



Doing Business in Germany

An Overview

Germany is now the largest country in Europe following its reunification in 1990. Germany also has the largest population and the highest GNP in the European Union. By sheer size of the economy, it asserts great influence in the European market place.

Broadly the German automotive industry has been the key driver of the economy. The German automobile industry is recognised all over the country for excellent engineering expertise, therefore, it has emerged as the third largest producer of automobiles only next to United States and Japan. Germany is home to the major car maker such as Daimler Chrysler, Volkswagen and BMW.

Germany's chemical industry is also a significant global player. It is a key supplier of primary, intermediate and finished products for sectors such as health care, the automobile industry and the construction industry.

Germany is renowned for its design and engineering capabilities. The majority of its production plants are engaged in mechanical engineering, plant construction and, along with it exist very efficient small and medium-sized firms.

The energy groups E.ON and RWE, the chemical firms Hoechst, Bayer, BASF and the electrical equipment makers Siemens AG, the Bosch Group and Ruhrkohle AG are some of the internationally renowned German companies.

Many world-class trade fairs and exhibitions, Hannover, Auto-mechanika and CEBIT, are also held in Germany.

Germany has not enjoyed the best of time in terms of economic growth in recent years. It has been plagued by weak economic growth, though sometimes a rebound has been witnessed however not sustained in the medium term. The main reasons attributed to such economic malaise, often, by many experts is the lack of reforms and also the transfer of economic ills and burden of former eastern Germany.

Facts & Figures of Germany

Full country name	: Federal Republic of Germany
Capital city	: Berlin
Area	: 357,021 sq. km.
Population	: 82,600,000
People	: Predominantly Caucasians, with a significant Turkish minority. Germany has also absorbed many refugees from the former Yugoslavia and many other countries.

Language	: German
Religion	: 34% Protestant, 34% Catholic, 4% Muslim, 28% unaffiliated or other. There are about 74,000 Jews.
Government	: Federal Republic
Head of State	: President Mr. Horst Köhler
Head of Government	: Chancellor Mrs. Angela Merkel

Political Climate

Germany is a parliamentary democracy with a directly elected lower house (Bundestag) and an upper house (Bundesrat) made up of state government representatives.

The country is a federation of 16 states (Länder). The states all have their own constitution, government and independent courts, while the federal parliament retains the responsibility for major legislation change.

Major Exports

Cars and trucks, machines, chemical products, communications technology and radios, electricity production apparatus, iron and steel products, medical, measurement and control engineering.

Major Imports

Chemical products, cars and trucks, machines, communications technology and radios, oil and gas, office machinery.

Major Industries

Automobile manufacturing, machinery, electronics equipment, transportation equipment and chemicals.

Major Trading Partners

France, United States, United Kingdom, Italy, Netherlands, Austria, Belgium, Spain.

Major Investors

Netherlands, United Kingdom, Belgium, Ireland, Spain, Luxemburg, Sweden.

GDP : German real GDP growth in 2004 was 1.6% and the expected growth of GDP in 2005 would be 0.8%.

GDP/head (USD at PPP) : 27,136

Currency : Euros



Indicators and figures of Germany

	2004	2005	2006	2007	2008	2009
Population (m)	82.6	82.7	82.7	82.8	82.9	83.0
GDP (US\$ bn at market exchange rates)	2,705.4	3,059.3	3,185.7	3,145.2	3,093.3	3,064.7
GDP per head (US\$ at market exchange rates)	32,757	37,012	38,506	37,979	37,312	36,925
GDP (US\$ bn at PPP)	2,241.2	2,321.8	2,428.6	2,534.5	2,640.1	2,746.9
GDP per head (US\$ at PPP)	27,136	28,090	29,355	30,605	31,846	33,096
Personal disposable income (US\$ bn)	1,725.0	1,935.5	1,993.3	1,972.9	1,944.1	1,932.9
Median household income (US\$)	37,911	42,342	43,420	42,794	41,994	41,638
Household consumption (US\$ bn)	1,568.1	1,763.3	1,821.9	1,803.3	1,776.9	1,768.6
Household consumption per head (US\$)	18,990	21,330	22,020	21,780	21,430	21,310
Exports of goods & services (% change)	8.2	3.5	4.1	4.1	4.2	4.3
Imports of goods & services (% change)	5.7	3.2	3.9	4.2	4.3	4.9

Climate

Germany is situated in the moderately cool west wind zone between the Atlantic Ocean and the continental climate in the east. Sharp changes in temperature are rare. In winter, the average temperature is between 1.5°C in lowland areas and -6°C in the mountains. In the warmest month of the year, July, temperatures are between 18°C in low-lying regions and 20°C in the sheltered valleys of the south.

Time Difference

India is behind by three and half hours in summer and in winter by 4 and half hours.

Germany is in the Central European Time Zone (CET). CET is 1 hour ahead of Greenwich Mean Time (GMT+1). Like most states in Europe, Germany observes daylight-saving in summer, where the time is shifted forward by 1 hour or 2 hours ahead of Greenwich Mean Time (GMT+2). After the summer months, the time in Germany is shifted back by 1 hour to Central European Time (CET) or (GMT+1).

