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International rivalry in export conditions

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INTERVIEW

International Rivalry in Export Conditions

The German System of Export Financing

In 1966 exports of the Federal Republic of Germany increased by 12.5%. However, the short-term successes should not be overestimated as seen from micro- and macro economic aspects. Quite a few of the additional exports are only of a short-term nature. They mainly served the maintenance of the employment level and often had no profit margin worth mentioning. Long-term growth incentives are, therefore, quite improbable as a result of these export increases.

Export Aid Necessary

Apart from the fact that export business demands profound experiences and a subtle knowledge of the world market, there is the additional handicap for many enterprises in the Federal Republic of Germany that just the economically relevant investment business requires sufficient capital of the exporting firms, for this enables the exporters to stand through the credit periods obligatory vis-à-vis the buyers. But even big enterprises and concerns—the Krupp case has shown this—are hardly in a position to extend their export volume due to high interest burdens and long-term capital engagement. For this reason in all important trading nations government measures to facilitate medium and long-term export financing have been introduced.

In the Federal Republic government export financing as part of government export promotion is executed by two institutes: the Kreditanstalt für Wiederaufbau (KfW: Reconstruction Loan Corporation) and the Ausfuhrkredit-Aktiengesellschaft (AKA: Export Credit Company) both having their seats in Frankfurt/Main. The KfW was

founded in 1948. Initially, it was merely designed to reconstruct the German economy. Since 1951 it has been pursuing export financing and since 1961 also the so-called "development business", i.e. the granting of tied and untied finance credits. The institution grants credits to German exporters as well as to foreign importers, and this in tied and untied form.

The exporters are granted credits only indirectly via their banks, which turn to the KfW and there become principal debtors. The exporter is debtor of the bank. As a rule the KfW undertakes financing after a credit has been granted by the AKA (follow-up financing or redemption financing). Parallel financing—parallel to AKA credit granting—the credit institute may carry through in special cases only. The institute's business is directed by a board of directors getting its instructions by an administrative council. The chairman of the latter and his representative are appointed by the Federal government. Besides this several Federal ministers, members of the Bundesrat, of the Bundesbank and the commercial banks, representatives of the industry, the trade unions, etc., are members of the council. The administrative council decides on acceptance or refusal of the parallel financing.

The AKA is a consortial bank of leading German state-owned, regional, local and commercial banks, as well as some private banks, which made available the funds for export financing in the Ceiling A. Early in 1952 the Federal government entrusted fiduciarily to the institution also the Ceiling

B—up to then administered by the KfW. It finances the production period as well as the credit period (temporary financing), and grants credits only directly to the exporters. Credits are granted in such a form that the AKA supplies the funds of the Ceiling A to the exporter; in this case credit periods of up to eight years are possible. However, credits from the B-Ceiling are given indirectly to the exporters via credit institutes. Here it is a pre-condition that these are transactions with developing countries. The execution of the business is done by the board of directors.

Exporters who want to raise a credit from the AKA have to furnish evidence of a guarantee for their export transaction as being granted by the HERMES export credit insurance. This is necessary for all credits running for more than 24 months. HERMES as proxy of the Federal Republic is in charge of export credit insurance business. Thus the institutional connection between export financing and export credit insurance in the Federal Republic is clearly evident. For enterprises engaged in the export business the co-existence of institutions increases the already high administrative costs.

Cyclical Influence

It is characteristic of the system of export financing being in force in the Federal Republic that the individual transaction fund, i.e. the ceilings available for the allocation of credits, is highly dependent on the monetary and credit policy of the Deutsche Bundesbank. Apart from the general repercussions of the central bank policy on the money and capital market it is an

important factor that the consortial banks have to secure refinancing in case they want to raise the Ceiling A. Willingness to do so depends on whether it is probable that the Bundesbank declares the funds to be raised suitable for loans. As the cyclical situation decisive for this may change rather rapidly the German export financing system is extremely uncertain, a fact which may impede a long-term continuous policy.

Export financing is a permanent problem of German foreign trade policy. There is little accord between industry, on the one hand, and the Government's economic policy, on the other. This is clearly shown in the following interview. The banks, however, hold a more or less medium position between these antipodes. The discussion between INTERECONOMICS* and the banker Alwin Münchmeyer about these problems took place

at a time when opinions were voiced pointing to the disadvantageous impacts of the new balance of trade surpluses—and simultaneously of the export promotion policy. These voices are certainly not without foundation. But the numerous measures in other trading nations are forcing the Federal Republic to participate in the international competition for improved promotion conditions.

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Interview with Alwin H. Münchmeyer, Hamburg

QUESTION: Herr Münchmeyer, in recent years practically every country has endeavoured to maintain or expand its world trade position by stepping up its export promotion measures, mainly in connection with the insurance and financing of export deliveries. Can this competition over credit conditions be influenced by international regulation of conditions?

