Audouard, Rolf

**Article — Digitized Version**

A Practical View of the German Export Situation: Interview with the Deputy Director of the VDMA, Verein deutscher Maschinenbau-Anstalten e. V., (Association of German Machine-Building Establishments) Rolf Audouard, Frankfurt/Main

Intereconomics

Suggested Citation: Audouard, Rolf (1966) : A Practical View of the German Export Situation: Interview with the Deputy Director of the VDMA, Verein deutscher Maschinenbau-Anstalten e. V., (Association of German Machine-Building Establishments) Rolf Audouard, Frankfurt/Main, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 01, Iss. 1, pp. 4-9, http://dx.doi.org/10.1007/BF02922746

This Version is available at:
http://hdl.handle.net/10419/137592

**Terms of use:**

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
A Practical View of the German Export Situation

Interview with the Deputy Director of the VDMA, Verein deutscher Maschinenbau-Anstalten e. V., (Association of German Machine-Building Establishments) Rolf Audouard, Frankfurt/Main

INTERECONOMICS: Mr. Audouard, in 1965 Germany's foreign trade situation has developed for the first time along lines which could not have been anticipated a few years ago. Last year, from January to September, imports showed a rate of increase of 22% compared with a rate of 12.6% the year before. On the other hand, the export growth rate was a mere 10.2% in 1965, compared with 11.3% the previous year. This resulted in a trading deficit for the first three quarters of 1965 of DM 432 million, as opposed to a credit balance of DM 685 million during the same period of 1964. During the corresponding period of 1963 there was actually a surplus of about DM 1,300 million. This figure led to discussion of a turning point in the West German export trade. In this connection, Mr. Schulz (Head of the Foreign Trade Commission of the VDMA) in a recent press conference, gave a warning about an ever-optimistic view of the export situation. This remark was generally accepted as a warning. What is your opinion of the present situation?

AUDOUARD: You said that the present situation could not have been foreseen some years ago. I must disagree with you here, since the present position was exactly predicted by those who do realistic and concrete work in this sphere, not just in theory, structure, etc. It had repeatedly been said that, sooner or later, the time must come when this type of surplus trade balance would disappear—simply because the price situation had changed in recent years. For example, the present level of wages means we are in a position where we are at a definite disadvantage, vis-à-vis our chief foreign competitors. The fact is that, speaking internationally, we have the highest wages, and have eleven public holidays a year, compared with the five or six of our foreign competitors. There is no question but that these factors all have a very great bearing on the subject and that we foresaw their effects.

INTERECONOMICS: Mr. Audouard, you referred to the development of the price situation. Between January and September last year the price index for exports of machinery rose from 120.1 to 121.6. Other respects the increase was smaller: and in steel construction the price index even dropped from 110.3 to 109.8; the electrical industry only had an increase of from 106.4 to 107.9; in the precision tool and optical industries the increase was from 116.9 to 118.2; in the textile industry from 100.1 to 100.5. You must admit that these price increases are so minimal that it is inexplicable that the deterioration of the German export situation can be due to the price factor.

AUDOUARD: In fact, we should not be talking about price increases but about cost increases. Indeed, prices obtained are only marginally higher in other markets of the world. But this does not mean that there has not also been a considerable rise in costs, even more than in prices. Profit margins must have diminished considerably in the process, which explains the declining interest in certain export business.

INTERECONOMICS: Perhaps we should give a few more detailed figures about costs. The wage increases—the most important aspect of these costs—rose by 8% in the German Federal Republic last year, compared with only 5% in England. On this figure, Germany’s situation should indeed be worse than England’s. But increased wage costs should not be considered in isolation. If we take productivity figures as well we get quite a different picture. In England there was a productivity increase of only 1-2%, but in Germany productivity increased by from 5-6%. In the light of these figures, it might perhaps be said that Germany is in a better position than other countries because of its increased productivity.

AUDOUARD: These figures certainly show considerable variations in different branches of industry. Overall figures such as these can be dangerous in considering productivity increases, especially in the capital goods industry. It must not be forgotten that because economies of labour have been achieved by the use of up-to-date ma-
chinery in the consumer goods industry, this labour will transfer to the capital goods side. And the capital goods manufactured under these high wage cost conditions are mainly for the benefit of customers in the capital goods industries. They—i.e. the manufacturers of consumer goods—are actually the ones who benefit from these effects of rationalisation.

