German public services trade union Verdi agrees to wage cuts

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After just two days of negotiations, the management of the German hardware store chain Praktiker and representatives of the public service trade union Verdi agreed last Friday on a “restructuring contract”.

The contract is valid for the next three years and involves a wage reduction of 5 percent for 15,000 employees for 2012-2014. The deal saves 51.9 million euros (US$67.1 million) in labour costs for the company.

Attempting to defend the deal, Verdi representative Rüdiger Wolff declared that the wage reduction essentially consisted of cuts or elimination of Christmas bonuses and to certain premiums for staff. In exchange, workers will receive the “broadest possible job security.”

Founded in 1978, Praktiker belonged until 2005 to Düsseldorf-based Metro AG. After its floatation on the German stock exchange in 2005, Metro AG reduced its stake to 40.5 percent with the participation of US bank JP Morgan Chase. It then sold off its share in Pratiker for 480 million euros to the real estate investment company, Curzon Global Partners and then completely sold off the rest of its stake.

In 2007 Praktiker took over its competitor, Max Bahr, and simultaneously expanded into Eastern Europe. When profits failed to live up to shareholder expectations, the company was the first German retail company to introduce short-time working for its staff. It based itself on a legal change made in February 2007, which allows companies facing a drop in sales of more than ten percent to introduce short-time work, with subsidies for the reduced wages provided by the federal labour office.

The Verdi trade union supported all the measures taken by management to overcome its operational problems at the workers’ expense. Praktiker spokesman Norbert Koesling justified the introduction of short-time working in 2007 with the same argument as the union: “This is obviously much better than layoffs.”

When restructuring attempts failed to provide the profits expected by shareholders, the company sought to strike further deals with new investors in negotiations led by a succession of highly-paid CEOs. In August 2012, negotiations broke down with the hedge fund Anchorage. Talks then began with the Austrian fund manager Isabell de Krassny, representing the Viennese private bank Semper Constantia and the Cypriot investment fund, Maseltov. Both currently hold 14.97 percent of Praktiker shares.

These talks then ended in early October with an agreement for a loan of 40 million euros. The interest on this loan will be 12.5 percent plus Euribor interest rates. Should Praktiker fail to achieve its profits targets, the company is contractually obliged to pay back the entire loan plus interest.

By agreeing to the “restructuring contract,” Verdi has approved wages cuts for staff virtually equivalent to company’s loan plus interest from investors. Repayment is guaranteed, and the entire sum will flow into the pockets of the billionaire investor.

The real content of the “broadest possible job security” Verdi negotiator Rüdiger Wolff praises as a “trade-off” on the union’s website, is shown by the example of the Karstadt chain store. In 2009 Verdi signed a similar restructuring contract with the Karstadt management involving cuts to holiday and Christmas bonuses. Upon the expiration of the contract, Karstadt management promptly announced the dismissal of 2,000 employees.

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