Germany: Management speculation threatens survival of Porsche car works

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After months of turbulent negotiations, the power struggle between Volkswagen and Porsche has finally ended with an emergency deal whereby VW rescued the sports car manufacturer with a cash handover of billions of Euros. The deal means that Porsche is the tenth brand name car manufacturer to be integrated into Volkswagen—so strengthening the market domination of Europe's largest car producer.

The major owners of the two car companies are members of the same fabulously wealthy industrial dynasty, which began its rise to wealth and prominence under the Nazis but has been locked in dispute for years. The power struggle—previously taking the form of a family feud between the Porsche and Piëch clans and involving majority shareholdings, enormous profit-takings and personal vanities—has been increasingly dominated by the effects of the international crisis on the car industry in recent months.

It was only revealed shortly before a supervisory board meeting two weeks ago that Porsche's indebtedness, amounting to €14 billion, was far greater than previously assumed. According to the Spiegel web site, Porsche would have become insolvent within two weeks without the injection of new capital. "Josef Ackermann, head of Deutsche Bank, confidentially told Wolfgang Porsche, joint-owner of Porsche, just how difficult the situation was," reported *Der Spiegel* magazine in its most recent issue.

To avert the threat of insolvency, Porsche and VW agreed to undersign a so-called "basis contract" in the middle of this month. This will commit VW to purchase 49.9 percent of the Porsche concern. Next, the Emirate of Qatar will become a joint-owner of VW. A third step requires the Porsche and Piëch families to raise capital for the Porsche Automobile Holding, which in turn is to be merged into VW in 2011.

Irrespective of the ongoing feuds between the cousins, Ferdinand Piëch and Wolfgang Porsche, both will take seats on the steering committee of the VW supervisory board. Oliver Porsche and Michel Piëch will move onto the supervisory board to replace the recently sacked managing director of Porsche, Wendelin Wiedeking, and his head of finance, Holger Härter. Alongside the German federal state of Niedersachsen (with just over 20 percent) and Qatar (with just under 20 percent), the Porsche/Piëch clan will possess over 30 percent of VW's market share and be the company's biggest single shareholder.

One of the world's largest industrial conglomerates, employing almost 370,000 workers around the globe, will consequently be dominated by a family whose roots reach back to the era of Nazi rule. The company will strictly enforce corporate policy in accordance with governmental agencies and in close cooperation with the IG Metall trade union.

Although Porsche's takeover plans fell through, almost bringing the Stuttgart sports car manufacturer to bankruptcy, the Porsche/Piëch clan is now trying to pursue its aims in a roundabout way.

Wiedeking, Porsche's former director, initiated the takeover of the mighty VW concern in 2005. By the end of 2008, Porsche had come to own 42 percent of all common shares issued by VW. Wiedeking and his financial manager Holger Härter had gambled via high-risk option dealers on the stock exchange to obtain the money to purchase these shares. The actual production of motorcars at Porsche became a matter of secondary importance. The relentless striving for quick profits and personal enrichment was the driving force behind their business policies.

Everyone involved was happy with the course taken and keen to profit from it. Wiedeking took home an annual salary of €80 million and Härter only a little less. Uwe Hück, the IG Metall works council chairman well known for his subservience to Wiedeking, defended the takeover plans with the argument, "Better Porsche than a foreign corporate raider," in the hope of aiding his own rapid climb up the ladder. The concern's owners, Wolfgang Porsche and Ferdinand Piëch, also considered at the time that their interests were being furthered and cooperated in the enterprise.

Even in the midst of the economic crisis, the Porsche/Piëch clan refused to show any restraint and knowingly jeopardised the jobs of tens of thousands of workers. Their aim was to gain control of 75 percent of the VW shares in order to be able to register claim to a so-called "control and profit transfer agreement." Porsche had to take on an additional €6 billion in debt to be able to purchase a further 8.2 percent of the VW shares.

That was the beginning of the end. A number of banks increasingly lost confidence in Porsche's takeover plans. Fearing the loss of their money, they tightened conditions for the extension of credit and insisted on short-term repayments. They now demanded the forfeiting of VW shares and even security capital from the private wealth of the Piëch and Porsche families.

Under these conditions, conflicts within the Porsche/Piëch clan intensified and Ferdinand Piëch, head of the supervisory board, was finally able to emerge on top. He felt obliged to rescue Porsche with VW capital and incorporate it into the VW conglomerate. Wendelin Wiedeking was dismissed and, together with his finance juggler Härter, was given a theatrical farewell with a golden handshake of €50 million.

According to recent reports, Porsche's financial plight is far from over and might very well continue to draw the whole of the VW concern down into the financial morass.

The Porsche dynasty

The family dynasty of Porsche and Piëch owes its fame and fortune not only to the spectacular inventions of its founder, Ferdinand Porsche. Long before the well-known Porsche sports car was produced, Ferdinand Porsche constructed aeroplane motors and mortar canons during the First World War. Later he developed a cross-country vehicle for the Nazis' armament industry. By 1935, Hitler was exploiting the "skills of the brilliant engineer, Porsche," commissioning him to design a "particular type of small car." Owing to wartime conditions, only a few models of the

Volkswagen Beatle were built, but the gigantic Volkswagen works in Wolfsburg were established in their wake. The Nazis obtained the initial capital for the works, 20 million Reichsmarks, from the confiscated property of the trade unions that were crushed in 1933.

In 1928, Ferdinand Porsche's daughter had married the Viennese attorney, Anton Piëch—father of today's Ferdinand Piëch—who was manager of the Volkswagen works in Wolfsburg during the Nazi period.

