

German Companies Start to Feel the Pain of Russia Crisis

By [The Moscow Times](#)

August 10, 2014

The  Moscow Times

BERLIN — Companies in Germany, Russia's biggest trade partner in the European Union, are starting to feel the pain of a deepening standoff between the West and Moscow, with firms from defense to car manufacturing warning about a hit to business.

Germany sold about 36 billion euros (\$48 billion) of goods to Russia last year, almost a third of the EU's total, and some 6,200 German firms are active there with 20 billion euros of investment.

But despite active lobbying by German industry, Chancellor Angela Merkel has backed a hard line with Moscow, supporting the imposition of tougher economic sanctions by the EU after the downing of an airliner last month over an area of eastern Ukraine controlled by pro-Russian rebels.

The European Central Bank warned on Thursday that the conflict in Ukraine poses a serious

risk to the euro zone's economy.

It is too soon for the impact of the sanctions on Germany to appear in economic data. But companies from a range of sectors reporting financial results in the last few days have shown how the crisis is already hurting their profits and warned of worse to come if the situation deteriorates.

German defense firm Rheinmetall last week cut its profit outlook for the year and said it would seek compensation after Germany withdrew an export license for combat simulation equipment destined for Russia, a move which goes beyond EU sanctions blocking future defense contracts.

The sanctions were imposed on Russia's defense, oil and financial sectors over its support for rebels waging an insurrection in east Ukraine.

Fraport, the operator of Frankfurt airport, warned there could be a significant impact on its stake in St. Petersburg airport if Russia retaliated with direct sanctions against German investors.

Generic drugmaker Stada, which gets around 16 percent of its sales from Russia, said profits stagnated, hurt by lower sales in Russia and a decline in the ruble currency.

Stada CEO Hartmut Retzlaff said demand for "lifestyle" products, such as generic Viagra as well as a herbal potency treatment called Vuka-Vuka, was down.

"Russian households are focusing on basic products for their everyday needs," he said.

Spending Power

Some 300,000 jobs in Germany depend on trade with Russia, its 11th biggest commercial partner, according to Germany's Committee on Eastern European Economic Relations, which represents business in Russia, eastern Europe and central Asia.

Russia responded to the tougher sanctions on Thursday by saying it would ban food imports from countries that had imposed them, including the United States, the EU, Australia, Canada and Norway.

Germany's economy ministry said it was looking at the restrictions, their effect on companies and whether any action needed to be taken.

Economic sanctions will likely hurt the spending power of Russian consumers, crimping sales at German companies like Adidas and Volkswagen, which are already feeling the pain.

Adidas, which warned about lower profits last week, is scaling back its store expansion plans in Russia because of risks to consumer sentiment and spending as a result of the Ukraine crisis.

VW's Audi luxury-car division said Thursday that sales in Russia slid 12 percent in July.

Tatiana Hristova, analyst at market research firm IHS Automotive, estimated that Russia's

passenger car market could plunge by as much as a fifth this year as the impact of sanctions filters through to hurt demand. Russian auto sales declined 5 percent in 2013.

Threats by Russia to close its airspace to European airlines flying over on their way to Asia could hurt German air travel firms, including Lufthansa, Europe's largest airline by revenue.

For Fraport, such a ban would mean fewer high-spending Asian passengers flying through Frankfurt.

Mittelstand Uncertainty

As Russia announced its import ban, the German Chamber of Industry and Commerce said the possible effects of tighter sanctions were causing uncertainty amongst companies, especially the Mittelstand — the small to medium-sized firms central to the country's economy.

That view was echoed by Anton Boerner, head of the BGA trade association that represents around 120,000 wholesalers, exporters and service providers. He said firms were already investing less and placing fewer orders due to the crisis.

Tobias Baumann, head of the Chamber's Russian department, estimates that German exports to Russia could fall by 20 percent this year, with engineering firms being hit the hardest.

Christian Schulz, senior economist at Berenberg Bank, said shipments to Russia accounted for around 1.4 percent of German gross domestic product in 2012/2013 on average so a 20 percent drop in exports to Russia would shave around 0.2–0.3 percentage points off growth.

"That's sizable but it's not something that would throw the German economy back into recession," he said.

See also:

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