German engineering giant Babcock Borsig collapses

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24 July 2002

Coming just two months before federal elections in Germany, the financial collapse of engineering giant Babcock Borsig has delivered a severe blow to the Social Democratic Party (SDP) in their Ruhr heartland. The insolvency proceedings now initiated will have catastrophic consequences for the workforce. It shows that the SPD does not have any answer to Germany's increasing economic problems, and is losing core voters even in the party's stronghold of North Rhine Westphalia (NRW).

Four years ago, Chancellor Gerhard Schroeder began his election campaign with a grand gesture, initiating a rescue package for the construction company Philipp Holzmann. Today, it is clear from the outset that as far as the Oberhausen based Babcock Borsig is concerned; the SPD and the trade unions have absolutely no differences with the leading banks. They all share the view that the stock market is the measure of all things and that the social needs of employees must be subordinated to global competition.

With 18 million inhabitants, NRW is the most densely populated state in Germany. It contains the Ruhr area, one of Europe's largest industrial centres. Four years ago in the *Bundestag* (parliamentary) elections, the SPD won 5.1 million votes in this state, ensuring its victory. Now it faces an uphill struggle.

Babcock Borsig has a long history, stretching back to 1891 when steam boiler manufacturer Babcock and Wilcox was established in London. Now the enterprise consists of approximately 300 separate companies. The largest shareholders are TUI (8.9 percent), Deutsche Bank (8.8 percent), Crédit Agricole and WestLB (with 8.5 percent each), as well as the US investor Guy Wyser Pratte (10 percent). The remainder, over 55 percent, is in smaller share holdings. The 22,000 people the company employs worldwide produced a profit of 26 million euros ($US26.3 million) in the last financial year, from a turnover of 4.3 billion euros ($US4.35 billion). The company's main operations were in energy technology and shipbuilding.

Babcock Borsig has already faced bankruptcy several times before, the last occasion being in 1996/97. Five years ago, a 300 million euro subsidy from the banks and a wage cut pushed through with the agreement of the *Betriebsrat* (union-management works council) temporarily saved the company from bankruptcy. Former board chairman Klaus Lederer was brought to restructure Babcock. He sold off parts of the company and cut thousands of jobs. Three years ago, the company had 43,000 employees. Since then almost half the workforce has been dismissed. However, as far as the banks are concerned, the attacks on the workforce did not go far enough. A restructuring programme now envisages even greater attacks.

Since the end of June, the funds Babcock needed to prevent insolvency increased almost daily. Within two weeks, the 200 million euros in "liquidity assistance" needed to pay June's wages had risen to 700-800 million euros for the "reorganization" of the company. NRW state premier Wolfgang Clement (SPD) travelled to Oberhausen promising state credits, while Schroeder promised federal funds. For their part, the creditor banks refused any further subsidy. On July 5, Babcock finally announced it had begun insolvency proceedings.

Responsibility for the present situation, with its catastrophic consequences for Babcock employees their families lies with the SPD and trade unions—above all IG Metall. The high profits and productivity increases achieved in the decades after the Second World War meant the industry could afford to keep the political wheels oiled by providing the unions and the SPD, who have governed the state for decades, with numerous company posts and backhanders. In return, the SPD at local and regional level supported the industry whenever it could, while IG Metall undertook the task of keeping the workforce under control and helped to implement job and wage cuts.

An SPD party card was necessary for taking up almost any position on the *Betriebsrat* of a large industrial enterprise. *Betriebsrat* members, town councillors and local SPD functionaries were bestowed with highly paid jobs in industry or politics. In Oberhausen, until the end of the 1980s, most of this sleaze was associated with Ruhrkohle AG, Thyssen and Babcock. The present employment and social affairs minister in NRW, Harald Schartau (SPD), for example, was IG Metall youth secretary for Oberhausen at the beginning of the 1980s. Promoted by Heinz Schleusser (who likewise rose thanks to the Oberhausen IG Metall-Thyssen-SPD connection to become NRW finance minister) Schartau became IG Metall district secretary for NRW, before beginning his current job. Schartau belonged to the Babcock supervisory board from the end of 1992 to mid-2000.

The chairman of the Babcock supervisory board was and is Friedel Neuber, the "godfather" of the SPD in NRW. He sits or has sat on numerous supervisory boards, including Thyssen-Krupp, Krupp-Hoesch, Deutsche Bahn, RWE, Preussag (now TUI) and Ruhrkohle AG. From 1981 to 2001, he was chairman of the board of WestLB, the NRW state bank. In 1999, Neuber came to broader public notice when it was shown that he had provided the former NRW premier and current German president Johannes Rau, as well as finance minister Schleusser, with private flights at the expense of WestLB.

This corruption also operates at lower levels of SPD functionaries. Babcock *Betriebsrat* chairman Heinz Westfeld is the IG Metall deputy secretary in Oberhausen and Neuber's deputy on the Babcock supervisory board. Like his *Betriebsrat* colleague Dieter Janssen, he also sits as an Oberhausen town councillor for the SPD.

