German department store Karstadt faces carve-up

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The long-established department store Karstadt faces closure. Investor Nicolas Berggruen, who was hailed as a saviour four years ago by the trade unions and politicians, has shown no interest in retaining the business. In typical investor fashion, he has bled the company dry and now plans to sell off the remainder.

Eva-Lotta Sjöstedt, who was only appointed Karstadt chief five months ago, resigned from her post at the start of last week. In a brief statement, she wrote that when she took up her post, Berggruen had promised his support for the long-term retention of the 83 Karstadt stores. "But after detailed review, the experiences of the past months and with a better knowledge of the economic data, I now have to state that the preconditions for the course I was striving for no longer exist," the manager declared.

Having extracted millions from the firm, Berggruen now clearly wants rid of it. According to press reports he is already negotiating a sale with the Austrian property developer René Benko. In 2013, Benko bought up 17 Karstadt stores for €1.1 billion. He also owns three quarters of Karstadt Premium GmbH, which includes 28 sports stores and the three high-end stores KaDeWe in Berlin, Alsterhaus in Hamburg and Oberpollinger in Munich.

In the meantime, Berggruen sold half of both divisions of the company to the Israeli diamond trader Beny Steinmetz. He has negotiated an option to purchase a 75 percent share in the remaining 83 traditional Karstadt department stores for the nominal price of €1. Benko is mainly interested in cashing in on the rent on Karstadt's stores, which has since been increased. Getting involved in the department store trade does not fit with his business profile to date.

Benko's Innsbrücker Holding Signa holds property worth a total of €5.5 billion. Benko owns 50 percent of the company plus an additional single vote, while the remainder belongs to the Greek shipowner George Economou.

The extremely wealthy social climber has built up a close network in business, politics and the media, which he impresses with the disgusting flaunting of his riches. Signa's board includes former Austrian Chancellor Alfred Gusenbauer (Social Democrats), business consultant Roland Berger, former Freedom Party politician Susanna Riess, and former Porsche chief Wendelin Wiedeking.

Last August, Benko was charged with corruption. He allegedly intended to transfer €150,000 to former Croatian Prime Minister Ivo Sanader through his tax consultant in exchange for his help with a tax affair in Italy. Sanader allegedly put Benko in contact with former Italian Prime Minister Silvio Berlusconi.

Berggruen presents a different public persona to Benko. The son of the well-known art collector Heinz Berggruen, he portrays himself as a philanthropist, or an "investor with a soul."

When the holding concern Arcandor, which also controlled the catalogue firms Quelle and Neckermann, declared bankruptcy in 2009, Berggruen cast himself as the "saviour" and took over Karstadt just a year later for the symbolic price of €1.

At the time, he benefited from a restructuring package agreed at the end of 2009 by the works council and the Verdi trade union with the bankruptcy administrators. The package included the shutdown of a number of Karstadt stores and wage cuts for the remaining workers of €150 million over three years. According to *Handelsblatt*, works council chief Helmut Petzelt negotiated a monthly wage increase of €1,875, to €10,000, for himself at the same time.

Berggruen circulated the most optimistic declarations of intent in 2010. “No one will be laid off,” “Karstadt will not be broken up,” “money is not an issue.” With these and similar statements he won over Verdi, politicians and the media.

“When I get involved, I get involved fully,” Berggruen promised. “Today is a welcome day for the workers,” stated then-labour minister Ursula Von der Leyen (Christian Democrats) at a joint press conference with the investor. “He appreciates social responsibility,” commented Martin Schulz, on the sidelines of a Berggruen-financed conference. Schulz is the current president of the European Parliament.

Margret Mönig-Raane, deputy head of Verdi at the time and a member on the Arcandor board of directors, declared in an interview with Deutschlandfunk that Berggruen had “a concept for sustaining this company which I like very much.” He regarded it, the union official claimed, “not just as an organisation for investing money, but has real ideas on how the company can develop further.”

Verdi subsequently continued its praise for Berggruen. When it was partially sold to Benko, Verdi spoke of a “first step” toward salvaging the firm. In reality, Berggruen was working as a corporate raider, like every other investor, as is absolutely clear today.

In exchange for a jobs guarantee, he negotiated a further restructuring comprehensive wage agreement that included further pay cuts. Nonetheless, ongoing job cuts took place by means of natural fluctuation, redundancy agreements, retirements and redeployments, along with the expiration of temporary labour contracts. When the restructuring agreement between Verdi, the works council and Berggruen ran out, a further 2,000 full-time posts were eliminated. The number of Karstadt workers dropped from 25,000 to 17,000 as a result.

The injection of €65 million which Berggruen invested in Karstadt in exchange for horrendous interest rates, was paid back within several days. In addition, he purchased the rights to the Karstadt name for €5 million. Since then, the company has had to pay him between €9-12 million annually for the use of its own brand name. According to the *Bild am Sonntag* newspaper, these millions go to an offshore account in the British Virgin Islands, a notorious tax haven.

Since Karstadt has registered multimillion-dollar losses in recent years, the company faces insolvency if the search for another investor is unsuccessful. Benko has responded to reports that he is negotiating with Berggruen over the exercising of his option to buy by declaring that he has no interest in taking over Karstadt. However, his assurance is worthless, since Benko has previously tried to buy the other major German department store chain, Kaufhof, from its owner Metro-Gruppe.

The *Süddeutsche Zeitung* reported that the Kaufhof owner had also calculated the potential costs for purchasing an insolvent Karstadt. If Karstadt did merge with Kaufhof, between 10,000 and 15,000 jobs would be impacted. At the most, 20 Karstadt stores would survive a merger.

Verdi is continuing to support the carve-up of the company and the job cuts. “If media reports that Mr. Benko is planning to take over the majority of Karstadt Department Stores GmbH are confirmed, he will have to present a proposal to the workforce on how the future of Karstadt and jobs can be secured,” said Stefanie Nutzenberger, a member of Verdi’s national executive. The current owner Berggruen never presented such a plan, but this did not affect Verdi’s close cooperation with him.