Setting up Business

In Germany, investment by foreign nationals is not covered by any specific investment legislation. There is also no distinction between investments made by foreigners and by German citizens.

The types of business entities available are :

- Sole proprietorship
- Limited liability company (GmbH)
- Joint stock company (AG)
- Partnership
- Branch
- Joint venture

While a sole proprietorship is one of the simplest ways for individuals to start and operate a business in Germany, the owner is also liable for all debts arising from the business. One advantage is that the business is not subject to corporate tax, although the sole proprietor needs to pay personal income tax.

Establishment of a sole proprietorship requires basically 2 steps : registration in the commercial register and a notification to the local trade office.

In practice, however, foreign investors prefer to incorporate a company, enter into a partnership or set up a branch or joint venture.

Establishment of a Corporation

There are two main business structures for incorporation under German Law, namely the Limited Stock Company (GmbH) and the Joint Stock Company (AG). The two types of corporations are described in detail below, together with their respective governing criteria and procedures for registration.

GmbH

By far the most popular legal form for business in Germany, the GmbH is favoured largely by small and medium sized companies. It is covered by the GmbH Law.

The popularity of the GmbH stems from its relative simplicity and full liability protection of shareholders. The by laws of a GmbH are more flexible compared to that of a Joint Stock Company (AG) and can be adapted to shareholder requirements. The liability of a GmbH is up to the value of its assets, including its share capital.

As a closely-held entity, the GmbH affords greater control by shareholders and is subjected to fewer regulations. A GmbH must have at least one shareholder. Its shareholders can be in various forms, be it a foreign individual, partnership or another corporation.

There are basically two steps in the establishment of a GmbH :

1. An agreement must be drawn up between shareholders and notarized. This would require deed formation with the company's bylaws. This would state the company's purpose, name, registered office and share capital and secondly the
2. Registration in the register of companies : the name must be connected to a shareholder's name or to the company purpose. It should also end with limited liability.



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In terms of management, a GmbH requires only at least one Managing Director appointed by shareholders. The Managing Director need not be a shareholder nor a German citizen or resident.

Joint Stock Company (AG)

In contrast with the GmbH, AG is another form which is most commonly used by larger corporations and listed firms in Germany. An AG allows for the transfer of shares and hence listing on a stock exchange. Being a publicly-held company also means there is more legislative requirements that an AG must abide by.

The liability of an AG is limited to the value of its assets including its share capital, which must be at least Euro 50,000. This is raised by issuing of shares. There must also be a minimum of 5 incorporators.

Establishment of an AG requires the notarization of the Articles of Association and registration in the Commercial Register. Similar to a GmbH, an AG's name is usually related to its company purpose. Its name must bear the words (AG) (joint stock company) at the end.

It is mandatory that an AG appoint a supervisory board, which in turn appoint a management board. This management board has to be independent from shareholders and the supervisory board.

Other Modes of Market Entry

Besides corporations, foreign investors can also choose to invest in Germany through :

- general or limited partnerships
- branches or
- Joint ventures
- general partnership (OHG)

In Germany, a general partnership (OHG) requires a minimum of two partners. These partners can be individuals or incorporated entities. In a general partnership, each partner has unlimited liability to the debts arising from the business. In practice therefore, this is not very common among foreign investors.

Limited Partnership (KG)

The key distinguishing factor of a limited partnership (KG) from a general partnership is that only general partners are fully liable for the debts of the company, while limited partners are liable up to their contribution amount. Partners of a KG can be an individual or a corporate legal entity. Only general partners can manage and represent a KG.

In Germany, firms operating in the small-craft industry cannot take the form of a limited partnership. The net annual sales limits for those operating in the food retailing business is Euro 600,000 while that for general dealers and others is Euro 400,000.

Branch

It is relatively simple to set up a branch in Germany, requiring only registration in the commercial register and at the municipality trade office where the branch is to be located. A branch is deemed to be dependent on the foreign parent company and is

not a legal entity in Germany. It is treated also as a permanent establishment for tax purposes. The parent company is fully liable for debts arising from the branch.

A subsidiary, unlike a branch, is deemed to be independent from the parent company. This is confirmed usually by its own management, accounting system and business assets. Like a branch, it is not a legal entity. Establishment of a subsidiary requires registration in the Companies Register.

Joint Venture

Joint ventures are highly common in Europe and are not governed by any particular legislation. Joint ventures can be formed between foreign and domestic partners, with no maximum shareholding restrictions. Incorporation requires only an entry in the Commercial Register via a notarized Charter.

Business Environment

Common Business Etiquette/Business Practices

Office opening hours in Germany : The normal week is from Monday to Friday and offices normally open from 9.00 am - 5.00 pm but around 2.00 pm is a common closing time on Friday afternoons. Some government offices may provide full service from 9.00 am to midday.

Shops are open from 9.00 am-6.00 pm, or some until 8.00 pm. Shops close on Saturday at 2.00 pm or 4.00 pm and on Sunday most of the shops are closed.

