

Time for ACTION



ERNST BODE

EXECUTIVE DIRECTOR OF MESSER
TEHNOGAS

The time has come for big words to give way to serious work by professional people willing to resolve the “Bermuda triangles” of the Serbian economic system. Along with the bold measures that have been taken in the last few months, adopting this approach could bring higher economic development, higher employment and higher income in three to six years’ time

Ernst Bode, Executive Director of Messer Tehnogas and one of the longest resident foreign businessmen in Serbia, can discern the slightest shifts in the Serbian industry based on his company’s results. Although this gauge has been showing a three-year standstill in the Serbian economy, Bode has noticed a few encouraging signs. Apart from the passing of the Labour Law and the announced adoption of the Spatial Planning and Construction Law, he has noticed that the government is now more willing to listen to the suggestions made by business people and foreign investors, and to view them as a constructive contribution that should lead to substantial changes in a complex, congested and inefficient economic and financial system in Serbia.

■ **How serious is the Serbian recession from your company’s standpoint?**

- We are a company that manufactures and sells technical and medical gases and relevant equipment, as well as cutting and welding equipment. Our clients come from all sorts of industries, so gas sales have always been an excellent indicator of the health of the country’s economy. In 2013 our sales figures dropped compared to 2012 and, unfortunately, 2014 has not brought major changes so far. On the contrary. The country’s economy is still at a standstill and foreign investments are not sufficient enough to carry out the deep-rooted changes that are vital to making major headway.

■ **When devising the company’s 2015 business plan, did Messer take into consideration announcements that the Smederevo Steelworks and RTB Bor will finally gain strategic partners?**

- We did not base our plans on announcements that the Smederevo Steelworks and Bor are possibly getting strategic partners, but we accepted the premise that the two companies will continue to

operate in 2015 and that the steelworks will even perform better than before. We are feeling quite optimistic about the government's steps. I have a feeling that they finally understand how important industry and these large systems are for cities, regions and the entire Serbian economy. The Smederevo Steelworks alone provides a significant share in the country's GDP.

■ Of all foreign investors in Serbia, you are one of the best judges of the country's business environment. Could you draw a parallel between the macroeconomic challenges facing Serbia today and their impact on operations, and the period from 2000 onwards?

- Most German companies that do business in Serbia would be willing to invest here again. Serbia has a lot of development potential, but quite a few years have been wasted merely talking, while wise and concrete measures aimed at resolving problems have been implemented too slowly. The system should have started to function already, instead of always relying on the exceptional results of individuals. Many big speeches have been given and many big words wasted, but now is the time for people with experience, knowledge and will to finally do something about this "Bermuda triangle" that is an administrative abyss based on sometimes absurdly obsolete regulation; the court system where honest citizens have to fight tooth and nail for their rights, while the dishonest are privileged; and where the banking system is not engaged in its primary activity of providing funding for working capital and investments, but is encumbering businesses with unbearable fees and interest rates. Resolving these issues, along with the bold measures undertaken in the last few months, will definitely yield positive results like economic development, lower unemployment, higher income, lower budget deficit and other measures in three to six years' time.

■ In the last two years, which segments have recorded progress in terms of an improved business environment in Serbia and which segments should be improved further?

- I am happy to see that this government has at least tried to start cutting regulation and shortening administrative procedures. The situation has changed for the better in terms of bylaws' compliance with relevant laws. However, a lot still needs to be done in this respect, in order to create a healthy and efficient business environment.

I think a big step forward was taken, to the benefit of existing and future investors, with the passing of the new Labour Law, which eases hiring and, in turn, makes it easier to find required experts. The announcements made by Minister Zorana Mihajlović about the government expediting procedures regarding the issu-

ing of building permits will also be an added incentive for foreign and domestic investors.

■ Do you think this government pays more attention to the remarks of domestic and foreign business associations and does it take their initiatives on board?

- I get the impression that this government at least wants to cooperate with business people, to hear them out and take into consideration their experiences, when writing and adopting new regulation. For the most part, Serbian ministries view our recommendations not as a critique of their work, but rather as an opportunity to make things easier for businesses and, by so doing, provide more opportunities for new and existing investors, which certainly contributes to accelerating Serbia's development.

■ Considering your vast experience of working in Serbia, what would you recommend to potential foreign investors seeking to establish a successful business here?

- Serbia has educated, diligent, innovative and creative people who want to participate in the country's technological development. I believe it is important for foreign investors to be aware that things here are very different than in their countries, especially if they are coming from Western Europe or the U.S.; that they should exercise patience here and that, just like anywhere else, they should double check all the information they receive. Many problems and headaches can also be avoided if you hire a good law firm from the very beginning.

