

The Mittelstand opportunists

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Public pressure: protesters against Siemens' doing business Iran, before the company said it would not seek new contracts in the country.

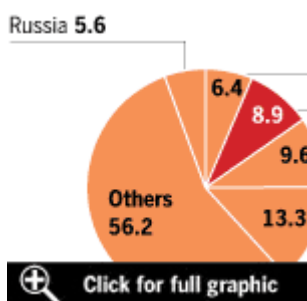
When asked about trading with Iran, some of Germany's media-shy Mittelstand managers give an unusually blunt answer. "The utilisation rate of my plant has gone down to less than 60 per cent. So it is a question of pure survival for me to accept every order I get," says the managing director and part-owner of one engineering company.

This approach is commonplace among the traditionally secretive, small and medium-sized mainly privately owned and family-run companies that form the backbone of the country's economy. But it contrasts sharply with the public remarks made recently by many heads of the country's large listed industrial groups.

Dieter Zetsche, chief executive of Daimler, the car and truck making group, this month announced that the company was cutting almost all of its ties to the country. "The policies of the current Iranian leadership have compelled us to put our business relationship with that country on a new footing," he said.

Daimler is merely the latest among a number of Germany's biggest industrial companies including Siemens, Munich Re and ThyssenKrupp to turn their back on Iran this year. Their sudden withdrawals – after decades of trading with the country – came amid the prospect of stricter sanctions on Iran's banking and energy sectors, intensifying pressure from the German government and a public backlash in the US, where many of them have substantial operations.

It is unclear if the prospect of stricter sanctions will become a reality, but large companies such as Siemens are presaging a stricter environment. "We had to expect sharper sanctions anyway so it did not make sense to sign contracts that cannot be fulfilled in the end," the manager of an industrial group said.



A senior executive at another company that stopped trading with Iran reveals another strong incentive: "Companies have to weigh how much business with Iran they do and how much with the US." Last year, for example, when Siemens lost a \$300m (€225m, £194m) tender for city trains in Los Angeles the city's mayor said one reason was its trading ties with Iran.

At the same time, the German government has in recent years pursued a "discouragement strategy", an unofficial attempt to keep companies from trading with the regime. Although the export of many goods to Iran is legal, the government has attempted to keep companies from trading with the regime through public pressure, private conversations with executives and by increasing the bureaucratic burden of doing business with the country.

In spite of this pressure, a number of small and medium-sized companies are taking advantage by gradually expanding on longstanding relationships with Iranian business and filling the gap left by the large companies. "Immediately after Siemens said they would withdraw, their Iranian business partners turned to us instead," says the manager of a supplier to the engineering group who refused to release his name so as not to compromise his relationship with Siemens.

As a result, Michael Tockus has been much sought-after in recent months. The managing director of Hamburg's German-Iranian trading association has been busy teaching managers from small and medium-sized German companies how to export to the Islamic Republic. They have been asking to participate in seminars on topics ranging from the country's cultural norms to the legal framework for channelling products to Iran via third countries. "In times of crisis, companies always look for new markets," he says.

And until stricter sanctions are implemented, the Mittelstand are unlikely to curb their business with Iran. "There are companies that have been doing business with Iran for 40 years – sometimes over two generations. This often goes beyond mere business ties, one could even call it friendships," Mr Tockus says.

One senior executive of a large company that is still trading with Iran agrees. "We have long established and in many cases deeply trustworthy relationships with Iranian business partners. You don't give that up easily," he says.

These words are backed by the economic statistics. Germany is Iran's biggest European trading partner, with €3.3bn in goods sold in the first 11 months of 2009, making it the third-largest exporter to the country after China and the United Arab Emirates.

In the heavily export-dependent engineering sector, the country is Germany's 26th largest trading partner. This might seem low but it underplays its relevance in some areas such as heavy machinery, where 5 per cent of total German production is sold to the Iranian market. Germany has also become a sort of spare parts room to Iran by supplying machinery and tools for its oil and gas business, steel and chemical products as well as electronic components and cars.

The statistics also mask the high volumes of trade that are not officially recorded. "This is only what has been reported voluntarily," explains Matthias Küntzel, a political scientist and author of a book on German-Iran relations. "The business of channelling goods to Iran via adjacent countries such as Dubai or shell companies in Italy and elsewhere is booming."

Indeed, according to Mr Tockus, the discouragement strategy has not made a big impression on the Mittelstand and he estimates that several thousand German companies do business with Iran. One reason is that organisations designed to facilitate export with Iran have been

trying to find ways round it. For instance, Iranian-owned banks such as the Europäisch-Iranische Handelsbank in Hamburg are free to support exports to Iran with loans, and one of the most important holding companies for Iran's foreign trade network, Ascotec, is situated in Germany.

"Large projects such as an oil refinery are almost impossible to finance because no bank wants to take the risk. But €3m-€5m accreditives are given by lots of small banks. And then there is also the Europäisch-Iranische Handelsbank that finances a large part of the business," the Mittelstand part-owner says.

Another reason why the Mittelstand are stepping in is that they have been particularly hard hit by the global economic crisis – much more so than sprawling conglomerates such as Siemens, which could easily outbalance a drop in some business areas. Orders in the engineering sector, Germany's heavily export-dependent economic backbone, which employs more than 900,000 people, dropped by almost a quarter to €178bn in the past year.

Also, the relative size of the trade with Iran is often higher at small companies that export to a much more limited number of countries than their larger rivals. For instance, Siemens' sales of €500m in Iran for the fiscal year of 2009 represents only 0.7 per cent of their total sales. "There are quite a few companies that have turned towards Iran because of the economic crisis," says an executive of a large German industrial association, who is offering similar seminars to Mr Tockus but wants to keep it secret.

Many of the Mittelstand companies are also anxious about losing market share. German engineering companies, for example, say that until they are forced to do so by the application of sanctions, they don't want to leave the field to the Chinese and South Korean competitors.

Mr Küntzel, however, turns this argument on its head, saying that German export companies have a large lever on Iran and could become a trigger for change if they were to withdraw. "Iranians have a very high opinion of German engineering," he says, "and many of their businessmen have studied in Germany. You cannot easily replace the German exports with Chinese products."

Fonte: Financial Times, London, Apr. 26th 2010, Management, online.