INTERECONOMICS: To revert to the cost situation and make an international comparison, it could be said that in 1963 the USA and Italy were better placed than, for instance, the Federal Republic. In spite of this, American export prices have risen more than ours. How can this paradox be explained?

AUDOUARD: I will try to explain it although, of course, I am not qualified to give information on American plants. But if one has succeeded, by whatever methods, in obtaining higher prices, then they must have been “lucky.” There is a whole series of products where price conditions favour the USA, because of the enormous investment at an earlier date. We must get away from the idea that everything which comes out of the USA is expensive. On the contrary: in mass-production—and by all means this includes the machinery branch—there are sectors in which the USA, because of their enormous mass-production, can offer very considerably lower prices. As to Italy, I must admit that I am not quite certain about cost structure and export prices there, and you will also know that certain discussions are taking place now in the European Law-Court on support measures for Italian exports which run contrary to the provisions of the Treaty of Rome. In any case it must be noted in Italy that many businesses are state-owned, which means that one cannot be sure about their formation of prices and whether this is based on sound economic principles.

INTERECONOMICS: This brings me to the next question, Mr. Audouard. What is the position on support or promotion of exports in the Common Market countries or in countries competing in the international market? Are German exports in a bad position here?

AUDOUARD: Yes, certainly, because we are always holier than the Pope. And when you read through the relevant articles of the Treaty of Rome, when you take the basic OECD agreements, and when you take all the very comprehensive GATT rules, there are certain things which conform to all these rules and others which, to say the least, are uncertain. The Federal Republic has taken pains to follow these things through to their very end, whereas in other EEC countries—with the exception perhaps of Belgium and the Netherlands—there are certain things which are doubtful, at least as regards all these agreements.

INTERECONOMICS: Mr. Audouard, in our institute we are making a very thorough investigation of this particular question of export promotion in various industrial countries. And although the investigation is not yet completed, our first conclusion is that in every country where this question of export promotion crops up, people say: “Oh! well, the others... They are much better placed. We Italians, we Japanese, we English, are always in a much worse position, compared with the French, the Germans, the Americans, or whoever. We must have more support.” That is one thing we have found, so we are not surprised to hear you say: “We Germans are in a worse position than the others.” Our second finding is that it is very hard to compare measures to encourage exports in different countries, at least on a quantitative basis. For example country A will start an export-credit guarantee which—quantity-wise—looks much better than in Country B. But if one looks a little closer, this export-credit guarantee, which looks so good quantity-wise and on paper, is cancelled out by a particularly long interval before payments begin, i.e. the period which elapses between the event insured against and payment of the compensation. Intervals such as these bring companies in liquidity difficulties to the brink of ruin. What we mean to say is that the argument “We Germans are worse off than others as regards export promotion” should be used with care, and that such unequivocal comments as are made not only by you but by your colleagues in other EEC or OECD countries do not always have such a clear basis.

AUDOUARD: Of course everyone believes that other countries are Heaven and his own Hell. I should like to give you a specific example showing the definite advantage French industry has over ours: our system allows tax refunds on exports. These rebates are equivalent to repayment of the accumulations of turnover tax on a product before it is exported. When it is exported, an estimated amount of 3.5% is set aside on the assumption that this estimate in fact corresponds to the amount due for accumulated turnover tax. Doubtless there are products where the estimated amount quite accidently corresponds to the amount due, but we have definitely established there are many products—including many in our own field of mechanical engineering—which certainly bear a higher rate of turnover tax. French products on the other hand, have a definite advantage, for, thanks to the system in force there, when exports leave the country, they are not subject to any turnover tax.

INTERECONOMICS: Mr. Audouard, let us turn to the measures taken to promote exports, by use of a crash programme to help industry improve its export position. What measures should the Federal Republic take to strengthen the competitive position of German industry on the international market?

AUDOUARD: It is impossible to give a brief answer here, for the simple reason that the structure varies too widely from one sector of industry to another.

INTERECONOMICS: Could we then perhaps take as an example your sector—mechanical engineering?

