German corporations use economic crisis to impose mass layoffs

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With the explosion of energy and commodity prices, an economic crisis is developing in Germany unprecedented since the end of World War II. It is the price that the working class is being asked to pay for the economic war being waged against Russia. It has been systematically provoked by the German ruling class and the European Union.

While German banks are profiting from a government credit glut, and the big energy and auto companies report record profits, small and medium-sized business are being driven into insolvency *en masse* and tens of thousands of workers are being laid off.

A detailed report in news weekly *Der Spiegel* speaks of a "systemic collapse" and quotes economists from the Kiel Institute for the World Economy (IfW), who most recently had to revise their growth forecasts for the coming year downward by four percentage points. The IfW researchers warn of a "massive recession" and put the additional national costs for energy imports at €123 billion this year and €136 billion next year. This would mean GDP shrinking by up to 1.4 percent.

In an interview with *Der Spiegel*, the Institute for Economic Research (Ifo) in Munich predicts inflation rates of up to 11 percent for the first months of 2023. The researchers noted that wage increases and the German government's recently approved third "relief package" would "not compensate for this at all." According to *Der Spiegel*, "Citizens are losing more purchasing power than at any time since modern national accounts began in 1970," adding, "The energy cost shock is more severe than in the two oil crises. Natural gas currently costs five times as much wholesale in Europe as it did a year ago."

To protect owners' and shareholders' profit incomes, companies are trying to pass on the price increases to consumers, making workers pay twice--even though they are already forced to pay higher electricity and gas bills as domestic consumers. Many companies are brazenly using the high energy prices as an excuse to pocket government funds and carry out restructuring at workers' expense through mass layoffs and insolvency funds.

According to a survey by the Federation of German Industries (BDI), more than one in three small and medium-sized companies sees its existence at risk—an increase of 50 percent compared to February. In August alone, the number of insolvencies among joint-stock companies and partnerships, mostly medium-sized companies, grew by a quarter compared to the previous year. For next October, economists at the Leibniz Institute for Economic Research predict a one-third increase over 2021. Increased energy costs and inflation are not even reflected in this forecast.

Among small and medium-sized enterprises, 90 percent said they were facing a "strong" (58 percent) or "existential" (34 percent) challenge. 71 percent of all companies surveyed cited delivery problems and delays, and almost one in ten companies in Germany have currently curtailed or interrupted production. Industrial jobs account for 40 percent of those affected by insolvencies.

Energy-intensive companies, such as paper manufacturers, fertilizer producers and steel producers, are trying to pass high electricity and gas prices "down the line" and pocket government funds. For example, hygiene paper manufacturer Hakle—which has filed for self-administered insolvency—announced a "tough restructuring program" to "make much-needed adjustments to its business model possible."

The century-old company, which consumes 60,000 megawatt-hours of natural gas and 40,000 megawatt-hours of electricity annually at its Düsseldorf plant alone, employs 225 people, whose situation will be uncertain from December at the latest. Hakle's competitor Fripa, which consumes around 300,000 megawatt hours a year, employs 450 workers and reported to broadcaster Bayrischer Rundfunk a "very threatening" situation.

SKW Piesteritz, Central Europe's largest fertilizer producer, completely halted production for more than three weeks, threatened all 860 employees with short-time working and demanded "massive support" from government officials. The diesel engine additive AdBlue produced by SKW is a urea product that is indispensable for modern diesel engines and is consumed daily in around 800,000 trucks in Germany.

Following this show of force, an SKW spokesman said Tuesday that they would restart one of the two plants but would not resume production until officials "send a reliable signal" and exempted the company from the gas surcharge. SKW produces urea and ammonia and competes in part with industry giant BASF, which had already reduced ammonia production last year due to high gas prices.

Speaking to *Der Spiegel*, the Georgsmarienhütte Group of Companies (GMH), which has 21 sites with its own foundries and forges and employs 6,000 people, threatened to raise steel prices by 50 percent, otherwise "energy-intensive industry in Germany will not survive."

Rival ArcelorMittal recently announced that it would shut down two production plants in Hamburg and Bremen until further notice. In addition to the "exorbitant rise in energy prices," there was "weak market demand," the corporation said. Last week, the world's second-largest steelmaker had already initially put all 500 workers at the plant in the port of Hamburg on short-time working. At the time, the company had given assurances that it intended to continue essential processes. Now, short-time working will also be introduced at production sites in Duisburg and Eisenhüttenstadt.

Overall, the German Engineering Federation (VDMA) forecasts a two percent decline in production in 2023, following a 14 percent drop in new orders in July.

Food production has also been hit hard by skyrocketing energy prices. The Franconian bakery chain Goldjunge, with 26 branches and 300 employees, had to file for insolvency at the end of August. Cologne-based bakery Schlechtrimen, with 40 long-standing employees, also recently announced the closure of its operations after flour and margarine prices doubled and monthly energy costs rose by €100,000.

