Germany: Convicted real estate speculator takes over store chain

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The long-established German Karstadt department store chain is being sold to Austrian multi-millionaire and real estate speculator René Benko.

On August 16, it was announced that the deal between the current owner, investor Nicolas Berggruen, and his business partner had been sealed. Benko, who is the majority owner of the Signa real estate company, has purchased the remaining 83 Karstadt stores for a nominal price of one euro. These stores employ more than 17,000 people.

Benko already has three-quarter shares in Karstadt's 28 specialty sports stores, the Karstadt Premium GmbH with three high-end stores—the KaDeWe in Berlin, the Alster in Hamburg and the Oberpollinger in Munich—along with other parts of the Karstadt empire.

As a real estate investor Benko is primarily interested in the Karstadt central property locations and high rents. According to several newspapers, his plan is to instantly close about 20 unprofitable stores and to convert the profitable houses into shopping malls with selected authorized dealers. He carried out a similar transformation of the Kaufhaus Tyrol chain in his hometown of Innsbruck in Austria.

At the beginning of negotiations it was feared that the end result would be the break-up of Karstadt. This fear has been realized with Benko's takeover. Karstadt employees, who have already suffered under Berggruen's wage and job cuts, once again face drastic attacks and dismissals. According to a report by the *Süddeutsche Zeitung*, the following integrated stores could be under immediate threat of closure: Bayreuth, Dessau, Mönchengladbach, Bottrop, Recklinghausen, Iserlohn, Siegen, Bremerhaven, Neumünster and two branches in Hamburg.

René Benko, at only 37 years old, is one of the 50 richest men in Austria and loves to show off his personal assets estimated at €850 million. The rising star, who has connections to Vienna's noble society and business world, already has a criminal record. On August 11, just before the Karstadt deal was closed, Vienna's Supreme Court confirmed Benko's conviction of corruption in a lower court, with a 12-month suspended sentence. In 2009, Benko tried to manipulate tax proceedings in Italy. He was aided by Ivo Sanader, Croatia's head of government and his contact to the former Italian Prime Minister Silvio Berlusconi.

To enforce his Karstadt carve-up plans with the necessary ruthlessness, Benko has utilized the services of his henchman and business manager Wolfram Keil. According to an article in *Manager-Magazin*, "Benko's man at Karstadt", Keil has plenty of experience with such operations. The real estate expert functions "with precision" and "does not beat about the bush." He has acquired his "experience in the reorganization of troubled companies" at various investment houses, "from Terra Firma to Cerberus to Square Four—companies that are commonly known as locusts."

All of this has not prevented the public services union Verdi from offering its wholehearted cooperation to the new owner of Karstadt.

On Monday, Verdi's federal executive and Karstadt's joint works council called on the new owner to implement a "comprehensive approach for the future" together with the union. "It must be sustainable, it must be enduring. A strategy is needed," said Verdi federal board member Stefanie Nutzenberger to Bayrischer Rundfunk (Bavarian Radio).

Until 2009, Verdi had already worked together with the financial speculator Thomas Middelhoff and his Arcandor Holding, which resulted in the bankruptcy of the department stores Quelle and Neckermann. When the Karstadt department store group was taken over by investor Nicolas Berggruen, the son of a famous art collector, Verdi celebrated him as the "savior" and "an investor with soul" and helped him push through a tough restructuring program against the employees.

Now the union is also welcoming René Benko with open arms. The head of the joint works council Hellmut Patzelt, also deputy chairman of the board, told the press that Karstadt will have "a future with one owner, René Benko."

Patzelt is well known among the employees. Five years ago he increased his own salary by €1,875 to €10,000 euros per month, while at the same decreeing that workers must accept wage cuts and overtime. Patzelt's supervisory board compensation amounts to an additional top-up to his salary. Now he is offering his services to function as René Benko´s junior partner and recommends Banko's "plans for more regional diversity and variability," i.e., company restructuring at the employees' expense.

It is becoming more and more obvious that the course for the takeover by the dubious real estate shark Benko was laid down by the union leadership itself. The division of Karstadt four years ago, which was tied to Nicolas Berggruen's takeover, would have been impossible without Verdi.

In a May 5, 2011, article on the Verdi web site, the union reports that the tariff commission had to make "a tough decision", since Berggruen was demanding the "the division of Karstadt into three units—department stores, sports, and premium."

Following this decision the union and the works council negotiated the restructuring plan "Karstadt 2015", which included the promise of a job guarantee for the workers if they agreed to three years of cuts to their holiday and Christmas entitlements and other benefits.

As calculated by Verdi today, Karstadt's employees have contributed around €700 million to the group with the last ten years' wage concessions. During this time the group was split, six stores were closed and 3,000 jobs were cut. In May 2013, Karstadt opted out of its contract commitment.

Investments for the Karstadt stores' restructuring were funded by the employees themselves. Over the last four years Berggruen, who was presented as a man with "social responsibility" by Verdi and Social Democratic Party politicians, has never invested any of his own money in the company.

A report by Süddeutsche.de states that by the end of 2013, company liquidity "temporarily dropped below the critical level of €100 million," although Berggruen had taken over Karstadt with about €400 million in its coffers in 2010. Berggruen has even exploited Karstadt's name – for €5 million he bought Karstadt's naming rights and the group has to pay him up to €12 million each year for the use of the trademark on its own name. The naming rights will be taken over by new owner Benko.

If Benko takes over the remaining Karstadt stores before the expiry of the restructuring package, "Karstadt 2015," he can benefit from the long-lasting cooperation between the company and the union.

One thing is clear, this cooperation will not be denounced by the union, regardless of whether the department stores are transformed into malls, closed, or fused with the Kaufhof Group, as is once again being discussed.

The job guarantee, which has cost the workers their social gains, pensions and wages, is not worth the paper it is written on. Even in the case of a merger with Kaufhof, it is estimated that at most 20 Karstadt stores would remain and 10,000 to 15,000 jobs would be cut.

The Verdi functionaries and works councils will be well compensated for their Judas role and their cooperation with shady real estate speculators. Ten of the employee representatives sit on the supervisory board and receive between €20,000 and €30,000 each year, in addition to their meeting attendance fees and royalties.

The phased closure of the long-established department store is being met with growing rage among workers and opposition to the works councils and the trade union bureaucrats.

"I have stopped expecting anything from the works council a long time ago," a saleswoman at the staff entrance to a Karstadt store in Frankfurt told the WSWS. "They just look out for themselves." Others complained: "We are the last to receive any information. We are bought and sold, without really being informed about it. We sense only the massive staff cuts."