

Volkswagen works council and IG Metall back executive bonuses

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The social reality of modern capitalism is being put on full display at the world's second largest automaker, Volkswagen. While thousands of VW workers around the world face the loss of jobs in the aftermath of the emissions scandal, a clique of top executives and wealthy shareholders have not only escaped any accountability, they are pocketing millions in bonuses.

As for the trade unions and works council, which claim to "represent" VW workers, they have functioned as co-conspirators in this looting operation. At the same time, the organisations have signalled their support for the elimination of more than 10,000 jobs.

In early March, Wolfgang Porsche whose family owns a majority of Volkswagen shares, said that the company would carry out job cuts "if it was determined that we have an excess of personnel in individual areas." According to *Deutsche Welle*, "Porsche's words were welcomed by the head of the company's works council, Bernd Osterloh, who saw them as a departure from the board's earlier 'policy of speechlessness' over its decision to cut VW's overhead costs by 1 billion euros (\$1.1 billion) a year in the wake of its emissions scandal."

Defying the angry protests of workers and media criticism, the supervisory board decided at its April 23 meeting to make no changes in the bonus system. Although the company has suffered billions in losses from the scandal, the committee announced that the paying of bonuses would be delayed, but not cut, and certainly not eliminated.

In an effort to pacify opposition, the company will retain 30 percent of the bonuses and set them aside. In three years, the board members will be paid in full. This will happen even if the company's share value by 2019 continues to fall from the already low level brought about by the emissions scandal. If the share price rises, the board members will receive correspondingly more. A capping of the bonus will only occur if the share price doubles.

The "employees' representatives" on the supervisory board gave their full backing to this slap in the face. VW central works council chair Bernd Osterloh called the

agreement a "hard-fought compromise." Similar sentiments were expressed by Lower Saxony state premier and VW board member Stefan Weil (Social Democrat) who both said they would push for a cut, or even better the elimination, of the bonuses.

The supervisory board determines the level of executive compensation. The works council and IG Metall trade union, together with the SPD and Green Party-run state government of Lower Saxony, have a majority of 12 votes on the board allowing them to veto any pay proposal. "It would have been possible in purely legal terms to compel the executive to largely give up the bonus payments," a supervisory board member admitted to *Die Welt*.

The works council, trade unions and SPD did not do so because they are part of the group of speculators in the company's leadership.

It is unclear what payouts to the multi-millionaire executives are actually covered by the bonus agreement. In the media, the terms "bonus" and "variable remuneration" are generally used as synonyms. But they are not.

VW's remunerations report for 2014 distinguishes between variable remunerations based on the last business year, bonuses on the basis of the last two business years and the long-term incentive (LTI), for which the last four business years and other factors are included in the calculations to determine the figure.

Since then, former Porsche chief Martin Müller has replaced Martin Winterkorn as CEO. Müller will likely obtain a similar income to his predecessor, who resigned in the wake of the emissions manipulation in September 2015. For Winterkorn, the 2014 report reveals fixed remuneration of €1.9 million (US\$2.17 million), one-year variable remuneration of €3.1 million (US\$3.55 million), bonus remuneration over a two-year time period of €6.3 million (US\$7.21) and LTI of €4.3 million (US\$4.92). This comes to total compensation for 2014 of roughly €15.6 million (US\$17.85 million).

If 30 percent of the entire variable remuneration is withheld, this would amount to roughly €3.9 million for

Winterkorn. He would still receive €12 million. If only 30 percent of the bonus portion of the variable remuneration as referred to in the report is withheld, there would only be a loss of €1.9 million. Winterkorn would then still receive €14 million.

Winterkorn himself, as well as all past and current executive members, have no reason to fear losing a cent over the emissions manipulation. After the last supervisory board meeting, VW announced that the late April release of a report on the issue of responsibility would be postponed indefinitely.

The US-based legal firm Jones Day, which has been conducting a months-long internal investigation, has blame second-tier managers, which, they said, decided to use software to manipulate emissions in November 2006. Top-level executives, the law firm claims, allegedly knew nothing. The Jones Day law firm has a notorious record. In 2012-13 it conspired with wealthy bondholders to throw the city of Detroit into bankruptcy, which led the slashing of public employee pensions and the selloff of public assets.

According to the investigation, it cannot be proven that Winterkorn knew about the manipulation of software on VW vehicles sold around the world. A trained engineer who boasted that he knew “every bolt” on a VW vehicle, Winterkorn was allegedly given evidence in spring 2014 of “inconsistencies” in the emissions results from the EA 189 engine. But “if and how much notice Mr. Winterkorn took of this note at the time is not documented,” VW wrote in a statement.

Thus Winterkorn, along with all other current members of the executive, will continue to obtain millions. His contract, which he insisted be paid out in spite of his resignation, continues until the end of this year.

The same applies to former VW finance director and current supervisory board chairman Hans Dieter Pötsch. He has been at the centre of the discussions over recent weeks about the VW bonuses. Pötsch, prior to his shift from VW’s executive to the supervisory board in October 2015, quickly negotiated a bonus payment because as finance director he received around five times more than his current salary of €1.5 million as supervisory board chairman.

It is now clear he did not agree on €10 million, but €20 million in bonuses. “Pötsch only reached this record sum by means of a trick,” *Spiegel Online* reported. In order to calculate his potential income until 2017, which was the length of his contract on the VW executive, business figures were used from 2014, the most successful year in the history of VW. With this accounting trick, Pötsch evaded the huge losses of 2015.

Pötsch and the executive are, however, not the only ones lining their pockets. Pötsch, who also leads Porsche SE

Holdings, VW’s majority shareholder, suggested in his capacity as CEO, to reduce the dividend on Porsche shares to 20 cents per share. Ultimately, VW only transferred €17 million to Porsche Holdings, down from €719 million last year.

The executive dismissed this proposal last Monday, deciding to pay out a dividend of €1 per share. The money, €308 million, will be withdrawn from saved funds. More than €150 million will go to the two family clans, Porsche and Piëch, who own the core shares, and another €150 million to owners of preferential shares, “mostly private individuals, banks and insurers,” as the *Süddeutsche Zeitung* wrote.

The deputy chairman of the Porsche Holding supervisory board, Porsche central works council chair Uwe Hück, “explained” this policy of enrichment to the *Süddeutsche Zeitung* by saying it was necessary to send a signal about the company’s future capabilities. VW would soon be on a successful path once again, he said. “A minuscule 20 cent per share dividend would raise doubts about that.” At this reduced rate, dividends for the two Porsche families would have amounted to “just” €30 million in earnings.

The works councils, trade unions and SPD have been complicit in this process. Their main argument is that the multi-million euro bonuses of the executive cannot be challenged because they are contractually regulated. This is simply a matter of legalities, VW works council head Osterloh claimed.

But how do things stand with the workforce? They also have contracts. But the works council and unions have no problem tearing up whatever remains of the contractual protections of the past. On the contrary, they have accepted mass layoffs through local plant agreements.

While Osterloh and Co. accept the enrichment of top management, they are working at the same time on a drastic cost-cutting programme. The more than €16 billion set aside for fines, legal challenges, repurchasing vehicles, repairs and customer compensation, is to be squeezed out of the 620,000 global workforce.



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