Rising competition at an international level meant this close network of dependencies and privileges came under ever-greater pressure. The corporations can no longer afford the direct and indirect bribes and the "socially responsible" control of the workforce organised by the SPD and IG Metall, nor do they wish it. "The end of the robust clientele politics of the old SPD power apparatus on the Rhine did not come suddenly", wrote the German business daily, *Handelsblatt* in a commentary on the Babcock bankruptcy. "The competition opened up in the European Union and the increasingly global orientation of corporations in NRW has undermined the old comfortable alliance of public and semi-public enterprises, trade unions, municipalities and the SPD."

The SPD and its allied trade unions nevertheless still regard themselves as co-managers of the corporations and now stand completely on the side of the employers. They are the driving force in breaking apart the old social structures. The *Süddeutsche Zeitung* newspaper comments: "Babcock is one of the later products of the notorious NRW corruption from the era of Johannes Rau (now German President), which was broken up under the solid Clement, but by no means overcome."

It was the banks, including the SPD-dominated WestLB, which initiated the collapse of Babcock, by insisting that a credit should be paid back to shipbuilders HDW—Babcock still owns 25 percent of HDW's shares—and not "offset" as it had previously done.

WestLB apparently played a prominent role in this affair. Their web site announced the bank plans to increase profitability on its own capital funds to 18 percent by 2004, i.e., to only invest in the most profitable sectors of the economy or to demand a substantial increase in the net yield of all its holdings. This was not the case at Babcock. Friedel Neuber had installed former board chairman Klaus Lederer in 1997 to lead the restructuring, in order to change this. It is, therefore, very unlikely that Neuber, as supervisory board chairman, and Heinz Westfeld as his deputy and *Betriebsrat* chairman, did not know anything about the effects of Lederer's activities.

The insolvency proceedings now open up the way for the banks' strategic aims. Babcock will not be destroyed and broken up, as was usual with bankruptcy cases. The SPD-Green Party federal government changed the insolvency laws in 1999. Accordingly, the priority is no longer to ensure payment of the company's debts through selling off the enterprise. The new "red-green" insolvency regulations provide a mechanism with which companies such as Babcock can be restructured under the old management and made profitable.

The banks have let it be known that they agree with a reorganization plan under management consultants Roland Berger. Babcock's core business would be the traditional energy sector. The company's remaining shares in shipbuilding and "other holdings" (employing 11,000) are to be disposed of.

Several thousand jobs are to be destroyed, while the remaining employees must reckon with wage cuts. They have given up a part of their wages twice already at the initiative of IG Metall and the *Betriebsrat* —in 1996/97 and in June this year. The cuts that the *Betriebsrat* implemented three weeks ago in the face of protests by sections of the workforce meant abandoning the previously agreed wage increase (which would have brought a saving of 26 million euros for the company). These measures are now made obsolete by the insolvency proceedings. However, the new board chairman, insolvency specialist attorney Horst Piepenburg, has already announced that the "employees must make their contribution to the impending [company] reorganization".

After the closure of the pits and steel production at the end of the 1980s, with a 3,000 strong workforce, Babcock was the largest employer in Oberhausen. Only MAN, employing 1,800 in its turbine compressor works, and Celanese AG, with 1,400 workers, remain offering industrial jobs in the former coal and steel town.

The town council in Oberhausen, together with the state government, met the massive reduction in industrial jobs in the 1980s by seeking to encourage service industries. In 1996, they opened Centro—at that time Europe's biggest shopping complex—on the site of the former Thyssen steel plant. As a result, the 10.2 percent unemployment rate in Oberhausen, which lies in the western Ruhr area, is relatively low compared with other cities in the Ruhr. The rate in Gelsenkirchen (the highest in the district) is 15.8 percent, but many of the new jobs pay only low wages.

If thousands of jobs are cut at Babcock and in other ancillary industries, this will mean unemployment and poverty for many older workers. There will be no lavish social plans and the money is missing to maintain the company pensions in there past form, in view of the sharp fall in Babcock's share price.

Some older Babcock employees have accumulated between 800 and 900 hours overtime, in order to be able to take early retirement. Now this is all in vain. In the meantime, the local SPD politicians are discussing setting up a "rescue company", in which superfluous workers could be temporarily "parked" before being pushed into low paid jobs. The disappearance of apprenticeships means young people in the region have been robbed of a future.

The mood among the workers is angry. Infuriated, many are turning away from the SPD and the trade unions. It has already become clear that abstentions among the SPD's former core voters will rise in the September general election.

"I will never vote SPD again, if Babcock collapses," one 41-year old lathe operator who had worked 17 years at Babcock told *World Socialist Web Site* reporters at the factory gate. "And that's what I tell all my colleagues. You can't trust the SPD any more. I've lived in Germany for 31 years, but I have never experienced such a thing. I thought the SPD would improve workers' social position."