Insolvency of German microchip manufacturer threatens 12,000 jobs

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On January 23, microchip manufacturer Qimonda declared its insolvency at the district court in Munich. The shutdown of the company threatens more than 12,000 jobs worldwide, including 3,200 in Dresden, 1,400 in Munich and 1,800 in Porto, Portugal.

Following lengthy negotiations, the government of the German state of Saxony, a Portuguese investment bank and the parent company Infineon announced on December 21, 2008 they had agreed a rescue package valued at €325 million aimed at avoiding insolvency for the ailing company. The state of Saxony assured a credit of €150 million, Infineon €75 million, and the Portuguese investment bank €100 million. At the start of last week, as talks were due to be held in the German chancellery over the final details of the rescue package, Qimonda management announced abruptly that the company urgently needed an additional €300 million.

The German government, which had been included in the negotiations, rejected any further financial aid, declaring that it was not possible "to plug the new hole". The state of Saxony also withdrew its offer of €150 million, noting that the company had failed to produce a realistic concept for the future of the company.

Qimonda employees reacted angrily to the refusal by both federal and state governments to assist Qimonda and help secure the jobs. "How can it be that billions are paid out in cash infusions and guarantees to the banks, with similar sums made available to the automotive industry in the form of inducements for consumers, but a chip manufacturer such as Qimonda is simply left to fail," remarked one worker to *Spiegel Online*.

The *Süddeutsche Zeitung* reported on the reaction of young electrical engineers from Munich to the declaration of bankruptcy. Since 2005, approximately 900 engineers have worked at the research centers for Infineon and Qimonda in Munich, developing products for semiconductor technology. "Our industry no longer exists," explained one worker. Despite good qualifications and training, there are few prospects for alternative employment. "Everything is collapsing," another worker said. "The entire semiconductor industry in Europe is falling apart."

Qimonda is a subsidiary company of the chip manufacturer Infineon and produces microchips for use in mobile phones and computers. In addition to its European plants the company also employs 2,500 workers in the US.

The parent company Infineon emerged in 1999 following its separation from the German Siemens corporation and has had a stormy history involving the destruction of thousands of jobs. At present the company employs 30,000 worldwide.

In 2006, its microchip subsidiary Qimonda was launched on the stock exchange. In recent months, Infineon, which still holds a 77.5 percent share in its subsidiary, has been desperately looking for a buyer—with no success.

The microchip industry is subject to fierce international competition, which has pushed down prices and squeezed profits. From January to September 2008 Qimonda registered losses of €1.5 billion. The industry's position has been worsened by the international financial and economic crisis, making it nearly impossible for companies to obtain fresh loans and financing.

Qimonda management declared that the ongoing slump in prices for microchips was behind its demand for a further €300 million. According to the *Süddeutsche Zeitung*, "Prices have dropped below the sum described as a 'worst case scenario,' which was worked out last December as part of a rescue concept for the high-tech company…. In December alone prices for chips used in computers, mobile phones and digital cameras plunged by more than 60 percent."

In just a few days, Intel, previously the world's largest chip manufacturer, announced a fall in sales of nearly 25 percent, with profits collapsing by 90 percent in the last quarter of 2008. Intel has declared it plans to close a total of five factories—two in the US (Hillsboro, Oregon and Santa Clara, California) and three in Malaysia and the Philippines. The total job loss is 6,000.

The insolvency of Qimonda also threatens thousands of related jobs in the semiconductor industry. In addition to those workers directly employed by Qimondo, an additional 10,000 jobs in the region are at risk, according to the president of the Institute for Economic Research in Halle, Ulrich Blum. "It would thus be a major blow for the region," he said.

It is feared that the insolvency of Qimonda followed possibly by Infineon itself could represent a deathblow for "silicon Saxony," a prestigeous project developed in the region with the help of massive financial subventions from the state government. Since the start of the 1990s the state has invested €2 billion in the construction of factories and research facilities dedicated to the information technology industry in the city of Dresden and neighboring areas.

The Qimonda works, with 3,200 employees, is the single largest employer in Dresden. With high levels of unemployment throughout Eastern Germany 20 years after capitalist reunification, the closure of such a "jewel in the crown" as Qimondo would deal a deadly blow to job prospects in the entire region.

Insolvency for Qimonda also threatens the future of its parent company Infineon, which would be confronted with massive claims for restitution of funds following the bankruptcy of its subsidiary. Following the latest news, the share values of both enterprises fell to less than one euro per share (Infineon 0.68 euros, Qimonda 0.09 euros).

Infineon is in a deep crisis. In its last financial year Europe's second biggest semiconductor producer made a loss of €3.1 billion based on a turnover of €4.3 billion. Due to the economic crisis, the company predicts a decline in sales for the current financial year of at least 15 percent.

In an arrangement struck with the works council, Infineon shut down its plant at Regensburg for a half a year and sent its 2,400 employees on short-time working. Further factory closures and redundancies are being planned.

In mid-December last year, hundreds of Qimonda employees demonstrated in front of the headquarters of Infineon in defense of their jobs. Surrounded by security men, the head of Infineon, Peter Bauer, rejected any further financial support for Qimonda, declaring: "Our liquidity is evaporating. We are in a similar situation to Qimonda."

Immediately after the announcement of insolvency for Qimonda, accusations of who was to blame began in earnest. The state government of Saxony and the IG Metall trade union accused the management of lacking any concept for the further development of the company. For its part, Qimonda management criticised what it described as insufficient support from the state and federal governments.

The IG Metall district head in Munich, Werner Neugebauer, criticised company management and pointed out that the union had objected to the separation of Qimonda from the parent company Infineon on the basis that the subsidiary company was too small and not competitive.

The vice chairman of the regional IG Metall blamed the Qimonda workforce for the company's problems—because so few had joined the trade union. He told the *Süddeutsche Zeitung*, "Our possibilities to influence events are limited," indicating that the trade union would leave the workers to their fate.

In fact, wherever the trade union has influence it works hand in hand with management to implement attacks on the workforce. The contract the union advised workers to take when Qimonda split away from Siemens—allegedly aimed at "securing jobs"—was inevitably bound up with concessions on wages and working conditions. Then when other Siemens subsidiaries went bankrupt—as was the case recently at BenQ and Nokia—the trade union sought to pacify workers and prepare them for unemployment through mechanisms such as "job holding companies."

The unions are planning similar measures with regard to Qimonda. In the insolvency proceedings the unions will propose similar temporary measures to "rescue" some jobs, involving further considerable concessions on the part of the workers. Under conditions where the chances of workers finding alternative work are next to null, when the temporary jobs "rescue" package runs out, all that is left is unemployment.