Report from Bonn by Rainer Apel

Industry hit with investment scandals

What the world depression alone hasn't been able to destroy, the bankers and managers have.

In the midst of the world economic collapse, there are still many people that trust in the "German model" of handling industry and exports, labor relations, and monetary affairs. However, this "model" is being run down, because the German economy is linked to the "free market" world economic system, and because the political elites believe in the locust-like habits of this world system, which is eating itself up.

But are the economic and banking elites any better? Given the recent developments in industry, one can only conclude that the bankers and managers are as bad as the politicians. A small group of managers and bankers are presiding over the collapse of traditional industry that once earned Germany the world reputation of being a "model."

The most recent industrial default was the Vulkan shipbuilding group, western Europe's largest, with 22,500 workers and engineers. The conglomerate, which was put together in 1992-93 in a series of mergers of the Bremen-based Vulkan shipyard, two formerly State-run, now privatized eastern German shipyards in Stralsund and Wismar, and several consolidated, ailing western machine-building firms, filed for protection from their creditors in late February.

Vulkan had been in trouble, but it was pushed into bankruptcy by the discovery that management had used about 700 million deutschmarks ($4.5 million) of funds earmarked for the modernization of the two eastern shipbuilding sites, for emergency pumping of money into the group's loss-making daughter firms in the west. This was made possible through a special arrangement that concentrated all funds and corporate capital of the group in the central financial management in Bremen.

When the time came to invest, it was revealed that the funds were "no longer there," as the Vulkan management claimed.

About DM 250 million of the missing money had been pumped into the machine-building subsidiary Doerries Scharmann. The firm has been chronically in the red, which had to do with the overall pattern of German machine-builders being caught in the post-1979 trap of high interest rates for new loans, and decreasing income because of a world "free market" dictate to sell at below parity prices. In 1993, the situation of Doerries Scharmann got worse, when its creditor banks merged it with the ailing machine-building firm Schiess.

That firm belonged to the ailing Metallgesellschaft Group, which barely escaped default that year over huge losses incurred by its U.S. branch because of its dalliance in oil derivatives. Deutsche Bank, the chief creditor of Metallgesellschaft, told its debtor to get rid of loss-making subsidiaries, in which consolidation process Schiess was sold to Doerries Scharmann, which then was bought up in turn by the newly formed Vulkan Group.

Now, the old boss of Schiess, Niels Seidensticker, in the context of this merger in 1993, got a job at the Autania investment firm, which has been buying up middle-sized machine-building firms in eastern Germany. In mid-February 1996, however, Autania defaulted on one of its showcase projects, the biggest Berlin-based machine-building company, Werner and Niles. Seidensticker, the top manager that had moved from Schiess to Autania, has been target of an official investigation since late 1995, for financial irregularities.

The man who replaced Seidensticker at Schiess in 1993, Anton Schneider, who came from a firm with the truly German name of "Boston Consulting," joined the board of directors of Doerries and Scharmann, via a new job at the central financial management at the mother firm, the Vulkan Group. It is through this pipeline that, over 1995, the DM 250 million of Vulkan funds that were "missing," got pumped into the ailing Doerries Scharmann subsidiary.

Now, all of this went on under the eyes of the supervisory board at Vulkan. The head of that board, Hero Brahms, was a director in 1991 at the Treuhand agency, which was in charge of the privatization of the former East German State-sector industry, and which okayed the merger not only of the two East German shipyards with Vulkan, but also of the consolidation of the group's entire financial resources with the central management in Bremen. Now, when this has become a target for investigators, it turns out that controls on the transfer of several hundred million deutschemarks, and of the later use of this money, were at minimum scandalously insufficient. This case of managerial incompetence may have been an attempt to create a framework for future fraud.

The main creditor bank of the Vulkan group is Commerzbank—which is making headlines because of coverage of police raids against several of its branches in Germany on behalf of the federal Revenue Service. Commerzbank is charged with large-scale illegal transactions and tax fraud between Germany and the deregulated Luxembourg banking oasis.