ANSWER: You know that I am unhappy about the international competition in credit conditions and particularly in credit periods. The significance of the original factors of competition—price, quality and delivery dates—is dwindling in comparison with this new factor. Hitherto all attempts to regularise the position between the main exporting countries have more or less failed. For a certain time the Berne Union acted as a brake. But the five year period set as a ceiling by the latter has now more or less fallen into disuse. Longer terms are granted. Each country is attempting to outbid the others. Until the position is regularised, we, in the Federal Republic of Germany, are unfortunately forced to go along with this and try to keep up.

QUESTION: Is the German system of export credit insurance and financing—which Minister Schiller recently said could not be faulted—sufficiently well organised to meet the demands of international competition?

ANSWER: I find this view stated by the Federal Minister for Economic Affairs somewhat surprising. There are many points where improvements could be made. With regard to insurance, I feel there are still very important and essential points where improvement is desirable: I am thinking, for instance, of the matter of the so-called 'protective default', i.e. when compensation becomes payable because the customer in the purchasing country defaults over the agreed payment. According to the regulations in force, we have to prove that the customer is practically unable to pay. In contrast to other countries, however, non-payment is not sufficient. This regulation should be amended in the interests of exporters. It is extraordinarily difficult to prove inability to pay, particularly in developing countries. The amount of the insurer's personal risk should also

be mentioned. Particularly where there are political risks to be covered this personal risk should be considerably lower. Naturally, we also have wishes about the volume of charges, since these are undoubtedly higher here than in most of our competitor countries. On the other hand, the HERMES-Kreditversicherung states that we are not forced to make proposals, i.e. we do not have to insure all transactions but only those which we think really must be insured. Because of the high incidence of compensation payments on this type of insurance, the premiums would therefore have to be higher. I think this is a point which will require a great deal more discussion before a satisfactory solution can be reached.

On financing, I should like to say that in the second half of 1966 and the first months of this year

ALWIN H. MÜNCHMEYER

is an important personality in banking and insurance business and a prominent figure in public affairs. After a commercial education and extended residence abroad, Münchmeyer, born in Hamburg on March 19, 1908, became partner of the well-established banking house Münchmeyer & Co in 1937. He holds numerous high positions in associations, organisations and consultative gremiums. Among others he is chairman of the Foreign Trade Advisory Board of the Federal Minister of Economics and honorary president of the "Standing Conference of the Chamber of Industry and Commerce in the EEC countries". Moreover, he is chairman or ranking member of various supervisory boards of banks, insurance companies and industrial enterprises.

*) The interview was arranged by Gerhard Schildmann and Dietrich Kebschull.

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we have been very much handicapped because of high interest rates. The situation has now improved, but even today our interest rates are still higher than in competitor countries. We cannot match rates of $4\frac{1}{2}\%$ or $5\frac{1}{2}\%$, which are normal in France and England, in spite of increased funds under AKA's advantageous Ceiling B. Even in advantageous cases, because of the independent financing of the insurer's personal risk, the interest rate cannot be lower than 7% .

QUESTION: The volume of export credit finance funds is fixed by a ceiling. What is the significance of this ceiling arrangement?

ANSWER: Its significance is simply that the funds come from different sources. Correspondingly, the various ceilings have different interest rate conditions. Ceiling B is the cheapest, the funds for which are supplied by the Bundesbank. Funds for Ceiling A are supplied exclusively by banks. These are more expensive because the money market does not yet permit low interest rates. The projected—but not yet implemented—Ceiling C for credits to purchasers abroad is to be financed in part by investing institutions, which could make such monies available if the Bundesaufsichtsamt (Federal Inspectors) considers them able to find collateral. This permission to underwrite insurance can only be given when there is an abstract guarantee from the Republic. In this case, the guarantee which the HERMES-Ver-sicherung has had hitherto is not

sufficient. Ceiling C would mean a great improvement for exporters. Many firms cannot accept any further inflation of their balances. I certainly hope that it will soon become possible to put Ceiling C into practical implementation; so far it has not been feasible because of the high interest rates which were current on the capital market.

QUESTION: So the volume of ceiling funds depends mainly upon their availability and not—as might be assumed—upon the export requirements of the overall economy?

ANSWER: In principle, the total volume of the ceiling should be related to the volume of exports. Obviously this has not always been the case in the past. It was, however, yet possible to raise additional finance from other domestic and foreign sources.

QUESTION: Would it not be more expedient to create a uniform ceiling for all export transactions so as to make it simpler for the exporter to finance them?

ANSWER: I do not see how that could be done. Neither the Bundesbank nor other banks would be prepared to accept the whole burden of financing this. Nor can foreign sources of finance used by some exporters be thrown into one pot like that. This is why I think a uniform ceiling is impossible. I must also say that we should not be all that happy about it, nor do I think it would be any great improvement. At present I know exactly what funds I can get under

Ceiling B, how much from Ceiling A and what I must raise elsewhere. On this basis I can then compute my composite interest and from that I can calculate my export transactions.

