



LABORATOIRE SOCIAL D'ACTIONS D'INNOVATIONS DE REFLEXIONS ET D'ECHANGES

12TH LASAIRE BIENNIAL

“Anticipation and Participatory Change Management in Companies during a Period of Crisis and Technological Change”

ACQUISITION OF THE ENERGY BRANCH OF ALSTOM BY GENERAL ELECTRIC (by Hugues Bertrand - April 2017)

1. THE ALSTOM GROUP IN 2013

In 2013, Alstom was one of the oldest French industrial companies (founded in 1839 in Alsace to make locomotives). It employed 92,000 people throughout the world (including 18,000 in France) and generated a turnover of more than €20 billion in 4 major lines of business:

Equipment for energy: €9.2 billion
Rail hardware and equipment: €5.5 billion
Grids and electricity supply: €3.8 billion
Renewable sources of energy: €1.8 billion

The group's most profitable line of business was the production of alternators and turbines for gas-fired power plants, where it held a significant share of the world market against two larger competitors (General Electric and Siemens). Alstom was also number one in the world in the production of equipment for hydroelectric dams (turbines).

The group's business prospects were rather good, but its financial situation, which had deteriorated sharply in 2003 (recapitalised by the French State following a near bankruptcy), and then again with the crisis in 2008, was such that it could not make the necessary investments to pursue and develop its activities. Part of the assets had to be sold to bail out the group. The absence of a real reference shareholder (Bouygues, being the majority shareholder at the request of the French public authorities) did not permit any recapitalisation: there was no one to do it. The public authorities, which had already contributed to save the group some years earlier, had neither the means nor the intention to do so.

2. AN EVENTFUL HISTORY AND DIFFICULTIES THAT WERE ALREADY OLD

The group, which has a long history, had long suffered from the absence of a reference shareholder. Alcatel and GCE, majority shareholders in 1998, had sold the majority of the capital on the stock exchange that year, having drained the company's cash on a massive scale (€1.3 billion).

Several hazardous operations had then continued to strain the group's finances. The acquisition of the high power gas turbine branch of the Swiss-Swedish company ABB in 1999 in particular had been a disastrous error. The high cost of that operation (€2.6 billion) was not justified. In fact, shortly after this operation, it appeared that 80 large gas turbines installed previously by ABB had serious technical defects. Alstom had to pay heavy damages to customers who had bought those defective turbines before the acquisition. Major investments also had to be made and several hundred engineers had to be taken on to try and remedy those technical shortcomings. A heavy restructuring programme had to be initiated. The group was forced to sell numerous assets, in particular its "Electricity Transmission and Distribution" business, precipitously in January 2004 (28,000 employees, €1 billion) to Areva to bail itself out.

These operations were not sufficient however, and the group found itself on the verge of suspension of payments. This situation required the French minister for economic affairs to intervene and save this flagship of the French energy industry. He had to put in place very rapidly, a financial rescue operation by recapitalising the group that was threatened with bankruptcy. The French state did so provisionally (by fulfilling the requirements of the European Commission): to comply therewith, it sold its stake (25% of the capital) to Bouygues, which thus became the leading shareholder, without however a blocking majority. The Bouygues group did so to be of service to the public authorities more than through interest or strategic reorientation. On that occasion, the former CEO P. Bilger was replaced by P. Kron.

This re-injection of capital and the reorganisation which followed gave the group room to breathe, recover and to start over with better prospects.

It managed to recover as best it could until the crisis of 2008, which caused a very sharp slowdown. The customers of Alstom cut back, suspended or provisionally postponed their heavy and expensive energy investment (or rail equipment) projects. The group's order book was halved.

During this difficult period, and in spite of the gloomy prospects, the company's CEO Mr Kron decided to buy back from Areva the largest part of the activities (Transmission and Distribution) sold 6 years earlier.

This re-acquisition, at a far higher price (€2.3 billion) than that at which the activities were sold in 2003 (for less than €1 billion) would again put a strain on the group's cash situation and restrict investment resources dramatically, without however obtaining for the company the much anticipated synergies, because of the persisting weakness of the economic cycle. Alstom once again came close to suspending payments, having to cope with the refusal of the banks to provide guarantees. The hope of managing to make the investments needed to develop its activities grew distant. It is worth adding that under those changing and unstable economic circumstances, certain previous industrial choices became inappropriate and costly.

A choice had been made to specialise extensively on industrial sites in France and the rest of the world. In a period of high and regular demand, such a choice had certain advantages, particularly in terms of productivity gains. But when the demand became uncertain and capricious, when customers moreover required that part of production be done locally in the buyer country, more industrial flexibility is needed. Versatility becomes an advantage, specialisation millstone.