Business Practices

Business practices are very formal :

- Dress code are very formal. Wearing of suit and tie for meetings is very common and everyone is expected one. First name are not used and most common form of addressing anyone is by use of surname.
- Respecting seniority/hierarchy is strictly followed.
- English is widely spoken in business circles, but courtesy demands that the German counterparts are asked as to whether the meeting can be conducted in English.
- If invited to dinner even casual dress' means a jacket and tie.
- Be well prepared for business meeting because generally Germans do not like wasting time. It is advisable to carry your own CV, business profile, product literature for meetings.
- Punctuality is extremely important. Most meetings start at the scheduled time. This is very important as late arrival to meetings are looked upon negatively. If late for meeting please give advance notice.
- During Christmas most of the businesses are closed from 23 December until the end of first week of January.

Taxation

Levels of income tax are high and a Value Added Tax (VAT) applies in Germany - the general rate is 16 per cent and the reduced rate, which applies to a limited range of goods, mainly primary products, is seven per cent. Excise Duties are levied on a small range of items.



Reforms in 2000 saw company tax reduced from 52 per cent to 37 per cent. Further government implemented taxation reforms from 1 January, 2001 have led to a more competitive structure, with a entire roll-out to be completed by 2006/7.

In compliance with the CAP of the EU, import levies can be imposed in addition to the Customs Duties on grains, meat, dairy produce, sugar products and eggs to bring their subsequent pricing as imported goods up to pre-determined minimum levels.

Finance

Frankfurt is Europe's second biggest financial centre after London and home of the European Central Bank. Germany's major private banks are Deutsche Bank, Dresdner Bank and Commerzbank.

There are no restrictions or barriers on the movement of capital, foreign exchange earnings or dividends. Germany has a non-discriminatory, well-developed financial services infrastructure with more than 45,000 banking offices throughout the country.

The universal banking system allows these offices to trade in securities as well as taking deposits and making loans to customers. The traditional German system of cross-shareholding among banks and industry are very extensive and this has led to German banks and financial bodies having great influence on trade, commerce and industry.

Investment

There are no specific investment laws in Germany and foreign investors are treated at the same level as the German investors. The individual states and major cities encourage investment by cutting through red tape and providing a mix of financial incentives to local and foreign investors. This is particularly the case in the former East and in targeted sectors such as automotive, IT and biotechnology.

Foreign Trade

Germany is one of the world's largest trading nations, It has an export oriented economy which is also helped by a most competitive import regime. Germany is a champion of Free Trade and traditionally advocated freer trading regime at multilateral bodies.

Germany's trading partners are countries in the EU, the US, and Japan. Recently China has emerged as an a very important trading country for Germany both for its export as well as import.

Germany's Annual Trade of Commodities

The import and export of commodities are given below and out of this the import of engineering goods into Germany represents a sizeable amounts :

Imports and exports (special trade) by division of the national Product Classification for Production Statistics 2004¹

<i>Value in EUR mn</i>			
<i>Division</i>	<i>Commodity description</i>	<i>Import</i>	<i>Export</i>
01	Agricultural products, hunting products	14 547	4 213
02	Forestry products	388	359
05	Fish and fishing products	377	150

<i>Division</i>	<i>Commodity description</i>	<i>Import</i>	<i>Export</i>
10	Coal and lignite	1 706	199
11	Crude petroleum and natural gas	39 241	4 209
12	Uranium and thorium ores	-	-
13	Metal ores	2 999	69
14	Stones, sand and clay, minerals, salt, other mining products	1 099	935
15	Food products and beverages	27 141	25 949
16	Tobacco products	753	1 792
17	Textiles	11 750	11 066
18	Wearing apparel, products of dressing and dyeing of fur	15 912	7 598
19	Leather, luggage, saddlery, harness and footwear	5 748	3 006
20	Wood and products of wood and cork, straw and plaiting materials (excl. furniture)	4 099	4 744
21	Pulp, paper and paper products	12 128	14 618
22	Publishing and printing products	2 103	4 470
23	Coke, refined petroleum products and nuclear fuel	11 333	8 258
24	Chemicals and chemical products	63 483	94 696
25	Rubber and plastic products	13 938	23 875
26	Other non-metallic mineral products (glass, ceramics, bricks, tiles, cement, lime, plaster, concrete, stone products, etc.)	5 968	9 265
27	Basic metals	31 387	35 645
28	Fabricated metal products, except machinery and equipment	12 697	22 140
29	Machinery and equipment N.E.C.	38 784	102 526
30	Office machinery and computers	27 797	21 598
31	Electrical machinery and apparatus N.E.C.	24 590	36 116
32	Radio, television and communication equipment and apparatus, electronic components	37 746	36 238
33	Medical, precision and optical instruments, watches and clocks	16 089	29 526
34	Motor vehicles, trailers and semi-trailers	59 585	134 914
35	Other transport equipment	22 046	25 365
36	Furniture and products N.E.C. (jewellery, musical instruments, sports goods, games and toys, etc.)	13 258	12 122
40	Electricity, gas, steam and hot water	800	1 062
98	Other goods	57 883	56 731
Total		577 375	733 456

¹ provisional data

(To be continued at next issue)

(Source : EEPC Duesseldorf Office)