German company demands 48-hour week and wage cuts

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7 November 2011

Anyone believing working conditions like those in Eastern Europe or the US could not come to the German engineering industry—with its post-war traditions of social partnership and co-management—has been taught a lesson by events in Dessau, in the eastern German state of Saxony-Anhalt.

The town's railway coach manufacturer, Fahrzeugtechnik Dessau GmbH (FTD), has terminated the employment contracts of its 130 employees, with immediate effect, and presented them with a draft (take-it-or-leave-it) contact. This provides for an increase in the working week from 38 to 48 hours, introduction of a three-shift work system, reduction of annual leave from 30 to 24 days, and drastic wage cuts.

There is no longer any provision in the new contracts for wage supplements or remuneration for years of work. In addition, the contracts will expire at the end of the year. The company also reserves the right to pay individually agreed wages at a rate based on its financial situation. Another clause stipulates that workers will be liable for up to 50 percent of their wages if they are responsible for manufacturing defects.

When the workers refused to sign on to the new contracts, FTD manager Stefan Movila accused them of sabotage and refusal to work. The staff staged a protest outside the factory gates on October 26.

But no matter how outrageous the working conditions dictated by the FTD, the employees can expect little support from the IG Metall trade union. The union sees its job as mediating between employees and management, in order to meet the latter halfway.

Manfred Pettche, leading spokesman for IG Metall in Dessau, complained that the manager was "definitely going too far" by alleging the employees refused to work. He said IG Metall expected Movila to withdraw his comment, and come up with a long-term plan for safeguarding the firm's competitiveness and jobs. The union announced in a written statement: "IG Metall is now attempting to negotiate jointly with the works council and city of Dessau representatives to bring the manager to reason".

To achieve this, Dessau's mayor convened a roundtable meeting on Thursday, attended by representatives of IG Metall, the works council, the Chamber of Industry and Commerce, an employment agency and FTD manager Movila. IG Metall offered to negotiate a company tariff contract based on the metal industry's collective agreement for Saxony-Anhalt.

The FTD builds railway carriages and vehicles, as well as their components. Following FTD's filing for bankruptcy in March 2008, the Romanian company Compania de Transport Feroviar Bucuresti S.A. (CTF) took over the operation of the Dessau firm. The CTF appointed as manager Stefan Movila, whose family was still co-owner of the company at that time.

IG Metall is now trying to dismiss the provocative tariff offer as a moody gesture on the part of the arrogant Romanian manager, who refuses to respect German industrial practices and cooperate with the trade union. Actually, Movila is only exploiting conditions created by IG Metall itself.

By overseeing the introduction of company-based wage agreements, company-specific regulations and generally low contract rates in the new eastern German states, the union systematically undermined collective bargaining. It is no coincidence that another member of IG Metall is Peter Hartz, whose economic plans led to the emergence of a huge low-wage sector in Germany. IG Metall functionaries and works councils also supported the large corporations' strategy of outsourcing large sections of the parts industry to Eastern Europe, where workers are subjected to far worse employment conditions than those Movila now wants to enforce at FTD.

Apart from the clause requiring workers to pay 50 percent of their wages for production defects, all the manager's claims are compatible with German law: the 48-hour week and 24 days' annual vacation, the three-shift work system, and individually negotiable wages.

Fahrzeugtechnik Dessau is a prime example of how IG Metall has helped to wind down a major industrial enterprise by offering gradual concessions to management.

Following legislation enacted by the East German Parliament, all state-owned enterprises in the former Stalinist German Democratic Republic were transformed into corporations in 1990. The Dessau plant of the *Schienenfahrzeugbau* (railway vehicle construction) combine, at which 6,000 men and women were employed at peak times, was transformed into Waggonbau (carriage construction) Dessau GmbH. Thousands lost their jobs in the following years.

In late 1994, the Treuhand—the trust responsible for privatising former East Germany's enterprises—sold the German Rail Carriages (DWA) parent company to the American investment firm Advent. The Dessau plant, with its remaining 700 employees, was withdrawn from the DWA in order to be "phased out", i.e., closed down.