AUDOUARD: All of us here know the situation which has arisen due to restrictions upon the capital market. It is a fact that those restrictions have deliberately caused an increase in the cost of financing. In mechanical engineering costs are of decisive importance, not only in manufacturing, for investment, etc., but also in the actual running of the business. And if you think that over the last two years—I am now deliberately not exaggerating—the cost of financing.
has made good use of it and is certainly thankful that this was done. As you know, "Ceiling B" was run down because of the way business was tending. This—in particular the balance of payments position—no longer exists. I will not therefore ask the hypothetical question whether "Ceiling B" was a subsidy. I assume its last phase could be so described. But it is nevertheless only a small concession towards conditions currently prevailing in the USA, Great Britain, France and Italy, let alone arrangements current in the Netherlands and Belgium.

INTERECONOMICS: What can the authorities do about this?

AUDOUARD: At the recent VDMA meeting it was repeated quite clearly that we do not want subsidies, and have never requested any, but only to be put on an equal footing. I should like to ask you: do you consider the established rate of interest of 3% on all long-term export financing consistently applied in France to be a subsidy or not? For myself, I am of the opinion that it is a subsidy. It is therefore obvious that we should request a state interest subsidy. This is a matter which will want to be considered very seriously if we fall still further behind, taking into account all the consequences such an interest subsidy might have for the entire capital and money market. But there are other methods. There is, for instance, the Bundesbank's so-called "Ceiling B" financing at the rate of 5½%. At the same time I should like to mention the endeavours to introduce the so-called "Ceiling C" under export credits. I do not understand the reason why "Ceiling C" has come to a standstill.

INTERECONOMICS: You have just given a very concrete example of where something could be done. Earlier you mentioned that the 3½% interest rates in France should be regarded as a subsidy, and you would never ask for such a subsidy. But when you talk about compensation, you are demanding a subsidy.

AUDOUARD: Well, I must explain that calling the Bundesbank's "Ceiling B" a subsidy is like throwing the baby out with the bath-water or taking a purely abstract view. We must remember the origins of "Ceiling B": at one time it was the point of departure for all financing. The economy has made good use of it and is...
sales—distribution in these countries—also the fact that they have people everywhere. In addition, moreover—and this should be mentioned here—something very positive has been born of this situation and from the activities of the French; namely, the European business on joint account. This is of considerable importance and, without going into details, it can be said there is scarcely large-scale business operation of importance today where efforts are not being made to carry it through as European syndicate operation. In very many cases this has been successful.

INTERECONOMICS: Your comments on these three countries show that the export drives of the USA, Great Britain and France have led to a new situation for Germany's exports. German exporters are feeling the increased competition from rivals. How do you think the German exporter can bring the German export industry into line—by so-called “crash programme” measures which can be taken from standard devices of a market-economy?

AUDOUARD: When you talk of a “crash programme” you really mean intensified sales activities which must be set in motion now. There is no doubt that certain reserves are available here. You know as well as I that German industry has always been very forceful in approaching foreign markets. But you will find in practically every firm that exports tend to be concentrated—although perhaps with fluctuations—on a proportionately small number of countries. If you will take the trouble to investigate this for yourselves, you will find that whole countries do from 35% to 50% of their total export business with five or six markets. This is well-known. And this does not apply only to individual countries and industries, but also to individual firms. It is quite understandable, of course, that with the pressure on delivery dates and the pressure of work necessary to fulfill existing contracts and the current labour shortage, it is very difficult to find new markets all the time as well as attending to business in hand.

INTERECONOMICS: Could you give some explanation about the Press report a few days ago headed: “ENCOURAGEMENT OF MARKET RESEARCH ABROAD”. You spoke of opening up new areas. The Federal Ministry for Economic Affairs wants suggestions and ideas from industry for the 1967 budget and such research will receive financial support from the Government. We know this system from France and the USA. Now suggestions are wanted from us: which system would be useful for us and which could we adopt. What do you think of this proposal?

AUDOUARD: If I am properly informed, the French and American systems mean that market research risks are guaranteed by the State. I think there is no question that this is a good thing.

INTERECONOMICS: So you consider this approach to be completely positive?

AUDOUARD: Yes, we have tried for this for many years and it was only about four or six weeks ago that the first talks took place with the Arbeitsgemeinschaft Entwicklungsländer (The Study Group for Developing Countries).

INTERECONOMICS: That is one possibility—to encourage market research which should lead to increased overseas business. What is the position with regard to market research in German trade associations? What can a trade association do before such a market research system is set up by the Government?

