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PRESS RELEASE

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**Volkswagen AG Agrees To Plead Guilty
And Pay \$4.3 Billion In Criminal And Civil Penalties And Six Volkswagen
Executives And Employees Are Indicted In Connection With Conspiracy To Cheat
U.S. Emissions Tests**

***VW to Pay \$2.8 Billion Criminal Fine in Guilty Plea and \$1.5 Billion Settlement of
Civil Environmental, Customs, and Financial Violations; Monitor to Be Appointed
to Oversee the Parent Company***

Volkswagen AG (VW) has agreed to plead guilty to three criminal felony counts, and pay a \$2.8 billion criminal penalty, as a result of the company's long-running scheme to sell approximately 590,000 diesel vehicles in the U.S. by using a defeat device to cheat on emissions tests mandated by the Environmental Protection Agency (EPA) and the California Air Resources Board (CARB), and lying and obstructing justice to further the scheme, the Justice Department announced today.

In separate civil resolutions of environmental, customs, and financial claims, VW has agreed to pay \$1.5 billion. This includes EPA's claim for civil penalties against Volkswagen in connection with Volkswagen's importation and sale of these cars, as well as U.S. Customs and Border Protection (CBP) claims for customs fraud. In addition, the EPA agreement requires injunctive relief to prevent future violations. The agreements also resolve alleged violations of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).

"Volkswagen's blatant cheating on U.S. emissions standards not only harmed our clean air, but it also created a competitive disadvantage for other automakers who play by the rules," United States Attorney Barbara McQuade said. "Today's announcement

of a corporate felony guilty plea and indictments against Volkswagen executives demonstrates that corrupt corporations and individual employees will be held accountable.”

“Volkswagen and its executives are accused of involvement in a massive fraud scheme to intentionally sell diesel cars that violated U.S. emissions rules. Today’s charges signify our government’s commitment to protect the American automotive consumer,” said David P. Gelios, Special Agent in Charge, Detroit Division of the FBI. “Any company or its representatives that seeks to undermine American industry regulatory standards to gain an unfair advantage in the marketplace will be subjected to a comprehensive criminal investigation as evidenced in this case”.

The Criminal Case:

VW is charged with and has agreed to plead guilty to participating in a conspiracy to defraud the United States and VW’s U.S. customers, and to violate the Clean Air Act, by lying and misleading the EPA and U.S. customers about whether certain VW, Audi, and Porsche branded diesel vehicles complied with U.S. emissions standards, using cheating software to circumvent the U.S. testing process, and concealing material facts about its cheating from U.S. regulators. VW is also charged with obstruction of justice for destroying documents related to the scheme, and with a separate crime of importing these cars into the U.S. by means of false statements about the vehicles’ compliance with emissions limits. Under the terms of the plea agreement, which must be accepted by the court, VW will plead guilty to all these crimes, will be on probation for three years, will be under an independent corporate compliance monitor who will oversee the company for at least three years, and agrees to fully cooperate in the Justice Department’s ongoing investigation and prosecution of individuals responsible for these crimes.

In addition, a federal grand jury in the Eastern District of Michigan returned an indictment today charging six VW AG executives and employees for their roles in the nearly ten-year conspiracy. Heinz-Jakob Neusser, 56, Jens Hadler, 50, Richard Dorenkamp, 68, Bernd Gottweis, 69, Oliver Schmidt, 48, and Jürgen Peter, 59, all of Germany, are charged with one count of conspiracy to defraud the United States, defraud VW’s U.S. customers, and violate the Clean Air Act, by making false representations to regulators and the public about the ability of VW’s supposedly “clean diesel” vehicles to comply with U.S. emissions requirements. The indictment also charges Dorenkamp, Neusser, Schmidt and Peter with Clean Air Act violations and charges Neusser, Gottweis, Schmidt and Peter with wire fraud counts. This case has been assigned to United States District Judge Sean F. Cox.

Schmidt was arrested on Jan. 7, 2017, in Miami during a visit to the United States, and appeared in federal court there on Monday. The other defendants are believed to presently reside in Germany.

Today's announcement was made by Attorney General Loretta E. Lynch, EPA Administrator Gina McCarthy and Assistant Administrator Cynthia Giles, Deputy Attorney General Sally Q. Yates, FBI Deputy Director Andrew McCabe, Acting Deputy Secretary Russell C. Deyo for the Department of Homeland Security, U.S. Attorney Barbara L. McQuade of the Eastern District of Michigan, Assistant Attorney General Leslie R. Caldwell of the Justice Department's Criminal Division, Assistant Attorney General John C. Cruden of the Justice Department's Environment and Natural Resources Division, and Principal Deputy Assistant Attorney General Benjamin C. Mizer of the Justice Department's Civil Division.

