Hedge fund buy-in heralds massive assault on Volkswagen workers

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The fallout from the exposure of the exhaust emissions fraud has made Volkswagen attractive to hedge funds for aggressive shareholder buy-ins. British hedge fund TCI has entered the scene as a shareholder in VW and is planning an unprecedented jobs massacre, slashing wages and worsening working conditions to satiate its profit hungry financiers.

In a letter to the board of directors, TCI founder and head Chris Hohn accused the VW directors and Supervisory Board of siphoning off 400 million euros over six years in personal remuneration, which in his eyes is money withheld from shareholders. "These are corporate excesses of epic proportions," he says in the letter. Despite the exhaust emissions scandal, Hohn stated, "the management has been rewarded for its failure".

Hohn is known for brutally enforcing shareholders' interests. Now he clearly senses good business opportunities at VW. At a management presentation in London, he said "the hostility of large institutional investors was palpable"; shareholders had suffered heavy losses.

"They will not remain eternally patient," writes Hohn. "The signs of mismanagement are numerous." At VW, the salaries of the managers and the wages of the employees always stood above the interests of shareholders. "This is no way to lead one of the largest companies in the world, and it is no longer acceptable for the minority shareholders."

According to the company, however, the hedge fund holds only two percent of the VW / Porsche group. Apparently, TCI has bought non-voting VW preference shares worth 1.2 billion euros, thus he needs to win allies. Whether other hedge funds soon buy in at VW and support him in his campaign is still unclear. It could be, however, that Hohn wins over the Qatari emirate to his side. The oil sheikhs hold 17 percent of VW’s shares, the third largest holding of ordinary shares. 52.2 percent is held by Porsche Automobil Holding on behalf of the owners, the Piëch and Porsche families, and 20 percent is held by the state of Lower Saxony.

The Supervisory Board representatives from Qatar have already demanded several times to be included in the presidium, the company’s highest controlling body. It is here that the actual decisions are made before then being discussed by the Supervisory Board and generally nodded through. The majority in the presidium, as on the Supervisory Board, is controlled by the IG Metall union, the VW works council and the state of Lower Saxony, represented by Social Democratic Party (SPD) state premier Stefan Weil. So far, this majority, along with the Piëch and Porsche families, has always repulsed the advances of Qatar.

Hohn's methods and those of TCI are well known. The fund buys into companies whose share price has fallen sharply, ensures that the yield and therefore the share price rises again by imposing mass layoffs and dismantling the entire concern, finally sucking out millions and billions of euros from the leftovers before moving on to look for new victims. What remains are tens of thousands of workers and their families who have been pushed into unemployment and poverty.

Last year, VW saw a record loss of at least 1.6 billion euros. At the beginning of May, VW shares were 45 percent below their high point over the last year. The yield on the core VW brand was only 2 percent. At comparable companies it is six to 12 percent.

Even the destruction or bankruptcy of VW can no longer be excluded. The well-known US lawyer Michael Hausfeld threatened VW with bankruptcy in an interview with *Welt am Sonntag* if the group did not "behave reasonably".

In the past, Hausfeld's law firm has represented forced labourers of the Nazi era, victims of the "Exxon Valdez" oil disaster and other plaintiffs, winning them billions in compensation.

Now his firm is aiming for a general settlement between VW and car owners, shareholders, environmental organizations and the authorities. In a letter to VW CEO Matthias Müller, Hausfeld has called for a meeting within two weeks. The Tubingen law firm Tilp has also lodged a billion-euro lawsuit against VW on behalf of 278 institutional investors.

Andreas Renschler, who heads the company's heavy goods vehicle division and receives 15 million euros a year, making him the best paid VW director, wants to merge the VW subsidiaries MAN, Scania and Volkswagen Commercial Vehicles and launch an IPO. The money could then be used to pay the billions in penalties the company faces as result of the emissions scandal.