AUDOUARD: We have of course looked into this, and a trade association can supply the basis for market research and can show firms how to set about it. As a start we can, for example, collate all the statistics for those industrial exporting countries supplying a certain market. Then, in individual cases, we can break these down to comparatively small items. What we cannot do, however, is to undertake our own market research because we would have to make the results available to all firms and, in certain instances, this might harm those firms that are already well-established in one market or another. These companies would naturally come to us and ask: “Have you nothing better to do than set our competitors upon us?”

INTERECONOMICS: You mentioned earlier a second problem which is important from the sales standpoint, namely the well-organised distribution system built up by some European countries in their traditional markets. The economy of the Federal Republic invests abroad only about the value of 1.5% of its annual exports including investment in external sales organisations. The USA, on the other hand, invests about 15% of the value of its annual exports in the form of private capital investment abroad and its sales organisation—as it exists in Germany alongside the manufacturing side—plays a not unimportant role. What recommendations should we make to a German export firm? Do you see any future in improved co-operation, in joint ventures into foreign markets so that the risks involved in setting up a sales organisation in export markets are also shared?

AUDOUARD: There is no ready answer to this, because each firm has different problems. There may well be markets where such investment should be started immediately because there is no other solution. But there are other markets where things are easier and still others where production should be started right away. Of course, this is the most difficult kind of investment and the type which the German exporter is least prepared to make. Indeed, it is my opinion that in a number of markets it is possible and practical for non-competing companies to get together and set up in one market or another maintenance workshops, stocks of spare parts and all the rest.

INTERECONOMICS: Talking of a “turning point” in German exports, due to developments in competitors countries, perhaps we should recommend something on the lines of: “Press on ... go into the export markets and get your foot in the door!”

AUDOUARD: I am not yet certain whether we should talk of a “turning point”. What I do believe is that we must change our way of thinking and that the outcome must be a higher rate of investment in exports. In my view, this is unavoidable.

INTERECONOMICS: What could the German banking system—which you mentioned earlier—
contribute? Compared with French and English systems it is much less developed abroad.

AUDOUARD: One can be in several minds about the attitudes of banks towards the help they have given and could give to exporting industries. We cannot deny that, in the beginning when industry was building up its export business, the banks gave very effective help. But as the function of financing became more and more complicated due to long-term payment arrangements in the world market, banks became more and more reluctant to help, that is, they were prepared to offer facilities up to a certain point but in every case and very emphatically they refused to run any risk. We know that banks administer other people's money and therefore have to be more careful than other people but I still think that banks would do better—within limits—if they were more prepared to take risks than in the past, since they appear to have reservations about almost everything connected with our credit needs and the like. Without wishing to criticise, I feel that banks could do far more than they have so far. I even think that the Americans can put into practice their protectionist aspirations, or whether they will continue to steer a liberal course. We must be clear that, although the USA is certainly an important market, it is nevertheless extremely difficult to sell there and one has to toil ceaselessly to sell on the US market at all.

INTERECONOMICs: But surely the chances that the USA will steer a protectionist course are slim, provided people there can count on business being good, as it is now? Take, for instance, the war in Vietnam, and the impetus which this is giving to the American economy; is it true that they buy wherever they can. May we go back to the starting point of this discussion? We are interested not only in the outlook for exports, but also in the outlook for imports. Do you anticipate an increase similar to the one from January to September 1965—that is, 22.4%?

AUDOUARD: Here too, I think business will slow down considerably and this slackening will naturally affect the import situation.

INTERECONOMICs: But there is the outlook for the biggest export market—the USA?

AUDOUARD: You mean our biggest export market. For us, as a separate country, it is certainly the biggest. I think that here, too, the situation will remain much the same, but of course this will depend a great deal upon whether the Americans can put into practice their protectionist aspirations, or whether they will continue to steer a liberal course. We must be clear that, although the USA is certainly an important market, it is nevertheless extremely difficult to sell there and one has to toil ceaselessly to sell on the US market at all.

INTERECONOMICs: Of course, the difficulties of our customer countries are increasing considerably. However, there are also improvements in some markets. Take countries like Greece and Spain, where market conditions are much better now than they were three or four years ago—and no doubt this balances out.

AUDOUARD: The price increases in the Federal Republic?

AUDOUARD: The price increases in the Federal Republic?

INTERECONOMICs: Yes.

AUDOUARD: Are you quite certain we shall have such big price increases?

INTERECONOMICs: We shall certainly not have many fewer price increases than last year. We estimate about 3¾%, and this is the figure mentioned by the Federal Government, too.

