

## Subject to contract: German firms set own Brexit terms

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CHEMNITZ, Germany (Reuters) - With Brexit less than two months away, and no divorce deal in sight, some German companies are taking matters into their own hands to limit any damage to their businesses.



An employee of Kieselstein International GmbH, a maker of wire drawing machines, works at the company's factory in Chemnitz, Germany, January 30, 2019.  
REUTERS/Hannibal Hanschke

The small and mid-sized firms - albeit a small minority - say they can't wait any longer to see what agreement, if any, will emerge between London and Brussels. They are taking steps to protect themselves should a chaotic British withdrawal lead to traffic tailbacks, heavier customs bureaucracy and rising delivery costs after March 29, the planned break-up date.

Kieselstein International, a maker of metalworking machines, has for example successfully introduced a clause into a contract to deliver goods to British Steel that puts the onus on the UK firm to bear the costs of any extra red tape linked to Brexit.

“We included a clause that says if delivery takes place after March 29 the goods cannot be delivered to the buyer’s warehouse but are to be picked up in Chemnitz,” managing director Jens Kieselstein told Reuters, referring to the town in Saxony where his business is based.

Others are taking measures such as finding new suppliers in continental Europe, should imports from Britain become more costly, stockpiling parts, or rushing to complete British orders before March 29 to avoid any disruption.

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Such precautions are exceptions rather than the rule; among small and mid-sized companies - Germany’s so-called Mittelstand - 77 percent believe Brexit will not affect them, according to a survey by the BVMW trade association conducted in December.

“We still have no binding information and have therefore decided to accept new orders and process them normally in the hope that the situation will soon be resolved,” said Jakob Kania, managing director of Support Q, a consultancy firm for suppliers to the automotive industry.

Mittelstand businesses, some of which are big suppliers to Britain’s machinery and automotive sectors, are typically family-owned with up to 500 workers and annual revenues below 50 million euros. Many lack the resources for the detailed contingency planning carried out by corporate heavyweights.

Their fortunes are nonetheless crucial to Europe’s biggest economy, accounting for more than half of Germany’s jobs, a third of its corporate turnover, and almost a fifth of the nation’s exports - 7 percent of which went to Britain in 2017, worth about 84 billion euros (\$96 billion).

Mario Ohoven, president of the BVMW Mittelstand trade body, urged companies to check their contracts for Brexit risks, get to grips with customs procedures and visa formalities, and to consider switching to British haulage firms.

## ‘ORDERS NEAR STANDSTILL’

British politicians continue to quarrel over the terms of Britain’s exit from the EU, with parliament in deadlock. It is possible that Britain will leave without any deal to govern its trading relationship with the bloc - a scenario many businesses fear will bring chaos to the world’s fifth-biggest economy.

With no visibility about future customs arrangements, Kieselstein, whose firm employs 50 people and has an annual turnover of 8 million euros, told British Steel he may have to add German sales tax of 19 percent onto the bill after March 29.

Kieselstein isn't the only Mittelstand firm taking precautionary measures.

Zabag Security Engineering, a maker of high-tech security gates and bollards, said it is looking for a new supplier in the EU for the grid mats it currently imports from Britain to avoid any disruptions to its supply chain.

The company, which makes about 10-15 percent of its sales in Britain, predicts difficulties in sending spare parts to Britain if extra customs red tape is introduced, and said this would have a big impact on trade and flexibility.

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“The English market has always been a big part of our export business,” said a Zabag spokeswoman. “But the uncertainty of the English over Brexit has increasingly minimized the number of orders placed with us and almost come to a standstill.”

Slideshow (3 Images)

Joerg Daubner, managing director of DHD audio in Leipzig, which builds mixing consoles for radio and TV stations worldwide, said he was preparing to deliver a large order to Britain's BBC before March 29.

“The transition period will be critical so we want to avoid delivering during this time,” he told Reuters.

Even for firms taking precautionary measures, the ongoing uncertainty limits how much they can act.

Max Frank, a Bavarian producer of products to reinforce concrete buildings, has started stockpiling parts at its British subsidiary in Stoke-on-Trent to limit any delays from customs disruption.

“Our plan is to increase the stock of standard goods by roughly 10-20 percent from mid-February,” said Gerhard Bumes, who runs the subsidiary that employs 65 people.

U.S. tax cut has little impact on firms' investments

“However, we produce a lot of goods made-to-order which we can't stock. We hope not to have any delays in our imports, but unfortunately there is no defined political plan at the moment.”

## HOPING FOR THE BEST

Germany's VDMA engineering association warned on Wednesday that a no-deal Brexit was getting closer by the day, after the British parliament instructed Prime Minister Theresa May to renegotiate an exit treaty.

“Unfortunately even after the vote in the British lower house, there is no new hope of avoiding a disorderly Brexit,” said VDMA head Thilo Brodtmann.

Patrice Kaiser, a trade expert at Merkur Bank, said many companies had overlooked that border checks, blocked ports and major tailbacks would not just be a problem for those who import and export directly to Britain.

“If you import parts from Asia or China you should take a look at your supply routes because most of the imports up to now have been processed in Britain,” Kaiser warned executives at a Brexit seminar organized by the BVMW in Chemnitz last week.

The eastern state of Saxony is home to many Mittelstand companies, and Kaiser said the region’s dependence on the auto sector made firms particularly vulnerable to Brexit. Britain is the single largest export market for German automakers.

BVMW Chief Economist Hans-Juergen Voelz said many Mittelstand companies were simply hoping for the best.

“Many are not letting themselves be influenced by the images they see on TV of the British parliament and believe reason will prevail at the last moment.”