The group managed to get through this difficult period and survive. It embarked on new restructuring operations, but it no longer had resources commensurate with its strategy. It had to find new resources, conclude new partnerships and work hard on its development. In a weakened position henceforth, particularly to negotiate such partnerships in a balanced manner, it ran into extreme reticence from the banks to provide it with the resources it needed, if only to conclude contracts, as bank guarantees were indispensable to stay in the race.

3. ACQUISITION BY GE IN 2015

In 2013 the American Justice Department opened an investigation into actions of corruption against Alstom officials, which would inexorably lead to a heavy fine (to the tune of €1.5 billion) and the criminal indictment of several of its managers. Alstom did not have the means to face this new ordeal.

In 2014, General Electric (4 to 5 times bigger than Alstom), aware that Alstom would not recover, put in a bid to acquire the energy (and electricity) branch for €12 billion. A consortium formed by Siemens and Mitsubishi put in a competing bid for comparable sums. GE won out in the end, as the fine to be paid by Alstom was reduced (as if by a miracle?) to €772 million, and Alstom executives received high compensation (several dozen millions of euros) for having seen the operation through to a satisfactory end (for whom?).

After a bitter battle waged by the minister for industry at the time (A. Montebourg), the agreement reached led to the creation of 3 “joint ventures” (energy, grids, renewable energy) managed by GE but owned equally (50/50) by GE (which in the end pumped €9.7 billion into this acquisition) and by the new Alstom consisting of the part that remained independent (Alstom rail: a third to a fourth of the former group). What is left of Alstom today is a quite complete rail group, having returned to its original line of business in a way.

4. ALSTOM TODAY

There are 4 Alstom companies today:

- 3 GE-Alstom joint ventures (energy with Alstom-Power, electric grids with Alstom-Grid, renewable energy with Alstom-Renewable) which are entirely under the thumb of and in line with the world strategy of GE. The link with the residual company Alstom remains solely financial. These three companies employ 65,000 workers throughout the world (150 countries), including 9,000 in France.
- An independent Alstom company (one third to one fourth of the old Alstom group), dedicated to rail (TGV (high-speed) trains and towing vehicles, metros, trams, components, signalling systems, networks). This new company has a 50% stake in -- but no industrial control of -- the three foregoing joint ventures.

The main shareholders of the new Alstom rail company are the French State (20%), Bouygues (7.7 %: but the 20% of the State had been advanced by Bouygues and have not been paid because no agreement has been reached on the repurchase price) and others (SG, DNCA, Areva, etc).

This company is in an advantageous financial situation, having received sizeable cash injections by GE to acquire the energy branch and to set up the 3 subsidiaries.

It employs 31,000 people, of whom 21,000 in Europe (9 000 in France), nearly 5 000 in the USA, more than 3 000 in Asia, and a few less than 2 000 in Africa.

It generated a turnover of €6.9 billion in 2015-2016: 50% from the sale of rolling stock (metros, high-speed trains, trams) and 50% from the sale of “solutions” (infrastructure and facilities, rail signals, maintenance). The order book is well filled, mainly thanks to foreign customers: metros, grids and systems, trams, regional transport trains, and new generation high-speed trains. It exceeds €30 billion, i.e. more than 4 years of turnover.

The industrial sites are located throughout France (Reichoffen, Valenciennes, St Ouen, Belfort, Le Creusot, Villeurbanne, La Rochelle, Tarbes, Ornans, and other, smaller ones) and quite highly specialised (Belfort for high-speed trains, Reichoffen for regional transport trains, Valenciennes for metros and several-level regional transport trains, Le Creusot for bogies, etc.), which makes the sites greatly and somewhat randomly dependent on orders and their nature (some sites can be overheating while others are below capacity).

This strong specialisation explains the current situation. Because of weak orders for high-speed trains in France, the Belfort plant cannot operate, in spite of a booming order book: the contract won with Amtrack (€2 billion for 28 high-speed trains on the new Boston-Washington high-speed train line) includes local production of tilting trains which, at the end of the agreement, will be made in New England, not in Belfort. The new Alstom company will probably have to set up a more flexible industrial organisation capable of adapting to the fluctuations and variations of the components of demand. For the moment, it seems to be geared to choices entailing quite extensive relocation in countries where labour, including skilled labour, is less costly and more flexible (engineers in India, components in China, etc.). After Alstom announced that the Belfort site would be closed in 2018, the government, followed by the SNCF [French Rail] placed an order for 21 high-speed trains in September 2016.

