patrick Juchemich said.

"The whole case seems very obvious – it looks to have been a problem with the supplier."

Volkswagen said a warning light should inform the driver of any problem, but it would contact all customers who may be affected as soon as replacement parts were available.

The company recalled 950,000 small cars worldwide in June last year due to brake problems – its biggest recall in several years.

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