QUESTION: But does this ceiling arrangement not inhibit the expansion of export business? Is it not true that a number of transactions fall through because the ceilings in force for a certain period have already been reached?

ANSWER: I think many export transactions have fallen through in the past because of their cost or because they were refused a HERMES guarantee or even because the exporter's own balance could not stand further inflation, but I do not believe that any genuine transaction has ever fallen through because of insufficient sources of finance.

QUESTION: Interest rates for export credits are, as a rule, lower than normal market interest rates, whilst being linked, in a certain way, with the bank rate. Do you consider this to be a sensible arrangement?

ANSWER: Naturally, in the interests of the export trade, we should welcome a fixed rate of interest for financing exports, not linked—as in France—to the bank rate, since doubtless this would eliminate one great competitive disadvantage. Naturally I cannot predict what things will be like in the future, when interest rates have been freed. But I can hardly imagine that banks are able to grant exporters fixed interest rates for years ahead for—after all—in raising money they have to accommodate themselves to fluctuating market prices.

QUESTION: Does this mean that you have reservations about the plan of your colleague, Herr Abs, which envisages low interest rates for export transactions, fixed for a certain period?

ANSWER: No, I have no objections to this proposal. Herr Abs is not proposing that the banks should undertake to finance such transactions at a fixed interest rate. He envisages that the Bundesbank

or a public institution yet to be set up—since the Federal Bank Law does not permit a dual bank rate—should grant the exporter this fixed rate of interest. I am in complete agreement with Herr Abs: it is certainly desirable that the export trade should be granted a low rate of interest, even lower than the market rate.

QUESTION: Besides offering lower interest rates, the main competition over conditions is by granting longer repayment terms. Do you consider it sensible to fix a maximum time limit of five years—as in the Berne Union?

ANSWER: In principle, a certain time restriction is always necessary for capital goods. The customer cannot pay cash immediately but must first earn with his investment the money to meet his obligations. If this term is calculated on a proper economic basis, it is impossible to lay down a maximum period of five years. In certain cases it might be proper to grant terms of eight years. But in a case where the economic or commercial conditions were such that the credit terms should be limited to three years, it would be unreasonable to grant five years or more.

QUESTION: But that is just what happens in international competition. If a German entrepreneur does not offer terms at least equal to those of this foreign competitor, he is out of business. How can this be avoided?

ANSWER: In such cases an attempt would have to be made to place some kind of restriction upon terms, outside the market, by reg-

ulations between the major exporting countries. But I fear that countries are becoming less and less co-operative as the urge to export becomes more intense. You have only to look at the balance-of-payments difficulties in the USA, in England or in France, where prestige also plays its part. I fear that such an arrangement is not feasible for the present. However, I am convinced that one day we shall have to pay dearly for our unreasonable behaviour. The competition over conditions gives no real advantage to anyone—neither to the countries seeking credit, which are induced by attractive conditions to make purchases far beyond their means, nor to the creditor countries, which will one day find themselves having to take part in a world debt conference. Once people used to say: "Export or die". Today people seem to think: "Export and let your children die". If the present policy is continued, disaster is unavoidable.

QUESTION: As credit terms become more extended, entrepreneurs always want to sell outright the claims arising from export transactions. What would be the advantages of this arrangement?

ANSWER: The advantages for the exporter are obvious. At the moment when his delivery has been completed he can sell outright the remainder of his claim—which is now, in practice, only a financial claim—to a bank, for instance, and is thus able to remove the transaction finally from his books. This would be a 100% purchase. There is no disadvantage to the exporter. In the Federal Republic, however, the purchase of

such claims does not come within the scope of normal banking business; there are certain finance companies—in Switzerland, for instance—which perform such transactions at high rates of interest.

QUESTION: And you are against outright purchase for this reason?

ANSWER: No, I recognise that outright purchase is a sound economic objective. The export trade and the banks are now working together to find a way to manage this in Germany, via Ceiling C, which will achieve the same objective: AKA will grant the foreign customer a financing credit tied to delivery, with which the customer has to meet his obligations to the German consignor. In this way the latter receives his money at once and can take the transaction off his books.

QUESTION: On the inter-ministerial committee, the export trade and the banks have advisory votes. Is it not possible for you to effect these—seemingly justified—improvements to the system via this body?

ANSWER: We have exhausted every possibility there, both through the HERMES committee, at AKA and the foreign trade committee, where such problems are discussed. We have drawn up aide-mémoires, but have not got much further. The main difficulties have to do with jurisdiction. We are continually being consoled with the coming harmonisation of conditions inside EEC. I cannot say how soon this will take place. I would rather not wait for this as we should prefer to have equal status today, rather than tomorrow.



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