5. ROLE OF THE VARIOUS STAKEHOLDERS IN THE NEGOTIATIONS FOR THE ACQUISITION BY GE

5.1. GE

GE wanted to acquire the energy branch of Alstom for its big gas turbines (main sites: Belfort, Mannheim). So it won out. It can be assumed that this link did not prove useless and that GE made the most of the very ominous threat of the American justice department to tip the balance in its favour. The interest in the alternative solution of an acquisition by Siemens-Mitsubishi, supported by some, was highly contested by others.

5.2. THE FRENCH GOVERNMENT

- A. Montebourg, who tended to favour the Siemens-Mitsubishi consortium, nonetheless fought to limit the damage with GE, particularly by including Alstom's energy activities under strategic industries, whose fate requires the government's consent. Whence the solution of the 3 joint ventures, which saves the appearances, leaves room for comfortable dividends, but puts the fate of the energy branch in the hands of GE. The arrival of E. Macron during the negotiations probably did not change the nature of the final arrangement. The government moreover got GE to commit to creating 1 000 net jobs in France (on pain of a fine of €50,000 per job not created).

5.3. THE EUROPEAN COMMISSION

The European Commission played a rather positive role in the last part of the negotiations by requiring GE to resell 15% of its gas turbine activities to the Italian company Ansaldo in order for the transaction to go through, as the major European electricity generators feared too dominant a position for the American company. GE fought hard against this requirement, but the Commission did not yield, and GE was obliged to comply.

5.4. EMPLOYEE REPRESENTATION ORGANISATIONS AND STRUCTURES

The European Works Council (EWC) played an important role in the discussions with the management of Alstom and in the coordination of the national trade unions.

Founded in 1996 at the request of the European Metalworkers' Union (today integrated in a multi-sector industrial federation "IndustriAll"), it had managed to emerge as a social partner capable of demanding quality information on the strategic choices and to discuss their implementation. In that capacity, it had already negotiated a European framework agreement in 2010 in anticipation of the change pertaining to the developments in business segments (GPEC) and advice and support for restructuring operations – something that some of its members would consider, 5 years later, as an excellent dry run to initiate negotiations, during the acquisition by GE.

The EWC functioned rather well, had gradually acquired experience, got used to taking into consideration the major industrial stakes and the functioning of the value chain as a whole. It was also used to distributing and discussing information in the national organisations by involving the sites and their representatives in its activities in very open committees.

The EWC was thus not caught off-guard, and was able to get organised to defend the interests of employees at their various levels and according to the different fates that awaited them. To that end, it also relied on two expert organisations (Secafi in France and Institute in Germany). IndustriAll played a leading role in the discussions.

It managed to get GE (which did not even want to hear of it at first), to sign a framework agreement on employment and guarantees, which applied not only in France but in all countries (in Europe). The European Works Council ended up giving a favourable opinion on the acquisition by GE in December 2015, whereby the vote of the German representatives weighed in the balance. Some of its members considered that the EWC had also played a positive role in centralising and in discussing the strategic information prior to negotiations by country, thereby avoiding pitting the sites in competition against each other. It managed to get

GE (which did not even want to hear of it at first), to sign a framework agreement on employment and guarantees, which applied not only in France but in all countries (in Europe). It managed in any event to get GE to accept to set up an Interim Representative Structure (IRS) of former Alstom employees in GE, which supplemented the 4 representation bodies per line of business that existed in GE up to that time. Composed of very experienced people, this structure seems to play a key role in the discussion on the strategy and protection of the interests of workers in the new joint ventures.

The announcement by GE in January 2016 of a plan to cut 6 500 jobs (out of 35 000) in its energy branch in Europe, including 765 in France (out of 9 000) elicited a sharp response from the workers and their organisations. A major demonstration in front of the group's European headquarters at La Défense, conducted in April 2016 with the support of IndustriAll, stated the wish to have the strategy of the energy branch of the new group and its main options presented and discussed.

ANNEX

COMPARED SIZE OF THE 3 GROUPS CONCERNED BY THE ACQUISITION OF ALSTOM (IN 2016)

GE

300,000 employees throughout the world (including 12,000 in France).

Turnover: €105.9 billion

Net profit: 9.5 billion

SIEMENS

362,000 employees throughout the world (including 7,000 in France)

Turnover: €75.9 billion

Net profit: €4.4 billion

ALSTOM

92,000 employees throughout the world (including 18,000 in France)

Turnover: €20.2 billion

Net profit: €0.8 billion