

Siemens Business Surges in Iran

Company Weighs Its Contracts against Risks of Working in a Sanctioned State

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[Video \(Siemens & Trade Sanctions\)](#)

BERLIN — A year after German engineering giant Siemens AG pledged to retreat from Iran under international pressure, it is grappling with a thorny problem: a big jump in revenue in the Islamic republic.

Siemens has kept a promise not to pursue new projects in Iran. But its existing contracts there underscore how international efforts to curb Tehran's nuclear ambitions have had only limited impact on the state's ability to draw on the technology and expertise it needs to maintain its broader

In an interview with WSJ's Jon Hilsenrath, Siemens CEO Peter Loscher discusses his company's business presence in Iran, saying that the company is refraining from any new business and is complying with all international sanctions.

The company's Iranian business also shows how Tehran depends on a powerful tool to maintain its commercial ties to foreign companies. The rules that govern international commerce make it tough for Siemens to sever ties with Iran even if it wanted to.

"Otherwise we could be accused of breaching contracts and face compensatory damages," Siemens CEO Peter Löscher said at the company's shareholder meeting in January.

The U.S. State Department and the European Union declined to comment on Siemens's business in Iran.

In Siemens's last fiscal year, which ended Sept. 30, the company's revenue in Iran rose more than 20% to about €680 million (\$967 million) from the year before and more than 50% over a two-year period, said people familiar with the matter. Revenue for this year is still unclear.

According to Siemens CEO Peter Loscher, the U.S. should emulate Germany and stress "real engineering" over "financial engineering" in order to boost exports. In an interview

with WSJ's Jon Hilsenrath, Loscher also says Siemens sees real growth potential in the U.S. and is investing heavily.

Siemens hasn't violated any sanctions imposed by the U.S. and EU aimed at crippling Iran's nuclear program and the country's development of new oil and gas revenue. Its business in Iran stems from contracts from years past.

Until it ceased bidding for new orders last year, Siemens vigorously pursued and won billions of dollars in long-term contracts in Iran. In 2006, for example, Siemens won a €294 million deal to supply 150 locomotives for Iran's railways and several multimillion-euro orders the following two years for gas turbines and compressors to power-plant producers.

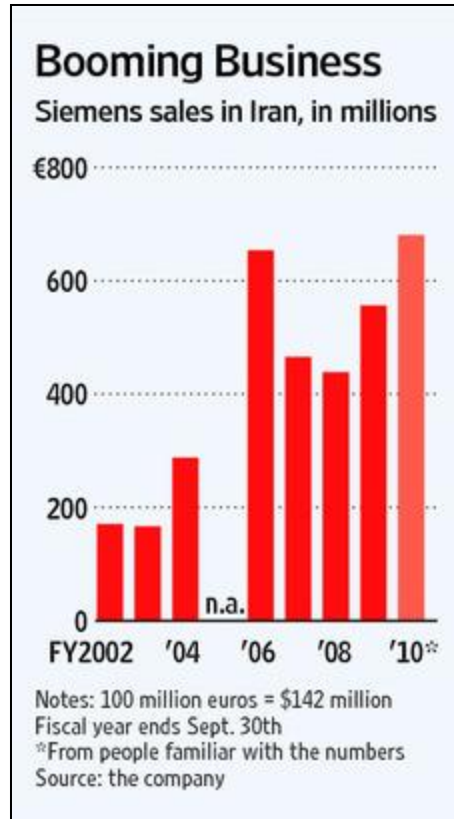
An assessment by Siemens lawyers put the potential legal penalties for terminating its existing contracts in Iran at up to €4 billion—if tried before a Swiss arbitration court, as many Siemens contracts in Iran specify, a person familiar with the matter said.

A sign displayed before a Siemens meeting in January reads 'Siemens: No aid for the torturing regime Iran!'

Siemens's decision to continue to fulfill those contracts, though, threatens to complicate the German firm's U.S. business. Over two decades of expansion, the U.S. has become Siemens' largest single market and accounted for one-fifth of its global sales of \$103 billion in its fiscal 2010. Much of this revenue come from large, well-publicized government contracts, such as a \$466 million deal struck last October with Amtrak to supply the government-owned rail operator 70 electric locomotives.