However, Joachim Pfannmüller, the insolvency administrator appointed by the Treuhand, decided not to wind down the operation, jumping instead into the post of new manager of the Dessau plant, now renamed Vehicle Technology Dessau (FTD). Together with the works council, he developed a business concept involving a remaining workforce of 180 employees.

The union supported a move to hive off the great majority of the former staff into a job training company. The former rail vehicle builders now took over the vast industrial area. At the time, the unemployment rate in Dessau—where 9 out of 10 manufacturing jobs had been destroyed since 1990—was at 25 percent.

According to Pfannmüller, FTD was to be the "Porsche of the railway coach manufacturers". FTD's first major order was for the production of the so-called "Metropolitan", a luxury train for business people (with lots of leather, wood and thick carpet). Deutsche Bahn, the national railway company, wanted to use FTD to compete against the airline industry.

Pfannmüller obtained the company's start-up capital from the employees. Together with the then-works council chairman Horst Heinze (now the second leading representative of IG Metal Dessau), he persuaded each of the workers to contribute 5,000 marks.

Some 63 percent of the company thus came into the possession of the workforce, while 37 percent of the shares were owned by management, particularly Pfannmüller. In 1999, FTD was transformed into a joint-stock company to raise money for new investments. When the Russian ZAO Transmashholding locomotive manufacturer then came into partnership with FTD in May 2006, Pfannmüller had hopes for a "synergy effect". The Russian holding company, owned by a billionaire oligarch, is the biggest enterprise in the Russian railway vehicle market.

But the hoped-for synergies failed to materialise. German Railway's Metropolitan train service soon proved a flop; it was only used for a few years on the Berlin-Hamburg route. The whole concept was buried by 2004. The Protos, a two-carriage regional train, could only be sold in the Netherlands and drove the company into bankruptcy. By March 2008, FTD was broke.

Some 168 people were still employed by FTD at the time. The new bankruptcy administrator, Volkhard Frenzel, arranged a restructuring plan involving further massive cost-cutting at the expense of the employees. In a move supported by the union, some 50 of the 168 workers were dumped into a transfer company (employment limited to a period of one year under new working conditions). Labour productivity was greatly increased, and a reduction in costs of about 35 percent eventually achieved.

The Romanian CTF then bought the downsized company in December 2008, appointing the present manager, Stefan Movila. Around the same time, the CTF itself was acquired by the US Econo Pacific corporation.

CTF used state funding (i.e., tax revenues) to invest approximately €10 million in Dessau. Until February this year, however, business was going rather badly. Many employees were working shorter hours, and the company was struggling to survive. But in February, Movila announced a breakthrough: "We'll take on about 50 people for a short time, and we'll have to work in three shifts, including Saturdays and Sundays", he reported.

The reason for the euphoria was the news of millions of orders from Russia and the Ukraine. Four freight wagons a day were to be produced. Negotiations were also to be conducted with Israel, and 15 trains of the Protos type would soon be sold to Iran.

"The Porsche railway company is now part of history", said works council leader, Jörg Werner. "We can also do freight wagons". He praised the company's strategic realignment: "We were at the point where we could have kept fiddling around, or start thinking big and go get those orders", he told the *Mitteldeutsche Zeitung* regional daily. Because of the Romanian parent firm and Movila, he said, he hoped for better times in 2011. This was why the works council had "always tried to achieve understanding, cooperation" on the part of the workforce.

Movila obviously exploited these statements. He calculated he could gain considerable concessions from the workers by using the new labour contracts. The regional press quoted him as saying: "Whoever is negotiating first demands the most possible, so he can settle for half that amount". He had revoked the planned layoffs prior to Thursday's meeting, referring to misunderstandings in the translation from Romanian into German. In principle, everything was now negotiable.

However, he continued to insist on the necessity for extensive concessions. "I had to react", Movila said, claiming the company needed a performance-based wage structure and a way to deal with production defects. Losses amounting to €400,000 had arisen last year. In every month of 2011, the company had failed to reach production targets. In October, only a third of orders valued at €777,000 had been completed. But no investor could be expected to stay in the red for a long time.

This is the language understood by the trade union and the works council—and it is the view they will accept. After the roundtable meeting on Thursday, they will cooperate with Movila to ensure that the company can again reap its profits—at the expense of employees.