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Article — Digitized Version

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Intereconomics

Suggested Citation: Brenner, Rolf O. (1967) : EDF favours resident construction firms, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 02, Iss. 1, pp. 20-23,
<https://doi.org/10.1007/BF02930335>

This Version is available at:

<https://hdl.handle.net/10419/137683>

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pipes; and the Soviet Union itself built up its own production. The COMECON-pipeline, with its side lines, has meanwhile reached Schwedt a/Oder, the Baltic ports and the Danube river.

And now the NATO Council has, on the recommendation of the Economic Committee of NATO, lifted the embargo as from November 10th, 1966. For this it gave the rather curious reason that under present conditions the measure was no longer necessary; that it was "inopportune". In the light of all that has been said here, however, the embargo could in practice never be "opportune".

Anyhow, the decision to lift the embargo could be a symptom for some rethinking about Western trade with the East, and this all the more since in recent weeks the United States has propagated an expansion of trade exchanges with the Soviet bloc. In the Federal Republic itself the lifting of the embargo has partly been welcomed and partly been received with a feeling of resignation. Such feeling is not justified. Rather

could the Paris decision of November, 1966, be considered to be suitable to begin a new phase in developing trade relations with the East bloc and with the Soviet Union in particular.

What impact of the NATO Council's decision on German trade with the East can be expected? There is certainly no prospect for regaining immediately the good will. Yet, the time of the lifting of the embargo can be regarded as favourable for the Federal Republic since it may have a positive impact on the German-Soviet trade negotiations which have not yet been concluded. But apart from this short-term aspect, the long-term factors should be taken into account since the chances of trade with the East are lying in the future; markets in the Soviet bloc countries are still largely unsaturated. With some initiative on the part of private firms as much as of the Government the markets in the Soviet bloc countries may in the long run become interesting to the German economy—even if at present the East-West trade exchange is, on the economic side, still being limited.

EDF Favours Resident Construction Firms

By Dr Rolf O. Brenner, Frankfurt/Main

Over the past few years the German construction industry has become increasingly involved in international commerce. Its successes in World Bank projects—which are normally put out to international tender—are proof of its technical efficiency and competitiveness on world markets. In 1965, German construction firms were awarded building contracts by the World Bank worth about DM 190 million. This is about 30% of all foreign contracts concluded last year by German construction firms. However, their share of funds placed for construction purposes by the EEC European Development Fund (EDF) was considerably smaller.

It is interesting that the position of the French construction industry is exactly the opposite. French construction companies are not very successful where World Bank contracts are concerned. But they are extremely successful in their tenders to the European Development Fund. The reason why the French think they make such a bad showing with the World Bank is to be found in the 1965 Annual Report of French construction firms working in ex-colonial African territories (SYMETRA): "There were and are many reasons why French firms do not, in fact, have the same chances of success when tendering to the World Bank as their American, English, German and other competitors. However, in those countries which were previously under French domination, French firms can compensate for such disadvantages by the various advantages which accrue to them because of their traditional residence."

It is precisely these "various advantages" which prejudice to a large extent the chances of German and other European construction firms with the European Development Fund. Such advantages mean that no real competition exists. French construction companies which have been resident for decades in the associated African States know the market through and through and still maintain close personal and working relations with the competent authorities.

Only if he is prepared to make very great and extraordinary sacrifices can an outsider penetrate this system of precise knowledge of circumstances, personalities, tax regulations, legal regulations and, in particular, the interpretation of these.

German Contribution 34% ...

The first European Development Fund (from 1958 to 1963) was endowed with about \$ 580 million, or about DM 2,300 million. According to the Yaoundé Agreement on associate membership of the EEC for the African States and Madagascar, the second Development Fund has about \$ 800 million—that is DM 3,200 million—to distribute for economic and social projects. These funds will be made available for suitable projects to those developing African countries which were formerly French colonies. These funds are, almost without exception, straight advances. Thus—contrary to most other multi-lateral capital aid organisations—it is the policy of the European Development Fund not to grant credits, but to make gifts.

The participation of the Federal Republic in raising such funds is 34 %, the same as that of France.

... but only 5 % Contracts

80 % of the schemes financed by funds from the European Development Fund are building projects. Hitherto, German construction firms have played only a very minor part. All in all, building contracts to the value of \$ 291 million (DM 1,164 million) were awarded up to Dec. 31, 1965. German construction firms were only able to win \$ 13.23 million (DM 52.9 million) of this, that is about 75 %. On the other hand, French construction firms and local enterprises obtained about 75 % of all building contracts. Until recently, this ratio was even less favourable; the share of German construction firms was only about 1 %. However, German construction firms have made great efforts to penetrate the African market. These efforts were successful, particularly with regard to the road-building projects in Senegal, Dahomé and Mali and a harbour project in Mauretania.

It is Difficult for Outsiders

What are the reasons for this bad showing on the part of German construction firms? It is obvious that due to the historical development construction companies from the mother country have firmly established location advantages, which it is extremely difficult for "outsiders" to match. Also old personnel involvements between the mother country and local authorities play a very important and often decisive role. This is shown clearly and unequivocally by statistics prepared by the European Development Fund in Brussels.

