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Business development in or with Germany: incentives, joint ventures, access to capital

Market Report

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Prepared by the New Zealand Embassy Berlin, in consultation with NZTE Berlin

Summary

- Beyond being a market for New Zealand products and services, businesses may want to consider Germany as a business site location, a source of industry partners or of venture capital. Here is an introduction to incentive schemes, joint ventures and capital providers on offer in Germany.

Report

Germany is the 4th largest economy in the world and New Zealand's top market in the European Union (EU). Some businesses may be looking beyond exporting from New Zealand or establishing sales/servicing capacities in Germany. They might consider establishing additional production or research and development (R&D) capacity here, partnering with a German company, or looking for capital (see here for information on how to set up a branch office or subsidiary, and here for an earlier report on warehousing in Germany). This report provides some initial reference points on these topics.

Investing in production or R&D facilities in Germany – incentives

Germany is very open to foreign greenfield investment (see here for information on screening of sought acquisitions). Investment cost for the setup of business facilities in Germany by (both domestic or foreign) companies can be significantly reduced by applying for grants under Germany's GRW regional development programme. ('GRW' is short for Gemeinschaftsaufgabe which translates in English to the 'Joint Task for Improving Regional Economic Structures').

While investment in Germany's more competitive regions in southern and central Germany would not be eligible, investors opting for a less developed region can claim up to 45% of their investment cost for infrastructure, machinery, and initial wage costs. Recent prominent examples include major investments by Tesla and Intel. New funding rates and an updated "incentives map" have been in place since 1 January and will be in place until 2027. The Federal Government is considering the prioritisation of carbon-neutrality, digitalisation, innovation and productivity.

Other incentives relevant to foreign direct investment in Germany – in principle available across the country – include government support for (a) commercialisation-oriented R&D projects (for example in the form of grants or interest-reduced loans, to help fund personnel expenditure and possibly instruments and equipment); (b) recruitment, training and under certain conditions even the payment of staff; and (c) through public loans (in particular targeting small and medium-sized businesses), usually at below current market value interest rates and with generous grace periods, and/or public guarantees. Germany does not offer tax incentives (although tax credits are available for R&D activities), and investors need to be aware that the level of corporate taxation is relatively high. Germany's trade and investment agency GTAI offers further information and consultancy here.

Partnering with a German business – joint ventures (JV)

JVs are very common in Germany, in particular equity JVs and contractual JVs. Equity JVs feature the setup of an autonomous JV entity (most commonly a German limited liability company – GmbH), with full participation in risks and joint management responsibilities by the JV partners. Merely contractual JVs are based on an agreement setting out the terms of cooperation, regarding risk allocation, liability and participation in profits. Generally, there are no specific German rules for JVs and their foreign parties, with regards to intellectual property protection, taxation, labour law or investment screening. General legal advice on entering JVs in Germany is made available online by various international law firms, who also offer to support and design purpose-specific JVs. NZTE and the German-New Zealand Chamber of

Commerce (GNZCC) can help with finding potential partners.

Access to German money: angel investors, venture capital (VC), private equity (PE)

Overall, Germany's own strong industry and rapidly growing start-up scene already present ample opportunities for German VC and PE to invest (for authoritative data on VC/PE activity in Germany and Europe see here). Available capital is growing, and so there may be interest in opportunities elsewhere and diversification more broadly. There are various options for tapping into German capital:

- Angel investors (called 'Business Angels' in Germany) are an important financing source in early (pre-seed and seed) stages, with about a third of German start-ups reporting angel investments. Since BAs want to engage actively, they often have a preference for geographic proximity. For further information and initial contacts, refer to the German Business Angel Network here.
- German VC (including corporate VC - CVC) activity has been growing significantly in recent years, both in frequency and deal size. Usually coming in at a later stage, German VCs have a particular focus on understanding the company, technology and business model and prioritise hard data over story-telling. Crowd investing has become an alternative to more traditional VC, generating funds through subordinated loans, automised participation rights, shares or digital securities. A number of funding programmes for seed or later stages also exist, but access is limited to German start-ups (although a pan-European scale-up funding initiative is now also in the making – ETCI). Of interest to more established businesses, German PE has been playing catch-up relative to the size of Germany's economy. For further research, the German Private Equity and Venture Capital Association (BVK) provides a membership directory and a search filter for finding suitable German VC or PE providers (German only). See here for advice from NZTE on raising growth capital.

What else to consider: free trade agreements (FTAs) and double taxation agreements (DTAs)

Germany and New Zealand are currently trading on World Trade Organization terms, but negotiations between the EU and New Zealand on an FTA are underway (see here for details). Businesses in Germany benefit from the EU single market (which extends to Iceland, Liechtenstein, and Norway) and from the EU's FTAs (see here for a full overview). New Zealand and Germany have long had a DTA to ensure that cross-border activities are not taxed more than once (see here for the full text).

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