Germany: Auto supply workers to pay for investors' losses

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Recent developments concerning automotive supplier Schaeffler and Continental reveal how political and financial circles in Germany are reacting to the international economic crisis: the workforce is being compelled to bear the burden of the crisis, while the investors' capital losses are to be replenished through state subsidies.

Last year the relatively small Schaeffler family business took over Continental, the much larger tyre manufacturer and car parts supplier, in a hostile bid. According to Austria's *Wiener Zeitung* newspaper, it was "Europe's greatest company purchase of the year." The aim of Schaeffler's owners, Maria-Elisabeth Schaeffler and her son Georg, was to bring the world's second largest auto supplier—after world market leader Bosch, with a turnover of €26.3 billion—under their management.

However, the family miscalculated. They borrowed a total of €16 billion to finance the coup. The banks involved—Commerzbank, Dresden Bank, Hypo-Vereinsbank, Royal Bank of Scotland, Landesbank Baden-Württemberg and the UBS investment bank—served as security for shares issued in the new company. But the value of these shares dropped sharply as falling sales in the car trade hit the supply industry. Today Schaeffler and Continental's initial share value of €75 has sunk to a mere €15.

Moreover, Schaeffler bought far more Continental shares than it originally intended. Because many investors withdrew from the car industry owing to the sales crisis, Schaeffler received about 90 percent of the shares up to the expiry of the acquisition period—instead of the planned 50 percent. Some 49.9 percent of this passed directly into the possession of the Schaeffler family, while the remaining shares were deposited with two private banks.

Overseen by former chancellor Gerhard Schröder (Social Democratic Party-SPD) and Lower Saxony's Prime Minister Christian Wulff (Christian Democratic Union-CDU), an agreement was reached with investors in August 2008, whereby acquisition hostilities were settled, and Schaeffler was limited to owning 49.9 percent of the shares for the next four years. After the European Union gave the green light for the takeover on November 14, Schaeffler finally achieved it on January 8, 2009.

Schaeffler is now burdened with a debt of €22 billion arising from the takeover. In order to pay its shareholders, the company has had to resort to more than €10 billion of the €16 billion borrowed from the banks. Headquartered in Hanover, Continental is also indebted by about €11 billion owing to its acquisition of the Siemens VDO subsidiary in 2007.

The workforce at Schaeffler and Continental will now face an assault on two fronts: they will be made to bear the burden of falling production in the car industry, as well as the cost of their employers' billions of euros in debt.

In early February, Schaeffler began to restrict 20,000 of their 31,000 employees in Germany to short-time work. Almost all of Schaeffler's German worksites have been affected. The company applied for short-time work to last for six months. Work is to be reduced by an average of 20 percent of previous working hours, which corresponds to one lost working day per week. However, before workers take up the short-time work they are supposed to use up their holiday and time scheme credits. In the meantime, some 6,600 workers are engaged in short-time work at the company's Herzogenaurach site; in the FAG factories in Schweinfurt and nearby Eltmann the number is about 5,000.

It became known last week that Schaeffler intends to freeze wages. A standard wage increase, originally agreed with the trade unions to take effect from May 1, will only come into force on December 1, 2009. The break-up of the business and the sale of its profitable divisions are finally being arranged. Experts estimate that this will threaten 80,000 of the 230,000 jobs at Schaeffler and Continental worldwide.

At the end of January, the Schaeffler organisation applied for a state subsidy of up to €4 billion. This aid is conditioned on further attacks on employees and serves above all to safeguard the private wealth of the billionaire Schaeffler family.

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The granting of state aid caused friction within the Grand Coalition. Chancellor Angela Merkel (CDU) and other politicians criticised the fact that an "adequate business plan" had yet to be submitted. In the meantime, however, governmental circles have intimated there is scarcely a chance of state aid being granted, even if a suitable investor can be found. The government's main prerequisite is that an "acceptable strategy for the future" must first be presented.

By "acceptable strategy" it is meant that the company is to be re-stabilised at the expense of the workforce. Short-time work, austerity measures, wage cuts and sackings are to be implemented to enable the banks to get their money back and to protect the Schaeffler family's billions.

The company has recently declared its willingness to submit such a plan within the coming one or two weeks. It is to be worked out in cooperation with the banks. As Schaeffler is currently under enormous pressure from the public, the family and the federal government will try to sell the population the "strategy" bit by bit. In an attempt to calm the indignation of their workers, the Schaeffler family has recently given lip service to the idea that they are prepared to part with some of their wealth.

The trade unions and the works committees support the demand for state aid, even though they know about the conditions connected with it. Like the government, a spokesman for the industrial union, Bergbau Chemie Energie, insisted "that the Schaeffler combine has to come up with an acceptable business strategy." Norbert Lenhard, the chairman of Schaeffler's main works committee, told the *Nürnberger Nachrichten* newspaper he approved of Schaeffler's bid to secure state aid.

The background of the Schaeffler family

Schaeffler is one of a number of major German businesses that are still wholly owned by single families. Before taking over Continental, it employed 66,000 workers throughout the world, 31,000 of them in Germany. The company is owned by two people, Maria-Elisabeth Schaeffler and her son, Georg. Their combined private fortune is estimated at €5.37 billion, with Mrs. Schaeffler occupying 22nd place on the list of the richest Germans. She maintains close relations with high-profile figures from the world of politics and finance. Among her associates are Ferdinand Piëch, joint owner of Volkswagen; Wendelin Wiedeking, head of Porche; Heinrich von Pierer, former head of Siemens; and Günther Beckstein, former prime minister of Bavaria.

As with other German billionaire families (the Quandts, the Fricks), the roots of the Schaeffler fortune are to be found in the crimes of the Nazi era. According to official sources, the Schaeffler family's business activities began in 1946, after the Second World War. This is manifestly untrue.

Soon after the beginning of the war, the Schaeffler brothers in Upper Silesia acquired a factory that had been owned by a Jewish manufacturer until the Nazis took power. Employed at the time (1939) by the Dresden Bank in the field of "economic viability assessment," Wilhelm Schaeffler became aware of the business—which was under the supervision of a bank consortium—and made moves to take it under his control.

Following the Nazis' expulsion of Jews from all positions in commerce and industry, the firm was quickly renamed "Schaeffler Corporation," and during the war produced textiles for, among others, the German armed forces. Later it manufactured so-called "needle bearings" for the armament industry. According to an exhibit in the Auschwitz-Birkenau State Museum, it is evident that the firm also took part in the processing and utilization for production purposes of human hair from murdered Jews.

During the advance of the Red Army in 1944, Georg Schaeffler and his brother fled with machinery parts, raw materials and several hundred workers to Herzogenaurach in Bavaria, the site of the present business. From 1946, they began to use their know-how and machinery to produce for the American car industry, and later for German industry. Maria-Elisabeth Schaeffler inherited the business in 1996 after the death of her husband, Georg.

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