

With a green light from company trade unions

# The Porsche and Piëch clans pillage Volkswagen

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The publication of the agreement makes clear the significance of the recent takeover of Porsche by German automaker Volkswagen (VW). The billionaire Porsche and Piëch families are to be fully bailed out—relieved of the gigantic losses arising from their disastrous speculation with VW shares, and instead rewarded with control of the largest portion of Volkswagen shares.

The most spectacular takeover coup in postwar German history has ended with the fantastic enrichment of a tiny family clan—all with the tacit support of the trade unions and the political establishment.

In its September edition, *Managermagazin* reports that Volkswagen will pay nearly €16 billion for the takeover of Porsche: €7 billion for the takeover, €5 billion to cover its debts, and €3.55 billion for Salzburg-based Porsche Holding. In return, the Porsche and Piëch families are to receive 35 to 40 percent of the shares in the Volkswagen company.

Although the resolution of the takeover did not correspond entirely to the two families' plans, in the end they fulfilled their ambitions: securing a majority stake in Volkswagen, while plundering the company's net worth, valued at €12 billion.

Their plan, secretly pursued since 2005, envisaged the takeover of VW by smaller sports-car manufacturer Porsche—which had 11,500 workers worldwide and sales of approximately 100,000 cars in 2008. In the same year, the much larger Volkswagen had 320,000 workers and sales of more than 6 million cars. With a so-called profit and control contract, which would required holding 75 percent of VW shares, Porsche sought to gain access to Volkswagen's wealth in a hedge fund-type operation: the victim of the takeover, VW, would have had to reimburse the acquirer, Porsche, after the purchase.

This takeover bid failed not only because of the onset of the international financial crisis, which led to a 25 percent fall in Porsche sales, but in particular because of the so-called Volkswagen law. According to this law, the state of Lower Saxony, home to VW headquarters, retained both a 20 percent share of VW and veto rights over company policy (according to European law, a veto minority normally consists of a 25 percent stake). The EU commission decided not to invalidate the law—going against its own announcements—and Porsche was barred access to Volkswagen's wealth.

Following the collapse in its sales and the failure of its takeover

strategy, Porsche faced bankruptcy, and the Piëch and Porsche families, who between them own 100 percent of Porsche, were threatened with losing everything. Porsche had accumulated a mountain of debt of more than €14 billion, after buying up over 51 percent of Volkswagen shares and options on a further 25 percent. These moves had initially sent VW's share price soaring, after which it suddenly collapsed.

The solution worked out behind the scenes after months of negotiations is of fundamental political importance. It demonstrates the extent to which the ruling class and trade unions in Germany have abandoned the politics of social consensus, which predominated for decades in the postwar federal republic, in favor of unreservedly serving the interests of the business and financial oligarchy.

The trade unions and the state of Lower Saxony, which must have a special interest in the fate of VW because of the role played by public financing and the regional significance of VW as an employer, have agreed to this bailout without any protest.

One might claim that nothing else could be expected from the state government of Lower Saxony, which is headed by the conservative Christian Democratic Party (CDU), but the agreement by the IG-Metall engineering trade union requires additional comment. It shows the extent of the decay of the trade unions and makes clear that the "social partnership" and "worker participation" extolled by the works councils are nothing but instruments in the hands of management and shareholders, to defend their profit interests at the expense of the company's workforce.

The Volkswagen company has long been regarded as the embodiment of the forms of class compromise that characterised industrial relations for many decades in post-war Germany. VW wages are roughly 20 percent above the average wage, and entire regions—e.g., those of Wolfsburg/Braunschweig or Emsland—are economically dependent on the company. Ninety-eight percent of the VW workforce belong to a trade union, and VW is regarded as a role model for "worker participation."

The state of Lower Saxony, which largely finances its budget from Volkswagen dividends, has retained its 20 percent stake in the company and veto rights over company policy. In the 1960s, the federal republic sold off its own 20 percent share in the company, by selling off "people's shares" to individual citizens,

strictly in small portions.

Now, with the express agreement of the state of Lower Saxony and the trade unions, representing together a majority of VW's supervisory board, VW is to take responsibility for Porsche's gambling losses, without anybody being held to account for this immense wasting of billions.