In any case, the Executive Board, IG Metall and works council are preparing to launch enormous attacks on the workforce. Works Council leader Bernd Osterloh had already indicated that the payment of this year's "token of appreciation" bonus was uncertain for about 120,000 VW workers in Germany. The directors, who in the worst year in the company's history have pocketed 63 million euros, only want to pay the measly bonus if they obtain commitments to further cuts.

However, this is likely to be only the prelude to far greater cuts for the workers. This was sketched out four weeks ago in a short study by the Centre for Automotive Research (CAR) at the University of Duisburg-Essen. "It is not the exhaust scandal that represents the greatest threat to the future but the chronic low profitability of the core VW passenger vehicle brand," writes the head of CAR, Ferdinand Dudenhöffer. For each passenger vehicle sold, the VW brand earned only 475 euros in its car business in 2015. At rivals such as Toyota it was 1,862 euros, and almost 1,200 euros at Ford.

The main reason identified by Dudenhöffer is the too high costs at German factories. At the seven German plants, "productivity and profitability" were disproportionate. Personnel costs in the core VW plants lay significantly above those of comparable companies. VW workers in the company's west German plants enjoyed significant benefits.

While the competition at Daimler and BMW and even at the VW subsidiaries Audi and Porsche paid their employees according to the industry-wide collective agreement with IG Metall, VW core employees were paid in line with an in-house contract giving them what the *Stuttgarter Zeitung* described as a "cream topping".

In addition, VW had avoided outsourcing parts of the production process in recent years. "The depth of production at VW is enormous," the newspaper quoted Gerhard Wolf, head of automotive and mechanical engineering in the team of analysts at Landesbank Baden-Württemberg (LBBW). Production was carried out "often at a high cost."

Sale of assets, spin-offs, plant closures, job losses, wage cuts: This is what the hedge fund TCI will demand in order to enhance returns.

In an editorial Wednesday, the *Süddeutsche Zeitung* was jubilant. Under the headline, "At last, someone is telling it like it is", Karl-Heinz Büschemann wrote: "Finally, there is someone who does not hesitate to harshly criticize the corrupt company."

Hohn's attack on Volkswagen was the first indication that there still could be a fresh start at VW after months of a simmering exhaust emissions scandal. "The Briton with the bad reputation could become a benefactor for the German economy." The "uncompromising methods of an Anglo-Saxon investor" were a "suitable weapon" to make changes at Volkswagen.

That one of the largest companies in the world, with over 600,000 employees, is now the target of predatory hedge funds is an outcome of the cronyism between the works council, the trade union and management. No other company in Germany is so closely intertwined with the social democratic bureaucrats in politics and the unions as VW.

VW works council leader Osterloh has always sung the praise of the directors, as long as there was enough for the union and the works council representatives. In 2014, when CEO Martin Winterkorn resigned as a result of the emissions scandal, but still pocketed 17 million euros annual salary, Osterloh said he was worth every penny.

When VW was caught falsifying the nitrogen oxide emission results of VW diesel vehicles, the works council had nothing better to do than distribute tens of thousands of T-shirts bearing the slogan "VW: One Team--One family" to VW workers, lining them up behind the board of directors.

In the meantime, Osterloh has continued to work closely with the corporate heads behind the backs of the workforce. The Works Council, IG Metall and SPD representatives on the supervisory board agreed to a recent bonus orgy for the directors. Now they are proposing to the shareholders at the upcoming Annual General Meeting on June 22 in Hannover to absolve the entire Executive Board, which is responsible for the present situation. According to a VW statement, this decision expressed the confidence of the Supervisory Board in the current board of directors.

Shortly beforehand, Osterloh declared: "Money for penalties and compensation will be missing if the company is broken up. Unfortunately, that's the way it is." So now it was all the more important to become more efficient. "We have presented our proposals for this", the works council leader said, alluding to his own 400-page savings programme.

This conspiracy of the works council and trade union leaders with the VW Group must be smashed. But this must not be left to a robber baron like Hohn and his TCI hedge fund, for which workers would pay a bitter price.

Rather, workers must break politically and organizationally from the union and works council, establish their own independent rank and file committees at VW plants around the world and prepare to fight to defend their interests.