According to the indictment, the individuals occupied the following positions within the company:

- (1) **Heinz-Jakob Neusser.** From July 2013 until September 2015, Neusser worked for VW AG as head of Development for VW Brand and was also on the management board for VW Brand. From October 2011 until July 2013, Neusser served as the head of Engine Development for VW.
- (2) **Jens Hadler.** From May 2007 until March 2011, Hadler worked for VW AG as head of Engine Development for VW.
- (3) **Richard Dorenkamp.** From 2003 until December 2013, Dorenkamp worked for VW AG as the head of VW's Engine Development After-Treatment Department in Wolfsburg, Germany. From 2006 until 2013, Dorenkamp led a team of engineers that developed the first diesel engine that was designed to meet the new, tougher emissions standards in the United States.
- (4) **Bernd Gottweis.** From 2007 until October 2014, Gottweis worked for VW AG as a supervisor with responsibility for Quality Management and Product Safety.
- (5) **Oliver Schmidt.** From 2012 through February 2015, Schmidt was the General Manager in charge of the Environment and Engineering Office, located in Auburn Hills, Michigan. From Feb 2015 through Sept. 2015 Schmidt returned to VW headquarters to work directly for Neusser, including on emissions issues.
- (6) **Jürgen Peter.** Peter worked in the VW AG Quality Management and Product Safety Group from 1990 until the present. From March 2015 until July 2015, Peter was one of the VW AG liaisons between the regulatory agencies and VW AG.

According to the charging documents and statement of facts filed with the court, in 2006, Volkswagen engineers began to design a new diesel engine to meet stricter U.S. emissions standards that would take effect by model year 2007. This new engine would be the cornerstone of a new project to sell diesel vehicles in the United States that would be marketed to buyers as "clean diesel," a project that was an important strategic goal for Volkswagen's management. When the co-conspirators realized that they could not design a diesel engine that would both meet the stricter NOx emissions standards and attract sufficient customer demand in the U.S. market, they decided they would use a software function to cheat standard U.S. emissions tests.

Volkswagen engineers working under Dorenkamp and Hadler designed and implemented a software to recognize whether a vehicle was undergoing standard U.S. emissions testing on a dynamometer or it was being driven on the road under normal driving conditions. The software accomplished this by recognizing the standard published drive cycles. Based on these inputs, if the vehicle's software detected that it was being tested, the vehicle performed in one mode, which satisfied U.S. NOx emissions standards. If the software detected that the vehicle was not being tested, it operated in a different mode, in which the vehicle's emissions control systems were reduced substantially, causing the vehicle to emit NOx up to 40 times higher than U.S. standards.

Disagreements over the direction of the project were articulated at a meeting over which Hadler presided, and which Dorenkamp attended. Hadler authorized Dorenkamp to proceed with the project knowing that only the use of the defeat device software would enable VW diesel vehicles to pass U.S. emissions tests. Starting with the first model year 2009 of VW's new "clean diesel" engine through model year 2016, Dorenkamp, Neusser, Hadler, and their co-conspirators installed, or caused to be installed, the defeat device software into the vehicles imported and sold in the United States. In order to sell their "clean diesel" vehicles in the United States, the co-conspirators lied to the EPA about the existence of their test-cheating software, hiding it from the EPA, CARB, Volkswagen customers, and the U.S. public. Dorenkamp, Neusser, Hadler, Gottweis, Schmidt, Peter, and their co-conspirators then marketed, and caused to be marketed, VW diesel vehicles to the U.S. public as "clean diesel" and environmentally-friendly.

Around 2012, hardware failures developed in certain of the diesel vehicles. VW engineers believed the increased stress on the exhaust system from being driven in the "dyno mode" could be the cause of the hardware failures. In July 2012, VW engineers met with Neusser and Gottweis to explain what they believed to be the cause of the hardware failures, and explained the defeat device. Gottweis and Neusser each encouraged further concealment of the software. In 2014, the co-conspirators perfected their cheating software by starting the vehicle in "street mode," and, when the defeat device realized the vehicle was being tested, switching to the "dyno mode." To increase the ability of the vehicle's software to recognize that it was being tested on the dynamometer, the VW engineers activated a "steering wheel angle recognition feature." With these alterations, it was believed the stress on the exhaust system would be reduced because the engine would not be operating for as long in "dyno mode". The new function was installed in existing vehicles through software updates. The defendants and other co-conspirators falsely represented, and caused to be represented, to U.S. regulators, U.S. customers, and others that the software update was intended to improve durability and emissions issues in the vehicles when, in fact, they knew it was used to more quickly deactivate emission control systems when the vehicle was not undergoing emissions tests.

After years of VW selling their “clean diesel” vehicles in the United States that had the cheating software, in March 2014, West Virginia University’s Center for Alternative Fuels, Engines and Emissions published the results of a study commissioned by the International Council on Clean Transportation (ICCT). The ICCT study identified substantial discrepancies in the NOx emissions from certain VW vehicles when tested on the road compared to when these vehicles were undergoing EPA and CARB standard drive cycle tests on a dynamometer. Rather than tell the truth, VW AG employees, including Neusser, Gottweis, Schmidt, and Peter pursued a strategy to disclose as little as possible – to continue to hide the existence of the software from U.S. regulators, U.S. customers, and the U.S. public.