The situation is also dire for suppliers to the automotive industry. For example, BIA, which produces chrome-plated plastic components used by all major car manufacturers in Europe, announced on Thursday that it would close its plant at Forst, meaning 150 workers will lose their jobs by the end of the year. The bankruptcy of automotive supplier Dr. Schneider affects all 2,000 employees, who are forced to draw insolvency benefits as part of an ongoing reorganization plan. Vitesco, which supplies drivetrain and power-train technologies, is cutting 810 jobs at its Nuremberg site over the next few years.

Carl Leipold, which produces around one billion precision turned parts a year, filed for insolvency earlier this month. According to management, the reason was "exploding energy costs as well as price increases for operating and auxiliary materials, which could only partly be passed on to customers and with a time lag." This affects 300 employees in Germany.

Last week, the German Association of the Automotive Industry (VDA) revised its market forecast for Germany downward, from the previous three percent growth to minus six percent. VDA President Hildegard Müller complained that "our economic model is in question" and that only three out of five car manufacturers in Germany were able to "pass on energy costs to their customers."

The automotive industry's price increases are in fact part of an explicit "luxury strategy" designed to bring the industry astronomical profits and "EBIT [earnings before interest and taxes] margins of 35 percent per year." Under the slogan "Luxury instead of volume, make hay with [luxury brand] Maybach," financial websites report manufacturers such as Mercedes-Benz and its subsidiaries have long been profiting from higher prices.

For example, amid growing quarterly profits, Daimler Truck recently announced it would relocate 1,000 jobs in Mannheim to the Czech Republic and lay off 3,600 workers in Brazil. The company will not renew the temporary contracts of 1,400 workers at the São Bernardo plant from December and will lay off 2,200 more. In Germany, 600 current jobs are also to be cut at Evobus' Neu-Ulm site. Daimler Trucks' adjusted operating profit grew 15 percent to €1.01 billion in the latest quarter.

Carmaker Opel, part of the Stellantis Group, plans to cut up to 1,000 more jobs in Germany. Labour Director Ralph Wangemann announced Thursday in Rüsselsheim that the company plans to continue existing programs on partial retirement, early retirement, or severance payments, which could mean 1,000 jobs could be eliminated by the end of the year. Stellantis raked in record profits of €8 billion in the first half of 2022 and plans to become the most profitable car company in Europe.

Stellantis' rival Volkswagen announced Friday it would close a distribution centre near Kassel by the end of 2024, affecting 300 employees. A crisis staff team at the VW group, *DerSpiegel* reports, "are also discussing with the works council how far down they may lower the temperature on factory floors to save on heating gas." Volkswagen reported an operating profit of €4.7 billion in the second quarter.

Overall, the operating profits of the 16 largest international car companies in 2021 rose 168 percent year-on-year to a total of around €134 billion, despite the semiconductor crisis.

In the retail sector, shoe vendors Ludwig Görtz GmbH filed for insolvency on September 6, 2022. The company filed for protective bankruptcy for the parent company, as well as self-administered insolvency proceedings for its store and logistics subsidiaries. The insolvency affects 160 stores and 1,800 employees, who are to receive their salaries from the Federal Employment Agency until December. Addressing creditors, Görtz CEO Frank Revermann said they could "expect a successful future after the company reorganization."

The Galeria Karstadt Kaufhof (GKK) retail group, owned by Austrian real estate multi-billionaire René Benko, has already gone through insolvency and has since been propped up by the federal government to the tune of €700 million. But as *Der Spiegel* reports, "reserves" are "melting away" as customers are running out of cash and energy costs at branches have increased tenfold in some cases in recent months.

"Consumer sentiment is as bad as never before in the history of the Federal Republic," the news magazine notes. Millions of people were having to put purchases on hold and massively restrict consumption. The Ifo Institute warns that "private consumption is likely to fail as an economic engine in Germany for the rest of the year." Meanwhile, according to the daily *Süddeutsche Zeitung*, the business climate in the cyclical construction industry was "cooling as sharply as it last did in the financial crisis of 2008."

Triggered by the growing doubts of venture capitalists, unprecedented mass layoffs are now taking place even in the previously booming start-up and platform branches. A report by *Business Insider* cites planned and imminent layoffs of more than 20 percent of all employees in some cases—including at food delivery services Gorillas (300), Getir (4,480) and Zapp (200 to 300), payment services Klarna (700), Sumup (100) and Nuri (45), and 180 at Tier Mobility.

However, according to a report in *Der Spiegel*, there was a "gold-rush atmosphere" among the assembled managers at the world's largest energy industry trade fair, Gastech, this year. European energy company Uniper—which received €15 billion worth of state aid from the German government and has applied for four billion more—sponsored the fair with €175,000 and financed a "prestigious dinner" in a posh Milan villa for another €175,000. *Business Insider* magazine quotes Uniper CEO Klaus-Dieter Maubach from a now-deleted tweet: "We definitely have a good crisis, so let's not miss it!"