Instead of its estimated worth of €8 billion, VW is to pay €12.4 billion for Porsche (without Salzburg Holding)—a sum that, according to *Managermagazin*, amounts to 37 percent of the value of the Daimler company.

Markets assessed the deal as a major financial blow to VW: after the announcement, the price of VW shares fell from €240 to €120. The Emirate of Qatar, which also assumed control of 20 percent of VW as part of the emergency deal, paid only €80 per share—evidently the real value of VW shares. Losses from further options for 3 percent of Volkswagen shares are still to be announced, but they will also be assumed by VW.

While the decision by union representatives—especially those on the Volkswagen supervisory board—to go along with this maverick solution may not come as a surprise, it does mark a new low in the unions' degeneration. Just two years ago, a scandal came to light in which the company paid for luxury trips and the services of prostitutes for Volkswagen works council members. The scandal ended up in the criminal courts, making clear that the works council members are completely compromised and susceptible to any form of blackmail.

Since the assumption of control of VW by Ferdinand Piëch in 1993 as CEO, with Peter Hartz as head of personnel for the executive committee, the works council and workers' delegates on the supervisory board have assumed the role of co-managers. The first big test came in 1993-1995, when the contract system at VW was undermined by the introduction of a 20 percent shorter work week, with corresponding pay cuts. Later, in January 2007, the reduction in working time was reversed, but with only a symbolic wage adjustment.

Then, in 2001, the founding of the Auto 5000 GmbH subsidiary resulted in a further attack on the company contract system. With management arguing that Auto 5000 GmbH was creating new jobs, 4,200 workers were hired at wages substantially below the VW average. Then, at the start of 2009, Auto 5000 was dissolved and its lower wage scale became the basis for the starting wage for all VW employees.

In order to implement these measures with the trade unions, the works council members were corrupted on a scale previously unknown in Germany. In court, Klaus Volkert, the VW works council chairman from 1990 to 2005, confirmed that his official income from the company amounted to €440,000 in 1998. VW management's head of personnel, Peter Hartz, who was directly responsible for bribing works council members, was sentenced in 2007 to two years' imprisonment and a fine of €576,000 for embezzlement.

From 1995 to 2005, Hartz had paid Volkert special annual premiums totaling €1.96 million (tax free), plus a further €400,000 to Volkert's Brazilian mistress.

In an additional court case against one of Hartz's subordinates, it emerged that works council members had had unlimited access for

years to an executive account to pay for pleasure trips and visits to brothels. While Hartz's sentence was suspended, Volkert was sentenced to two years and nine months in prison.

The speed with which these cases were pursued in the courts suggests that the offences in question only represented the tip of the iceberg. Hartz's case was dealt with in a trial lasting two days and based exclusively on his confessions. No further testimony was taken, and a settlement was reached behind the scenes.

The fact that the Volkswagen executive committee supports Hartz's and Volkert's behavior is demonstrated by the fact that the company has refrained from pressing for any reimbursement of the embezzled funds.

Despite these revelations, the works council has remained unflinchingly faithful to supervisory board chairman Ferdinand Piëch. In fact, their agreement to the plundering of Volkswagen's reserves is a new stage in the subordination of the unions to this oligarchic clan, which has become a direct threat to the future of the company.

After detailing the financial plundering of VW, *Managermagazin* hints at possible pay cuts at Volkswagen: "Is Volkswagen pay too high a contribution to social solidarity? Could the Porsche bacillus, the consequence of exaggerated goals, now possibly infect VW?"

It goes on to point out that Volkswagen faces considerable economic problems, although it had weathered the financial crisis quite well. VW is considered to have too many employees, and the company's plans to massively expand the R&D department have been abruptly halted. Lower Saxony Prime Minister Christian Wulff (CDU), who represents the state on the supervisory board and agreed to the recent takeover, was recently forced to make a public denial of rumours regarding forthcoming dismissals.

The takeover of Porsche resembles a game of all-or-nothing with unforeseeable consequences. Behind closed doors, plans are being drawn up for a possible collapse in sales following the end of the German "cash for clunkers" plan. Only one thing remains certain: the unyielding loyalty of the works councils and trade unions to the interests of their billionaire employers!



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