Germany: Union agrees to wage cuts and store closures at Karstadt

Dietmar Henning
20 November 2009

The German public service union representing workers at the Karstadt store chain has agreed to the closure of a number of branches as well as savings of some €150 million at the expense of the staff.

Stores in Hamburg, Munich, Dortmund, Berlin, Braunschweig and Stuttgart are to be shut at the beginning of 2010. Some 157 jobs will go at the Karstadt store in Munich's pedestrian precinct, 148 will lose their jobs in Dortmund, and 105 staff will be sacked at the company's branch in the Elbe shopping centre in Hamburg. Some 40 staff will go in the three specialized stores in Berlin (Multimedia), Braunschweig (Schaulandt) and Stuttgart (WOM—World of Music).

The future of a further 11 of Karstadt's 126 stores in Germany still hangs in the balance. However, the details of these is being kept secret by administrators Klaus Hubert Görg, the works council and Verdi.

As well as store closures, the works council and Verdi have agreed wage and benefits cuts worth €150 million over the next three years for the remaining 26,000 Karstadt employees. This employee "restructuring contribution" means that for three years staff will forgo their holiday pay, receive just 75 percent of the usual Christmas bonus and relinquish other benefits. Verdi spokeswoman Cornelia Hass described this as "hard to swallow."

The agreement has been implemented retrospectively from September 1, the day Karstadt's insolvency proceedings were opened.

The current "restructuring package" is the third within the last four years. In 2004, Verdi had already agreed to concessions, including the abolition of holiday pay for the following three years, the non-implementation of the previously agreed wage rise for the same period, and a 15 percent cut in Christmas bonus. In total some 5,500 jobs were cut and 70 stores closed.

At the time, Verdi said, "Starting from January 1, 2008, the previously agreed contact would be reinstated in total." But in autumn 2008, Verdi was already in negotiations over the next round of cuts. The union agreed that Karstadt employees would give up wages and benefits worth €115 million each year. Now another "restructuring plan" has been accepted by the union. "This really hurts," commented works council chairman Hellmut Patzelt, who helped to prepare every detail of these cutbacks together with Verdi.

These cuts are just the latest phase of a development which has seen the workforce of Karstadt's parent company Arcandor being made to pay for the enrichment of the investors, banks and property speculators.

The Arcandor bankruptcy, announced in June 2009, is one of the largest insolvency proceedings in post-war German history. Arcandor was the name under which Karstadt-Quelle had brought together various companies starting in 2007. The department store operation included Karstadt, Quelle and Wertheim; the Primondo company included the distribution networks of Quelle and Neckermann; and the third section included the travel agents Thomas Cook.

The Hertie branches belonging to Karstadt had already been sold off and the shares passed to the Neckermann company in 2007. In September 2009, as part of the Arcandor insolvency, the shares in the profitable Thomas Cook company were sold off on the London Stock Exchange.

Even before Karstadt-Quelle was brought together in 2007 under the umbrella of Arcandor AG, the staff had already been forced to make sacrifices. In 2004-2005, with the help of Verdi and the works council, the new chairman of the board Christoph Achenbach, previously the boss of Quelle-Neckermann, had implemented the first restructuring programme.

In April 2005, Achenbach then resigned at the insistence of Madeleine Schickedanz, the Quelle heiress and principal shareholder of Karstadt-Quelle. Thomas Middelhoff, a confidante of Schickedanz and head of the Karstadt-Quelle supervisory board, took over the post of chairman of the board of directors.

Middelhoff continued where Achenbach had left off. He sold the clothes chains Wehmeyer and Sinn Leffers as well as Hertie, with its 75 branches. Just a short time later all these companies declared bankruptcy. Approximately half of the stores were closed and after insolvency the businesses continued with a much reduced workforce. Hertie no longer exists; on August 15 this year the last branches finally closed their doors.

In November 2007, Arcandor gave away 51 percent of its online distribution operation Neckermann.de to the American financial investor Sun Capital Partner without receiving anything in return.

However, Middelhoff's greatest coup was the sale of the entire property portfolio of Karstadt-Quelle in 2007 for €4.5 billion. The largest part went to the real estate consortium Highstreet, which has links to Deutsche Bank and the Pirelli company as well as Goldman Sachs.

The department stores were then rented back by Karstadt-Quelle at much increased rents—altogether some €280 million. Many experts regard the inflated rents, from which Schickedanz and Middelhoff benefit personally, as one of the principal reasons for the Arcandor and Karstadt bankruptcy.

Above all, one landlord, the Oppenheim-Esch fund belonging to Sal. Oppenheim bank fund manager Josef Esch, receives unusually high rents. For the five Karstadt stores in Munich, Leipzig, Potsdam, Wiesbaden and Karlsruhe he receives a gigantic annual rent fee of €42.6 million. Middelhoff and Schickedanz are personally involved in the Esch fund. Middelhoff has answered criticisms about these arrangements by saying that the contracts were agreed by Achenbach's predecessor, Wolfgang Urban.

As a result of the Karstadt insolvency, if Highstreet is now considering forgoing some €80 million in rents, this is just a mockery. The consortium is "merely" asking for the usual market rents. In addition, Highstreet is also interested in Karstadt surviving, since the large amount of real estate it currently occupies in several city centres means it would not be so easy to find new tenants.

Middelhoff left Arcandor at the end of February this year. He received a compensation package valued at €2.3 million.

In February 2009, Thomas Middelhoff created the investment company Berger Lahnstein Middelhoff & Partners in London together with management consultants Roland Berger and Florian Lahnstein, the son of the former finance and economics minister Manfred Lahnstein (Social Democratic Party, SPD). Middelhoff is company chairman, and the supervisory board includes the former SPD finance minister Wolfgang Clement, Manfred Lahnstein and Mark Wössner, a top manager who sits on numerous supervisory boards (Daimler, Loewe), is an advisor to Deutsche Bank and a member of the presidium of the Federal Association of German Industry (BDI).

Wössner was also Middelhoff's predecessor as chairman of the board at Bertelsmann AG, one of the world's largest media groups, and whose Bertelsmann Foundation is one of the largest neo-liberal think tanks in Germany.

Arcandor then declared bankruptcy last June, shortly after Middelhoff resigned, leaving some 851 creditors who are demanding €15 billion. The Arcandor insolvency has affected more than a dozen subsidiary companies—beside Karstadt, the mail-order operation Primondo and its affiliate Quelle.

At that time, the grand coalition government comprising the Christian Democrats (CDU/CSU) and the SPD had unanimously rejected providing a state rescue package, as demanded by Arcandor. While the banks were given almost unrestricted access to public funds, Arcandor, employing over 50,000 persons, was driven into bankruptcy.

In the meantime, parts of Quelle's distribution network have been bought up by competitor Otto, and the Quelle department stores have been closed. After working for the company for many decades, 7,000 Quelle employees have been thrown onto the street.

The retail giant Metro, which operates the Kaufhof chain, has repeatedly expressed an interest in acquiring Karstadt. However, Metro is only interested in 60 of Karstadt's branches. The liquidators, Görg, are now working together with the works council and Verdi to shrink the workforce to such an extent that Karstadt as whole might be of interest to an investor.