The later "success" of the Porsche sports car manufacturer, which began in the mid-1990s, is generally attributed to the Porsche director, Wendelin Wiedeking. When Wiedeking assumed the position of chairman of the executive board in 1993, the sports car manufacturer was experiencing a severe crisis. Working together with the employees' works council, Wiedeking implemented a ruthless rationalisation programme, dismantled 3,000 jobs and introduced the "just-in-time" production scheme.

New stylish luxury models were developed under his management. These sold extremely well—particularly in the US—where a layer of nouveaux riches appeared at the time, having made their money principally through financial speculation. Not knowing what to do with their money, many purchased luxury goods like Porsche sports cars with their petty cash. Meanwhile, millions of people were being condemned to low-wage jobs and poverty.

From this time on, Porsche's Wiedeking was considered to be Germany's top manager. His lack of scruples and his claim to a salary extending to tens of millions were regarded in business and political circles as exemplary of the much praised open-market economy. Wiedeking, who says that he had decided at the age of 15 to be a millionaire by the time he was 30, arranged a contract with Porsche, whereby he assured himself of a 0.9 percent share in the concern's profits. He thus became the most highly paid manager in Germany. He was chosen as Germany's "manager of the year" in 1994 and elected "Europe's manager of the year" in 2008.

When Wiedeking began making moves to acquire VW for Porsche four years ago, he speculated that the European Union would repeal the so-called "VW law." But that has yet to happen. Enacted in 1960, the VW law says that the state will have a controlling influence in the concern's development, despite minority group rights (the federal state of Niedersachsen owns 20 percent of VW's shares). It stipulates that no equity holder is entitled to more than 20 percent of the voting rights. Consequently, hostile takeovers and blocking minorities were to be avoided. However, a further consequence was that Niedersachsen's power of veto would prevent a hostile bid on the part of Porsche to gain a 75 percent shareholding and thereby direct access to VW's profits and capital.

The role of IG Metall and the works councils

Both the Porsche works councils in Stuttgart and the VW works councils in Wolfsburg supported "their" respective companies unconditionally in the takeover battle.

On one side, there is the alliance against Porsche, comprised of the Niedersachsen state government, the VW works council and the head of the VW supervisory board, Ferdinand Piëch. A large section of the federal government also backs VW. One need only recall that the stage for Chancellor Angela Merkel (CDU—Christian Democratic Union) at Wolfsburg last September was organised by Bernd Osterloh, member of both IG Metall and the SPD (Social Democratic Party). This provided the CDU chancellor and Niedersachsen's Prime Minister Wulf (CDU) with a platform from which they proclaimed: "VW is Germany."

Adopting a strongly nationalist tone, they tried to give the impression that the federal government, the VW concern and VW workers shared the same interests. Osterloh railed against the raiders from the south and from Brussels, and praised the federal government, which stood on their (the workers') side. Actually Merkel, Wulf and Piëch have only stepped forward as advocates for Volkswagen and the VW law because they believe that national and regional economic interests—that is, business profits—are at risk.

This kind of economic nationalism only serves to play off one workforce of a state or worksite against the others. It aims at dividing workers and subordinating their interests to those of "their" management.

On the other side of the trenches, Uwe Hück, works council chairman and deputy head of Porsche's supervisory board, supports Wiedeking in strongly advocating a ditching of the VW law. Hück, a big shot in the IG Metall trade union and member of the SPD, also knows that Baden-Wurttemberg's Prime Minister Günther Oettinger (CDU) stands behind him. In defending Porsche's German business location and delivering verbal attacks on VW, Hück is no more concerned than Osterloh about promoting the interests of workers, but rather seeks to secure sinecures for works council big wheels. While participating in company decision-making, the works councils at VW—and at Porsche—not only carry out the work of co-managers; they also draw the salary of a manager. Hück drives a company Cayenne sport utility, as well as a 355 horsepower special model Porsche. In the event of a successful takeover of VW by Porsche, Hück would certainly have become the most powerful works council chairman in Germany.

After the takeover decision was made, the VW concern let it be known that, having become Europe's greatest car manufacturer, it was now aiming at becoming the biggest in the world and intended overtaking the world market leader, Toyota.

IG Metall's initial reaction to VW's takeover of Porsche was to demand a 10 percent capital participation in the firm. Berthold Huber, chairman of IG Metall, welcomed the merger of the two car companies, saying: "We are prepared to play a constructive role in the forthcoming process." And, as with the union's involvement in the case of Opel, IG Metall intends to achieve direct participation in the concern's capital interest for IG Metall functionaries and works council members. To quote Huber: "Apart from extending our participation in decision-making, we will strive for workers' participation in company shareholding." The workforce, he said, should acquire a "considerable stake" in the new conglomerate.

The alarm bells should ring when VW and Porsche workers hear the expression "co-worker financial holding participation." The IG Metall and works council representatives at Opel are making loud calls for a successful bid from Magna, because they have arranged with this investor an employee participation in capital interest amounting to about €1 billion. This is to be contingent upon the dismantling of more than 10,000 jobs. It has already been decided down to the smallest detail—behind the backs of the workers—how the required investment capital is to be obtained by slashing holiday pay and Christmas bonuses, and then "managed" exclusively by IG Metall functionaries.

The merger of VW and Porsche opens the way for a new wave of business monopolies in the car industry and will be accompanied by brutal attacks on the workforce. There are already signs that VW is using its influence on the government to drive its rival Opel into bankruptcy—but not until after the federal elections in September. This would eliminate a bothersome competitor and VW would be able to take over its share of the market.

The works councils in Wolfsburg are already declaring that, after the phasing out of the government's auto scrappage bonus programme, everything will be done to keep the expected sales deficits as low a possible.

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