Following the ICCT study, CARB, in coordination with the EPA, attempted to work with VW to determine the cause for the higher NOx emissions in VW diesel vehicles when being driven on the road as opposed to on the dynamometer undergoing standard emissions test cycles. To do this, CARB, in coordination with the EPA, repeatedly asked VW questions that became increasingly more specific and detailed, and tested the vehicles themselves. In implementing their strategy of disclosing as little as possible, Neusser, Gottweis, Schmidt, Peter, and their co-conspirators provided EPA and CARB with testing results, data, presentations, and statements in an attempt to make it appear that there were innocent mechanical and technological problems to blame, while secretly knowing that the primary reason for the discrepancy was their cheating software that was installed in every VW diesel vehicle sold in the United States. The co-conspirators continued this back-and-forth with the EPA and CARB for over eighteen months, obstructing the regulators’ attempts to uncover the truth.

The charges in the indictment are merely accusations and each defendant is presumed innocent unless and until proven guilty.

The case was investigated by the FBI and EPA-CID. The prosecution and corporate investigation are being handled by Securities and Financial Fraud Unit Chief Benjamin D. Singer and Trial Attorneys David Fuhr, Alison Anderson, Christopher Fenton, and Gary Winters of the Justice Department’s Criminal Division Fraud Section; Trial Attorney Jennifer Blackwell of the Environment and Natural Resources Division Environmental Crimes Section, Criminal Division Chief Mark Chutkow and White Collar Crime Unit Chief John K. Neal and Assistant U.S. Attorney Timothy J. Wyse of the U.S. Attorney’s Office for the Eastern District of Michigan. The Justice Department’s Office of International Affairs also assisted in the case. The Justice Department also extends its thanks to the Office of the Public Prosecutor in Braunschweig, Germany.

The Civil Resolutions:

The first civil settlement resolves EPA’s remaining claims against six Volkswagen-related entities (including Volkswagen AG, Audi AG and Porsche AG) currently pending in the multidistrict litigation before U.S. District Judge Charles R. Breyer in the Northern District of California. EPA’s complaint alleges that Volkswagen violated the Clean Air Act by selling approximately 590,000 cars that the United States

alleges are equipped with defeat devices and, during normal operation and use, emit pollution significantly in excess of EPA-compliant levels. VW has agreed to pay \$1.45 billion to resolve EPA's civil penalty claims, as well as the civil penalty claim of CBP described below. The consent decree resolving the Clean Air Act claims also resolves EPA's remaining claim in the complaint for injunctive relief to prevent future violations by requiring VW to undertake a number of corporate governance reforms and perform in-use testing of its vehicles using a portable emissions measurement system of the same type used to catch VW's cheating in the first place. Today's settlement is in addition the historic \$14.7 billion settlement that addressed the 2.0 liter cars on the road and associated environmental harm announced in June 2016, and \$1 billion settlement that addressed the 3.0 liter cars on the road and associated environmental harm announced in December 2016, which together included nearly \$3 billion for environmental mitigation projects.

A second civil settlement resolves civil fraud claims asserted by U.S. Customs and Border Protection (CBP) against VW entities. VW entities violated criminal and civil customs laws by knowingly submitting to CBP material false statements and omitting material information, over multiple years, with the intent of deceiving or misleading CBP concerning the admissibility of vehicles into the United States. CBP enforces U.S. customs laws as well as numerous laws on behalf of other governmental agencies related to health, safety, and border security. At the time of importation, Volkswagen falsely represented to CBP that each of the nearly 590,000 imported vehicles complied with all applicable environmental laws, knowing those representations to be untrue. CBP's relationship with the importing community is one based on trust, and this resolution demonstrates that CBP will not tolerate abrogation of importer responsibilities and schemes to defraud the revenue of the United States. The \$1.45 billion paid under the EPA settlement also resolves CBP's claims.

In a third settlement, VW has agreed to pay \$50 million in civil penalties for alleged violations of FIRREA. The Justice Department alleged that a VW entity supported the sales and leasing of certain VW vehicles, including the defeat-device vehicles, by offering competitive financing terms by purchasing from dealers certain automobile retail installment contracts (i.e. loans) and leases entered into by customers that purchased or leased certain VW vehicles, as well as dealer floorplan loans. These financing arrangements were primarily collateralized by the vehicles underlying the loan and lease transactions. The department alleged that certain of these loans, leases, and floorplan financings were pooled together to create asset-backed securities and that federally insured financial institutions purchased certain notes in these securities. Today's FIRREA resolution is part of the department's ongoing efforts to deter wrongdoers from using the financial markets to facilitate their fraud and to ensure the stability of the nation's financial system.

Except where based on admissions by VW, the claims resolved by the civil agreements are allegations only.

The civil settlements were handled by the Environmental Enforcement Section of the Environmental and Natural Resources Division, with assistance from the EPA; the Commercial Litigation Branch of the Civil Division; and CBP.