Germany: Arcandor retail group faces bankruptcy

Markus Salzmann
9 June 2009

Discussion over state intervention to support the ailing retail group, Arcandor, demonstrates the determination of the political establishment and trade union to make the working class pay for the economic crisis. The only issue under debate is how this is to be achieved.

Arcandor has been compelled to submit a sound financial plan for its restructuring by June 12. Otherwise the concern will face insolvency. On that date the group's credit with the lending banks Bayern LB, Dresdner Bank and the Royal Bank of Scotland is due to expire. All three of these banks have demanded a financial recovery plan for the deficit-ridden Karstadt department store chain and the Quelle mail order business.

For this year alone, Arcandor will require cost cutting totalling 960 million euros. Even in the unlikely event of an economic recovery, a further 900 million euros will be needed over the following five years.

Arcandor's management has made repeated attempts to obtain state aid in recent weeks. In doing so, it openly stressed the threat of job losses that would result from bankruptcy. The company presently employs a workforce of about 56,000 people.

Arcandor has already applied for a surety backed by the German government. However, both government and EU (European Union) politicians have expressed doubts about the company's ability to fulfil the requirements. Opponents of state financial support argue that Arcandor should be held responsible for the situation in which it finds itself.

Finance Minister Karl-Theodor zu Guttenberg (CSU-Christian Social Union), in particular, is vehemently resisting the call for state aid. He spoke out against state intervention to help the Opel car manufacturer, although he was unable to persuade the governing coalition to adopt his view. Hans-Heinrich Driftmann, head of the Council of the German Chamber of Industry and Commerce, also opposes state aid. In a Deutschlandfunk radio broadcast he declared that the business world is totally opposed to a "flood" of cash injections, and he said the state should not be permitted to commit "any further structural damage to the economic system".

A "solution in line with market economy principles", advocated by corporate management and the federal government, means the end of the Karstadt retail chain, which belongs to the Arcandor group. Metro, the huge German-based retailing multinational, has already drawn up plans for a take-over of its business rival. This will lead to a fusion of outlets whereby at least 40 of the 206 department stores will close—10 of the Kaufhof and 30 of the Karstadt branch stores. Approximately 5,000 full-time jobs will be destroyed. But this will only be the start of a process that will inevitably result in a drastic reduction of staff in the remaining branches.

It would be possible for Arcandor to apply for backing from the state. In that case, however, the normal procedure for acquiring state financial assistance would have to be observed. This would involve the conglomerate having to obtain approval for official rescue funds from the EU. However, the EU's Competition Commission would doubtlessly attach stringent conditions to such an authorisation. Finance Minister zu Guttenberg has asked Arcandor to check whether or not it would be entitled to this kind of rescue or restructuring support. According to his estimation, acquiring such a cash injection from the EU would necessitate the destruction of at least 30 percent of the group's holdings. "That would be accompanied by a wide ranging destruction of jobs," he claimed last week.

Trade union and the Left Party side with management and shareholders

Sections of the political establishment advocating state aid claimed that their main aim is to save jobs. This is in fact not true. These supporters of aid, particularly those in the SPD (Social Democratic Party), are no doubt motivated by expedient consideration of the approaching federal election in September. First and foremost, however, they represent the interests of sections of German big business and financial circles.

A section of the SPD, the Verdi service industry trade union and the Left Party demand, along with Arcandor's management, the appropriation of public tax reserves to guarantee shareholder profits. When the concern was making handsome gains, the profit flowed into the pockets of management and the shareholders. Now the general public is to pay for the group's losses.

The previous history of the company reveals who caused the crisis and who should be made to pay for it. Wolfgang Urban, head of the board of Karstadt and Quelle, was forced to resign owing to falling profits in 2004. He was replaced by Christoph Achenbach, the former head of Quelle-Neckermann, who instigated a rigorous austerity program. Aided by the trade union and works committee, he dismantled 5,500 jobs and caused the closure of 70 branch buildings. Reacting to pressure from the Quelle heiress, Madeleine Schickedanz, Achenbach stepped down. Thomas Middlehoff, until then head of the supervisory board, took over his post and announced further cost cutting measures.

Middelhoff sold off the Wehmeyer fashion chain and Sinn Leffers, as well as 75 of the smaller Karstadt subsidiaries operating under the name of Hertie. Later, all three of these department stores chains filed for insolvency. Karstadt and Quelle went on to sell all of their department store real estate for 4.5 billion euros and then rented it back.

While thousands of former employees have recently been forced into unemployment, equity holders have been doing good business. In 2005 Madeleine Schickedanz's private fortune was still estimated at around 5 billion euros. After Arcandor began to concentrate mainly on its tourism travel business between 2005 and 2007, the concern slid deeply into the red. In 2008 it incurred a net loss of more than 700 million euros and debts to the amount of almost a billion euros.

Despite renewed austerity programs under the leadership of Karl-Heinz Eick—the new head of the concern who demanded further "exceptional sacrifices" from the workforce—the situation has failed to improve. A financial recovery plan, introduced in April, provided for the dismantling of about 10,000 jobs. Schickedanz and the Sal. Oppenheim private bank together own 55 percent of Arcandor. Until now, their "help" for the concern has been limited to vague promises to guarantee credit with a portion of their shares. Of course, these leading Arcandor shareholders have made losses owing to falling share prices. But both have also made fantastic profits through the sell-offs and cost saving measures pursued in recent years.

When the restructuring of the concern took place and thousands of employees were sacked, there was nothing to be heard from the Verdi trade union, whose Vice-President Margaret Mönig-Raane holds a seat on Arcandor's supervisory board. The trade union is currently organising protests in demand of state aid.

The Left Party is taking the same course. Its federal parliamentary deputy and economic spokesperson, Sabine Zimmermann, advocates the state becoming a shareholder in Arcandor. "Working together with the employees, the municipal councils and the consumers, the concern would then be able to regenerate itself", she declared.

In plain language this means that billions of euros from taxpayer contributions should be poured into a business that will once again be made profitable for capitalist investors through the dismissal of thousands of workers and the slashing of wages of those who remain.

Works committees, trade unions and so-called left-wingers persistently explain that this kind of rescue operation will have unavoidable consequences for the employees. However, as with the "Opel rescue", they stress that there is no realistic alternative. Concessions in the form of wage cuts and job losses will be inevitable, they claim.

If this political course is not decisively opposed, it will inevitably lead to mass sackings and attacks on the working conditions of employees. According to the latest forecasts, the number of insolvencies in the retailing industry alone will increase by 12 percent this year.