■ How much of an impact does reduced consumer spending power have on the operating dynamics of food producers and supermarkets in Serbia, in terms of the volume of cooperation that Messer has with this group of gas consumers?

- The food industry is important for us and, with the increasing quality of food and the extending of expiry dates, our gases will be more in demand. Moving

towards Europe and complying with European food standards will probably increase the volume of work we do with this group of clients, and even more in the case of the environmental protection sector.

■ What, if anything, does Messer expect from the final resolution of the problem with companies undergoing restructuring, considering that many of them owe money to Messer?

- The restructuring process is dramatic and painful for both companies and their employees. It is also risky and something that nobody wants to face. On the other hand, restructuring brings opportunity. However, the process is inevitable and we hope the



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post-restructuring situation will be much better. Easy and pleasant restructuring, with everybody involved and happy with the outcome, does not exist.

■ **In developed countries it is recycling processes and the electronic and chemical industries that are the biggest consumers of industrial gases. Do you expect the same to happen in Serbia?**

- If we are talking about the environmental protection industry, as well as the water and air quality industry, the consumption of gases will grow as Serbia approaches EU membership and complies with European regulations. The discontinuation of the South Stream project has a negative impact on the petrochemical and chemical industries and this is bad for Serbia, regardless of who is it to blame for the project being abandoned. If Europe or Russia were really adamant on continuing the project, they would have done so. It is quite obvious that there is a dynamic in place that defies rational economic reasoning and countries like Bulgaria and Serbia are just collateral damage. This certainly cannot be good for our industry, since competitive electricity, oil and natural gas prices are prerequisites for industrial development, especially in cases where natural gas is used as a raw material. I saw the South Stream as an excellent opportunity for development of this part of Europe. It is such a pity that the project is probably not going to materialise.

■ **Do you have any immediate plans with regard to continuing investments in the expansion of the company's capacity?**

- After completing a huge €20 million investment in Bor, which was spent on building an air separation plant that supplies new smelting facilities, and a €3.5 million investment in a helium bottling plant in Pančevo (we will have invested almost five million euros by the end of the investment phase), Messer has rounded off its production programme. As such, no, we don't have any plans for major investments in the near future.

■ **Messer Cutting Systems manufactures CNC precision cutting machines. Is there much of a market in Serbia for this type of machinery?**

- Generally speaking, metal processing equipment in Serbia is very old and its average age spans from 20 to 40 years. One of the prerequisites for technological development is increasing competitiveness of our metal processing industry, which is tied closely to acquiring new metal cutting machines. Such equipment is quite expensive and requires a qualified workforce to handle it.

In all former Yugoslav republics the metal processing industry relied on machines manufactured in Western Europe with an emphasis on Messer's cutting machines, produced in the Federal Republic of Germany during the 1970s and 1980s. The modern Messer machines have been present on the Serbian market for over 10 years now and they are deployed with major consumers of technical gases. With faster industrial development in Serbia in the near future, our machines will become even more applicable in our clients' facilities. I would also like to underline the implementation of welding robots in industrial production, which

require precisely cut parts in order to ensure the repeatability of operations. All Messer machines are known for such high quality.

■ **In 2013 and 2014, huge changes impacted on the operations of large, privately-owned Serbian companies that are also Messer clients. These included, for instance, the Car Battery Plant in Sombor. Do you think creditors in Serbia enjoy enough protection?**

- It is always up to suppliers to decide whether they are going to sell to their buyers or not and, if they do, under which conditions, or they will stop the supply all together. In a difficult economic situation like the current one, suppliers often have to compromise when it comes to sales and to make a decision to stop supplying non-paying clients. It is not the state's job to protect companies from making mistakes. Still, considering a very complex administration and very low judicial efficiency, I think creditors in Serbia face more difficulties compared to their counterparts in other countries.

■ **You attracted a lot of attention when you decided not to choose EPS as your official power supplier. Do you think that you have made a good decision and how much has this decision influenced Messer's business results in 2014?**

- In 2013 we faced an unplanned and drastic increase in the electricity price of almost 70%. This price jump was applicable to 27 high-voltage electricity consumers, including us and the Smederevo Steelworks. Although we did have an opportunity to buy electricity from another supplier, unlike another 26 companies, we still paid 50% more for the electricity we bought and this did have an impact on our business in 2013 and 2014. We took a risk and became the first company in Serbia to choose a power supplier other than EPS. Our choice was Gen-I, a power trader that gave us a better price. The decision was right and Gen-I proved to be a fair, competent and flexible partner. However, in 2015 we are going to revert back to EPS for electricity supply, since their price is quite realistic for now. ■



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