Siemens isn't alone in its quandary. Other multinationals whose own governments allow them to pursue business in Iran worry about the threat to their U.S. interests, legal experts say.

"It's a significant issue for some of those companies now deciding to withdraw from Iran," said David Lorello, a partner in international law firm Steptoe & Johnson who specializes in anticorruption and trade compliance. He noted that companies that have helped supply Iran's oil and power industry may face years of outstanding contractual obligations.



Other German blue-chip firms such as Thyssen-Krupp AG and Linde AG also have announced plans over the past year to pull out of Iran and wind down contracts there as soon as possible, as political pressure at home and abroad has mounted. But a complete withdrawal could take time.

Other European firms, such as Swiss engineering group ABB Ltd., Italian oil and gas company Eni SpA and oilfield-services giant Schlumberger Ltd. have also halted new business, but are still fulfilling old contracts. Schlumberger, which has bases in Houston, Paris and the Hague, said it wouldn't finish its outstanding Iran contracts until 2013.

Some U.S. companies also have lingering business ties in Iran via foreign subsidiaries. Honeywell International Inc., a diversified manufacturer with big aerospace and defense contracting activities, said it committed to stop accepting new Iranian projects last year. "We will complete existing work that was undertaken under pre-existing contracts only to the extent authorized under the new [2010 U.S. sanctions] law," it said.

The EU sanctions are the bloc's toughest yet, but they still allow for broad areas of trade with Iran. Even in sanctioning oil and gas-related business, they permit existing contracts.

The new U.S. sanctions, which come on top of an already broad trade embargo and other sanctions, widen the federal government's powers to penalize foreign companies or entities

of U.S. companies that do business in Iran. But they, too, grant some exceptions to prior contracts.

The Iranian government's crackdown on protesters following the country's mid-2009 elections prompted Siemens to consider severing its 140-year-old ties to the country, some Siemens officials said. Among multinationals, Siemens came under particular fire when it emerged that its venture with Nokia Corp. had provided Iran with part of the telecommunications technology that the government subsequently used to monitor protesting citizens.

The Nokia Siemens venture said at the time the technology in question was standard in telecommunications networks in most countries. Shortly after, a political firestorm in the U.S. erupted when Siemens emerged as a potential contender for a Los Angeles public transportation contract. It didn't end up bidding. By then, the decision to begin scaling back in Iran "was clear," a Siemens management board member said.

How to implement the withdrawal triggered a spirited debate among Siemens managers, the people familiar with the matter say. Company lawyers drew up a list of existing contracts, including those that might be terminated without risk of penalty. Some executives argued that breaking any contract would violate Siemens's compliance code or damage its credibility in other political hotspots. "In the United States, it's not a sin to break a contract," a senior Siemens official said. But "in Europe, that's culturally not accepted."

Siemens management settled on a compromise at an October 2009 board meeting: to cease new business in Iran, but not until July 2010, when the last of the legally binding bids it had already submitted had expired, and still honor outstanding agreements.

At the same time, Siemens has prohibited paying bonuses based on sales in Iran and is considering other incentive options to help reduce sales there.

Eager to protect the engineering group's \$20 billion in annual U.S. revenue, Siemens executives have been working behind the scenes to minimize the potential damage the company's outstanding Iranian orders could do to Siemens' reputation in Washington, the people familiar with the matter said.

Last year, Siemens tried unsuccessfully to have language inserted into EU sanctions against Iran that might have allowed it to cancel at least some Iranian contracts without penalty, company officials say.

As its lobbyists made the rounds with officials in Brussels and Washington to explain its issue, senior Siemens executives said most were sympathetic to the argument that fulfilling the outstanding contracts was preferable to paying Iranian entities billions of euros in damages. It is a sentiment that multinational lobbyists and lawyers say State Department officials have echoed in other meetings.

Yet, even with no new orders coming in, Siemens revenue from Iran rose sharply over the first half of 2010, and an alarmed Mr. Löscher ordered an audit to find out whether local managers were pumping up sales under existing contracts. The audit found no such activity, the people close to the matter said.