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Iran and Krupp – a Model?

The news that Iran is taking a stake in the Fried. Krupp Hüttenwerke AG is of symbolic significance in that this is the first instance of a major oil producing country acquiring a financial interest in a renowned industrial combine in the West. After what happened earlier it should not however be sensationalised: a joint planning and engineering firm had already been set up at the German-Iranian investment conference in Teheran in late April with the object of building cement works and sugar factories and carrying out harbour extensions, and it was also arranged at the time with an Iranian bank to examine the establishment of a special steels industry. Fried. Krupp Hüttenwerke was leading the German group for this scheme.

Under the preliminary agreement signed in Teheran on July 12, 1974, Iran is acquiring a 25.04 p.c. interest in the equity capital of Fried. Krupp Hüttenwerke AG which is at present 95 p.c.-controlled by Fried. Krupp GmbH. This arrangement seems to be a compromise: an equity interest in Fried. Krupp GmbH, which has overall control over the Krupp combine, would probably have been more to Iran's liking as it would thereby secure a direct influence not only on the steel sector but on all other spheres in which Krupp is active – plant equipment, steel construction, mechanical engineering and shipbuilding. Such a solution however would have been contrary to the Krupp testament which stipulates that the enterprise is to be conserved as an entity. The Iranians were therefore given a seat on the supervisory board at the top of the combine as well as in the steel company but their financial interest was confined to the latter. Iran has of course a special interest in access to Krupp Hüttenwerke experience for setting up its own steel industry.

Economically it makes good sense that Krupp has responded to the repeated appeals for German-Iranian industrial cooperation by the Shah. Each of the two cooperating partners can offer the other something he is short of – Iran has the capital and Krupp the know-how growing out of industrial experience. Furthermore, the cooperation with Krupp in particular has great prestige value for the Iranians. The financial difficulties in which the group was caught up in 1967/68 have

long been forgotten. Krupp still enjoys its excellent reputation in the Third World as the industrial enterprise with the greatest tradition in Germany.

The Federal Government has adjudged the agreement to be a "model of limited general applicability". Two conjectures are dismissed as unwarranted: there were no grounds for euphoria about an influx of vast sums of oil money; the total likely to flow back would keep within limits even though the Krupp agreement would not remain an isolated case. And a "sell-out" of the German economy was out of the question: the scope for further participation deals on the Krupp model was limited, it is being argued, because few other countries offer such almost ideal conditions for German enterprises seeking a financial interest as Iran where a fairly high level of industrialisation has already been achieved and a substantial manpower potential is available. The arrangement may thus provide a model for countries in a similar situation. In Saudi Arabia and other countries with abundant oil but sparse populations however the infrastructure is far from allowing large-scale industrial cooperation.

In other circles however the agreement is regarded as "a good step towards a solution of the problem of the reinvestment of the oil dollars". An event which has so far attracted less public attention but has especial relevance to the recycling of the dollar billions flowing into the coffers of the oil countries is the creation of a joint investment company in Zürich. Through this company the Krupp combine will in future channel its foreign investments and acquisitions which are of interest to itself and Iran. This investment company will be very useful for participation by developing countries without an industrial basis. It can therefore be regarded as a model which shows how in future balances of payments can be levelled and prosperity be spread more evenly through the world: it is possible in this way for developing countries with above-average opportunities for industrialisation – such as Iran – in cooperation with industrialised countries without balance of payments problems – like Germany – to put capital and technical experience at the service of third countries. A solution could possibly thus be found for the troublesome recycling problem.

Hubert Höping