AUDOUARD: Here again, there will probably be different elements involved. My opinion is that competition on the German market will harden considerably and in various sectors of industry we shall
ultimately get quite different pictures. I feel I should mention here the higher import figures for mechanical engineering. In the first ten months of 1965 machinery imports rose by 26.3%.

**INTERECONOMICS:** ... compared with ...?

**AUDOUARD:** ... compared with an increase of 11.3% between 1963 and 1964. This will show you how difficult the position is. In the meantime, we have become very extravagant with imports in the mechanical engineering industry... over the last ten years these have increased tenfold.

**INTERECONOMICS:** Why is that? Is it because of costs and, consequently, prices? And one more question: are other factors not far more important than the price factor where mechanical engineering is concerned? After all, there is virtually no uniform competitive position in this industry. It is so often the case that Machine A can only be bought from Company A, and not from Company B, but perhaps Company A is a foreign, not a German, one!

**AUDOUARD:** Such cases do, of course, happen. To a great extent, this is a matter of integration—I do not mean political integration, like EEC, etc., but economic integration. But first of all, I would like to say that, in my opinion, the main reason for this increase was that, from 1949 onwards, the mechanical engineering industry took the stand that only a liberal policy on imports could really be of help. Believe me: these factors carried such weight, it was as if all suppliers of machinery throughout the world had been given a written guarantee: "For years ahead I can really skim off and work this market." In what foreign country, including the USA, which always acts as if it were very liberally-minded, and also including France, Italy, Britain, to say nothing of overseas markets, Japan, etc., have German companies found such an absolutely liberal atmosphere? The answer is nowhere!

**INTERECONOMICS:** Do you think this might have any political consequences? Do you mean that we should go back on this liberal policy on imports? Or do you feel—in the interests of the mechanical engineering industry and of German industry as a whole—that it would be better to introduce certain restrictions?

**AUDOUARD:** No, we should certainly never introduce restrictions. I said at the outset that integration plays a very important part, both economically and technically, and I also think that these excessive increases in imports of mechanical engineering goods are due to this integration. Each country has its own specialties in the most varied sectors of capital goods. Take Switzerland, or the USA, or Britain, or Germany—each one has its own specialties and that is why goods are exchanged. In addition, some firms integrate of their own accord. German manufacturers of capital goods have also set up branches and business in other countries which, in their turn, export to the Federal Republic. We do not necessarily consider this a disadvantage; we still think we have benefitted considerably from this liberal trade policy.

**INTERECONOMICS:** ... and we shall continue to do so in the future?

**AUDOUARD:** Yes, but of course we are doing this with tears in our eyes, because even in the mechanical engineering industry we have specialist branches which suffer considerably from these liberal policies. We must be quite clear about this.

---

**Development through Export Diversification: Some Suggestions**

*By Christian Wilhelms, Hamburg*

I guess I do not have to devote much time, before this audience, to justify the necessity of exports in general. The problem is: how to promote progress of developing countries, of the less industrialized or non-industrialized countries. No doubt, as has been underlined by the UN Conference on Trade and Development, trade is an essential factor in economic development. Because what is needed for development is money. And as to money, the developing countries need foreign exchange, to pay for their imports increasing more and more in the process of development.

One can see two ways of approach to earning foreign exchange: capital aid from industrialized countries, limited though it always will be, and export earnings of the developing countries themselves. We here come to the slogan of "aid by trade" which I think is a formula generally accepted by now but which I would like to widen to "aid and trade", because I feel that none of the two will be efficient when applied in an isolated way, that is if one relies on capital aid alone or if the developing countries are expected to just help themselves by doing trade. In the long run, exports will be the more dynamic means for earning foreign exchange and to increase the import capacity of developing countries.

---

1 Lecture delivered on Nov. 24, 1965, in Hamburg before the members of a UN Group Training Programme in Trade Promotion organized by the Copenhagen School of Economics and Business Administration. The Training Programme was held under the auspices of the Danish Board of Technical Co-operation with Developing Countries, Copenhagen, Denmark, in collaboration with the United Nations. On the occasion of a round trip to Britain and Germany, the participants of the Training Programme—export promotion officers from 9 Asian, 1 African and 2 Latin American countries—visited the Hamburg Institute for International Economics to discuss some problems of trade promotion for developing countries.