TABLE 1.
European Development Fund
Building Contracts Awarded up to Dec. 31, 1965

	No. of contracts	Value	
		\$ mill.	% of zone total
F r e n c h Z o n e			
French firms, local firms, firms from associated countries	337	166.327	62.8
Groups of firms (in which a French partner participates)	44	55.816	21.1
Other firms (German, Belgian, Italian)	15	42.616	16.1
Total	396	264.759	100.0
I t a l i a n Z o n e			
Italian firms	2	3.668	100.0
Total	2	3.668	100.0
B e l g i a n Z o n e			
Belgian firms, local firms	14	2.203	20.2
Belgian/Italian groups	4	7.987	73.3
Italian firms	3	0.707	6.5
Total	21	10.987	100.0
D u t c h Z o n e			
Dutch firms, local firms, firms from associated countries	20	11.330	100.0
Total	439	290.654	100.0

In Table 1, building contracts awarded by the European Development Fund up to Dec. 31, 1965 are broken down by "zones". For example, the "French zone" includes countries which used to be under French rule.

Success of Resident Firms

Of a total of 439 building contracts awarded, 396 went to the "French zone" alone (about 90 %). And within the "French zone", 84 % of such building contracts went to French firms, local enterprises and enterprises from countries which are associate members of EEC.

In the "Italian" and "Dutch" zones, all building projects put out to tender went to Italian or Dutch firms. Finally, in the "Belgian zone", Belgian firms and groups of firms with Belgian participation received about 94 % of contracts awarded.

Thus firms from the former ruling countries and local firms have competitive advantages within their zones which it is practically impossible for outside firms to equal.

German firms have no "zone of influence". All EEC-associated countries are "foreign territories" for them. They are therefore at a disadvantage in all territories and vis-à-vis all competitors. Critics counter this by arguing that the reason why Germany's share in such projects is so small is due to lack of interest shown by German firms. This lack of interest manifests itself in the low number of bids put in, but such an argument is a generalisation and misses the nub of the matter.

Obstructive Competition as a Deterrent

Any realistic contractor will not tender for contracts if he knows from the start that he will be unsuccessful. The cost of putting in a bid—for which it is necessary to pay visits to the country in question and undertake extensive preliminary research and evaluation—lies between DM 30,000.— and DM 100,000.—, according to the size and complexity of a project. It is wrong, therefore, to reproach a contractor because he is often not prepared to bear the burden of such costs. In associated countries he has to reckon with obstructive competition on the part of local firms. When a European competitor appears in the field, local firms tender at prices which, because part of the amortisation costs are omitted, can be considered ruinous. To balance this, they endeavour—successfully—to compensate for losses incurred due to such obstructive competition by obtaining better prices for projects where foreign firms are not tendering.

Such difficulties do not affect only German firms, but firms from all other European countries equally, insofar as these are considered "outsiders" because they have not been resident in some form or another since colonial times. Dutch, Belgian, Italian and non-resident French firms also participate to a relatively small extent in tendering because the chances of success are estimated to be low.

Table 2 shows that almost 80 % of bids originate from local firms. On the other hand, the percentage of bids by European, i.e. non-resident firms (about 10%) corresponds to the percentage of projects valued at

TABLE 2.

**European Development Fund
Tendering and Contracts Awarded, by Resident and
Non-resident Firms
Position at Dec. 31, 1965**

	No. of	
	Bids	Contracts Awarded
Non-resident Firms		
French firms	44	51
German firms	33	3
Dutch firms	13	32
Italian firms	77	173
Belgian firms	20	0
Luxemburg firms	0	0
Total	187	28
Resident Firms		
Local firms	554	183
Firms from Associated Countries	130	30
French firms	611	143
Dutch firms	13	2
Italian firms	1	0
Belgian firms	24	5
Total	1,333	363
Groups of firms	160	48
Total	1,680	439

1 All 5 contracts in French Zone; 2 All 3 contracts in Dutch Zone;
3 two of these contracts in Italian Zone.

over DM 10 million. This is a confirmation that the latter figure can be considered as an indicator for the lower limit of building contract values at which European contractors become interested.

The situation becomes even more clear when we consider bid participation in individual zones (Table 3). The chances of being awarded building contracts in a "foreign" territory are equally small for all firms. French firms, which are very successful in their own "French zone", participate practically not at all in the competition in the Italian, Belgian and Dutch zones. Only one French firm put in a bid for a contract outside the "French zone", i.e. in the Dutch zone.

Firms often feel that their chances of being awarded a contract are practically nil. For this reason, they do not even tender. Firms make up their mind about whether to bid on the basis of the "success quotient". This is the ratio between bids made and contracts awarded.

Table 2 shows that non-resident firms had made a total of 187 bids up to end-1965 and had been awarded 28 contracts. Thus non-resident firms were successful in one bid in seven, on an average. If it is also taken into consideration that 10 of these 28 successes by non-resident firms were within their own "zones of influence", the ratio deteriorates, as do the chances of success for firms outside their own zones.

