Thyssenkrupp in Germany to be broken up

Dietmar Gaisenkersting
26 May 2020

On May 18, the supervisory board of the Thyssenkrupp company decided to break up the industrial group, a move hedge funds have been demanding for years. The decision was unanimous and included the votes of IG Metall trade union members and works council representatives who sit on the company supervisory board.

The concept presented by Thyssenkrupp CEO Martina Merz to the supervisory board envisages the sale of almost all of the company's divisions. The only sections to be kept are trading in materials and parts of the company's industrial component production. The overwhelming majority of the concern's 160,000 employees will either end up with another employer or lose their jobs.

Thyssenkrupp plans to sell off its divisions in heavy plate, special construction and battery cell production. If no buyers are found the subsidiaries are to be closed down, including the heavy plate plant in Duisburg with its 800 employees.

The group also plans to separate parts of its auto parts business (springs and stabilizers), its steel plant in Terni, Italy, and plant engineering. The company executive says it is already engaged in talks with interested parties regarding the future of its plant engineering division.

The executive has fused the sectors for sale, with a workforce of around 20,000, into a separate company. Manager Volkmar Dinstuhl will take charge of this holding, also known as a "bad bank." Dinstuhl had organised the sale of the company elevator division three months ago. Thyssenkrupp Elevator—with around 54,000 employees worldwide, including 5,000 in Germany—is to be sold off at the end of September for the sum of €17.2 billion to an international consortium consisting of financial investors Advent and Cinven and coal foundation RAG.

If no buyers are found, the steel and shipyard divisions are to be merged with other companies. According to recent figures the two divisions employ 27,000 and 6,000 workers, respectively.

Previous merger attempts have failed. Some years ago, the EU Commission prohibited the merger of Thyssenkrupp Stahl Europe with the European sector of the Indian group Tata Steel. The current announcement that the company's core business will once again be reorganised into a joint venture with a competitor is one of the most important components of the breakup plan.

Contacts with other companies are apparently well advanced. CEO Merz said that talks were "quite intense." In the shipyard business, the company wants to "form a national champion together with the Lürssen shipyard," said Oliver Burkhard, Thyssenkrupp's human resources officer, who is also responsible for the company's Marine Systems unit. Burkhard was a local leader of the IG Metall union before moving onto the board of Thyssenkrupp with an annual salary of over €4 million.

Lürssen has already announced it will cooperate in the long term with German Naval Yards in Kiel in "military and official shipbuilding." Now Thyssenkrupp is also due to participate.

IG Metall supports this national concentration of warship construction. The merger of Lürssen and German Naval Yards can "only be a first step," said the IG Metall coastal district leader, Daniel Friedrich. In the consolidation process ThyssenKrupp Marine Systems had to be included and cooperation extended to construction of submarines.

In February, the German government issued a "Strategy Paper to strengthen the German Security and Defence Industry," calling upon German shipbuilders to join forces. The document declared naval shipbuilding to be a key technology for the country.

Talks between Thyssenkrupp and other steel producers are already underway. Last weekend it emerged that Thyssenkrupp was in talks with Chinese steel producer Baosteel, Swedish manufacturer SSAB and once again with Tata Steel.

Thyssenkrupp boss Merz is also in constant contact with the CEO of German steel producer Salzgitter AG, with 25,000 employees. Merz reported this fact in an interview with the *Süddeutsche Zeitung*.

Once again IG Metall is an advocate of developing a "national champion," involving a fusion of Thyssenkrupp with Saarstahl and Salzgitter. Steel General Works Council Chairman Tekin Nasikkol supports the plan—but "only under the leadership of Thyssenkrupp."

Jürgen Kerner, IGM board member and deputy head of the supervisory board of Thyssenkrupp, demands that the German state also be involved. The fund set up for companies by the government would be “a suitable instrument for direct state participation in steel manufacturers.” It makes sense to “use this instrument now,” declared Kerner, the main IGM beneficiary from any future deal.

In contrast to the failed merger with Tata Steel, the sale of the entire steel division could not be ruled out. Merz said that “everything was on the table.” It was also possible to ditch the majority of company sectors in the event of forming a joint venture. For both Kerner and Nasikkol such a prospect represents crossing a “red line”—at least for the time being.

Thyssenkrupp boss Merz knows very well that the union and the works council will agree to everything, including the closure of entire plants, as long as the company’s well-paid officials get their share of the spoils. In an interview with the *Süddeutsche Zeitung*, she replied to indications that IG Metall was “critical” of a merger with a Chinese manufacturer: “I have often seen that solutions first raise concerns—but this can change afterwards. We witnessed this before when selling the elevator division to private equity investors.”

In reality, the initial purely verbal protests by union bosses serve only to head off and stifle the existing discontent amongst the workforce. They are the inevitable accompaniment to the attacks demanded by shareholders.

It is unclear how many jobs will be destroyed as a result of the breakup, but potential buyers and future co-owners or partners in a joint venture will undoubtedly demand the shedding of “excess capacity” in order to ensure “synergies.”

Thyssenkrupp has already announced that it will cut around 500 of 3,400 jobs worldwide in its auto supplier division that is now up for sale. The Olpe plant with its 330 employees will be decommissioned at the end of 2021; 160 jobs are to be cut at the Hagen plant. In the steel sector, IG Metall agreed in March to cut 3,000 jobs, 1,000 more than originally planned.

Merz’s stated goal is also to reduce pension obligations currently totalling €7.6 billion. This applies primarily to company pensions, which will also be outsourced or wiped out when the company is broken up.

The dissolution of the company announced a week ago by the supervisory board corresponds exactly to the demands made by financial investors for several years. The fact that these are now being implemented is the direct result of the close cooperation between the company executive, IG Metall and shareholders, in particular the hedge fund Cevian.

When asked by the *Süddeutsche Zeitung* whether she was the “executor of this shareholder,” Merz replied: “Well, that means you have a completely wrong idea of how we run things.” The executive runs the company in close coordination with the supervisory board, where one is of course in dialogue with Cevian, she said. However, she “did not have the impression that the Krupp Foundation or IG Metall were less involved in the discussions.”

In fact, all 10 IGM and works council representatives have approved the company dismantlement and Merz praised their decision, saying: “That’s great.”

Markus Grolms, the new human resources officer, is responsible for the close cooperation between the union and hedge fund shareholders. Up until the start of this year he was acting IG Metall secretary and deputy chairman of the supervisory board of Thyssenkrupp, the predecessor to Jürgen Kerner. After the resignations, within the space of a few days, of both the executive chairman, Heinrich Hiesinger, and the supervisory board chairman, Ulrich Lehner—probably due to pressure from hedge fund shareholders—Grolms took over the chairmanship of the supervisory board.

During this time, he worked on an agreement between the 10 employee representatives on the supervisory board—IG Metall, the main shareholders, the Krupp Foundation and hedge fund Cevian. “Unfortunately, the reorganisation of Thyssenkrupp is unavoidable,” Grolms declared in May 2019. This would be “a difficult but unfortunately necessary path for the company and its employees” but the workforce was “prepared to endure pain,” the millionaire union boss declared.

Company shareholders are initially satisfied. The price of Thyssenkrupp shares rose the day after the breakup was announced. At the same time, the Krupp Foundation, which holds the largest share package at Thyssenkrupp, warned: “Thyssenkrupp has no time to waste.”