Vice versa, resident firms put in a total of 1,333 bids and were awarded 363 contracts. Thus they were suc-

cessful with every third to fourth bid. The best record of success is held by indigenous firms, which were successful on every third bid. The worst record is that of non-resident Belgian firms, which made 20 bids without being awarded a single contract. For German firms, the comparable figures are 3 contracts to 33 bids and for non-resident French firms 5 contracts to 44 bids.

Prospects of Success Are Slight

These figures speak volumes: the prospects of success for all non-resident European firms (including non-resident French firms) are particularly small. For this reason, firms are reluctant to risk the cost and expense involved in making bids and make relatively few tenders. It is therefore illogical to ascribe the lack of success of German construction companies with the European Development Fund to their low level of participation. The causation is precisely the opposite. Participation in tendering is low because the chances of success are so slight.

Branches Do not Pay

All these findings point to a logical deduction: German construction firms need to install themselves on the spot, i.e. they must set up branches, subsidiaries, etc., in EEC-associated countries. But if the real op-

TABLE 3

**European Development Fund
Participation in Tendering and Contracts Awarded,
by Zones
Position at Dec. 31, 1965**

	No. of	
	Bids	Contracts Awarded
French Zone		
French firms, incl. local firms and firms from Associated Countries	1230	337
German firms	31	3
Dutch firms	8	0
Italian firms	57	12
Belgian firms	20	0
Groups of firms (in almost every case with participation of French and local firms)	152	44
Total	1498	396
Italian Zone		
Italian and local firms	6	2
Total	6	2
Belgian Zone		
Belgian firms (incl. local firms and groups of firms with Belgian participation)	71	18
Italian firms	15	3
Dutch firms	1	0
Total	87	21
Dutch Zone		
Dutch firms (incl. local firms, firms from Associated Countries and groups of firms where Dutch firms participate)	85	20
German firms	2	0
French firms	1	0
Italian firms	1	0
Total	89	20

portunities for making such decisions are examined in more detail, some very difficult problems are immediately encountered.

To begin with the peculiarities of construction work compared with delivering goods, are inhibiting. It is sensible for a manufacturer to have a branch if he is looking for the most favourable locality for his factory, considered cost-wise. Construction work, however, is continually being done in new places. Whereas a manufacturer finds himself at an advantage when his factory is brought nearer to the market, a construction market can equally well be serviced from a considerable distance, unless the market is to be opened up in the same way as a domestic market. This is not the case for normal construction work abroad, since it is directed solely at important, technically interesting projects. The Associated States used to be French départements. For this reason, they were domestic territory for French construction firms. This is the only explanation for the many branches of French construction firms which exist in Africa.

In the rest of the world one can look a long way for branches of French construction firms. And it does not follow from the fact that the French are resident that German firms should also be recommended to install themselves in the locality. This is no advantage. Furthermore—where a market is really to be opened up as a domestic market—a construction firm can only support a branch financially if this grows from a construction site. It is thus a problem of getting a first contract. This cannot be acquired—as is so often recommended by well-meaning people—at a loss. In such a case it would not be able to bear the cost of setting up a branch.

Unfavourable Market Situation

Secondly, however, the market situation in the relevant countries is of decisive importance. If necessary, a manufacturer can work at a loss for a certain period in order to win a market. But in the construction business the whole branch is idle if it has no contracts. Thus, investment in a permanent branch can only be justified from the business point of view when there is a recognisable chance of obtaining follow-up contracts. In almost all Associated Countries, the chances of such contracts are very slight. For one thing, this is due to the fact that in many

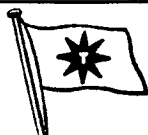
African countries there is a high ratio of supply; in some of the associated countries surplus capacity is running at about 30% and in certain countries it even touches 50%. For another, the financial resources which are made available to such countries for development projects are very limited.

It is well known that certain "resident" firms have long been endeavouring to liquidate their branches in Associated Countries. It is significant here that the French Capital Assistance Fund (FAC = Fonds d'Aide et de Coopération) reduces from year to year its contributions to ex-colonial territories. This means that the main source of finance for the large number of building contracts completed in the past has been withdrawn from resident firms. Why, therefore, should German construction firms establish branches in places where other firms are abandoning them because of the market situation?

A Political Solution is Essential

There is no real competition nowadays inside the European Development Fund. Competition could only develop when those non-resident firms which had previously been at a disadvantage were enabled to gain a foothold in the Associated Countries. Proposals have been made about this. But it is still thought impossible for the many obstacles to be overcome. To begin with, there are the provisions of the EEC Treaties and the Association Agreement, which demand that all bidders shall formally receive equal treatment. However, it is often overlooked that today, although such treatment is formally equitable, in practice there is considerable discrimination. These discriminations are public to a certain extent, but cannot be proved. On the other hand, certain political considerations must not be ignored. This concerns not only the relationships of the EEC member States among themselves, but also their relationships with Associated States. There is hesitation about amending the very varied African provisions because "any intervention in the legal and administrative provisions of the Associated States could have unfortunate political effects".

The problems have been recognised in general, and people are convinced that something will have to be done. Probably, however, it will only be possible to solve this problem on a political level.



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