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The transition towards multilateral trade relations among the socialist countries can only be achieved if a number of subsequent measures in external relations are linked with a consistent application of commodity-money relations within the internal economy. These measures involve, for example, free flow of specific types of merchandise among socialist countries free of binding quotas and of fixed prices, promising a subsequent expansion of this pattern of merchandise. Long-term contracts ensuring an uninterrupted production, concluded between enterprises of

different socialist countries, have also to be taken for granted.

From a perspective point of view the multilateral clearing system calls for a convertible currency among the CMEA countries, this being feasible only under the assumption that commodity-money relations between the socialist countries are introduced. It also should be borne in mind that it is gold which may be and must be used in co-operation with countries of different economic systems.

Aspects of American Marketing

by Professor Karel Holbik, Boston *

An important reason for analyzing the marketing procedures used by U.S. firms in COMECON as compared with the ones used in the EEC is the vastly different economic traditions and philosophies that are encountered. Adjustments are needed in attitudes and approaches to governments, customers as well as competitors.

Location of Supply

There are two basic considerations regarding the location of supply for a market:

- ☐ Should an American firm supply European markets from the U.S. or from within the EEC?
- ☐ Should there be "national" plants or centralized production?

In answering the first question, there are several reasons for expecting an increase in U.S. production within the EEC, such as elimination of tariffs on goods produced in a member country and sold in another (whereas exports from the U.S. face the common external tariff), and rising European incomes and demand, which suggests that local production can now be large-scale and profitable.

The main point to consider in answering the second question is distribution and competitive costs. Also, marketing considerations could require adaptation to a national market rather than to an EEC-wide basis. For example, U.S. phar-

maceutical firms have found national regulations strong and diverse enough to warrant only local production plants.

In the case of COMECON, American firms exporting from the U.S. realize that they face substantial disadvantages compared to European-based producers. Not only does the requirement to obtain an export license act as a disincentive to the exporter, but efforts by Eastern European countries to achieve a degree of bilateral balance in their trade with individual countries limit U.S. export sales to COMECON. A large part of the exports of COMECON to the West consists of foodstuffs and raw materials that find a more ready market in Western Europe than in the U.S.

An American firm considering location of supply strictly on existing COMECON trade patterns would choose either an EEC or EFTA member country in the proximity of Poland and Czechoslovakia. But complicating this conclusion is the fact that the President of the U.S. is restrained by law from granting the most-favored-nation (MFN) treatment to imports from any of the East European countries except Poland and Yugoslavia.

Product Development

There are three developments that U.S. firms anticipate when considering product development for European markets:

- ☐ The new interest and investment especially in the EEC should lead to products adapted to

* Boston University.

European tastes and to requirements which are quite different for many products;

☐ the opening of the EEC should lead to greater standardization of products in general; and

☐ because of rising incomes in the EEC, there should be an upgrading in the products offered.

When considering product policy for COMECON, U.S. firms are faced with the question "which one" rather than "how many" products to offer for sale. In the COMECON economies, the planners try to bring the supply and demand forces into equilibrium by means of a system of centralized "material balances" rather than through reliance on decentralized price-quantity adjustments.

One factor U.S. suppliers are aware of is the usual result of centralized planning, i.e. all-Bloc shortages of many vitally needed raw materials such as chemicals, specialty metals, construction materials, etc. COMECON planners attempt to resolve this difficulty by agreeing on production specialization within the Bloc and, occasionally, by redirecting their trade towards the West (if they can receive more favorable terms of trade).

What is necessary for U.S. firms is to gain a thorough awareness of COMECON needs as the planners perceive them. This means gaining familiarity with the detailed five-year state economic plans drawn up by each COMECON member. These plans are not only blueprints of what will be bought and when, but they show also whether certain products are already being purchased and from where. Usually the decision by COMECON members to purchase from a foreign country rather than manufacture locally is based on the comparative technical merit of the foreign goods available, delivery, price, and also availability of foreign currency.

Standardization of Advertising

In the decade of the 1950's the GNP of the Western European region rose by about 4 p.c. annually, while advertising outlays increased from 8 to 10 p.c. yearly. However, several factors tend to limit advertising outlays in the EEC, such as diverse national restrictions, differing industry and consumer reaction, a lack of market-wide media, and unavailability of reliable data on circulation.

It is accepted by U.S. firms that if commercial television became available throughout the EEC, there would be a substantial increase in advertising outlays. The first and most important step in determining the latter is a reassessment of marketing strategy by American firms. In this

respect, a careful study of all the relevant competitive and market factors, the progress of integration and harmonization of laws, the U.S. firms' particular situation, and the experience of others will give the best guidance. Yet most U.S. firms having promotional programs in the EEC still vary these programs on a national basis.

Throughout the EEC, progress toward standardization of advertising by U.S. firms is taking place and the latter are making a more conscious attempt to follow their approach designed for America. Since a lot of experience, effort, and money is going into the U.S. program, it is felt that these programs are valuable for the EEC. Some industrial marketers are achieving more uniformity by changing from product promotion to industrial promotion, stressing what their firms can do for individual industries. The increased availability and use of American advertising agencies in Europe has also aided standardization.

In the approach to COMECON, many U.S. firms consider it absolutely unnecessary to advertise. However, in buying a foreign commodity, COMECON foreign trade organizations perform the function of distributing information to the different industry specialists who are gaining a greater say in determining what kind of equipment they need. Their decisions may well be influenced by advertising.

Each COMECON member has an agency with the responsibility for organizing and distributing advertisements. Unfortunately, there exists no coordination of advertising distribution within COMECON.

Change in Personal Selling

The economic changes taking place in the EEC should lead to changes in the role and nature of personal selling done by American firms. With increased competition and a buyers' market prevailing, a more skillful selling job will be required to maintain the existing market share. As the EEC becomes a more unified market area, there should be an adjustment of sales territories exceeding those determined by strictly political boundaries.

As is often the case within the EEC, U.S. firms are switching from exports to local manufacture which frequently means the replacement of an importer-distributor by the American producer's sales organization.

With industrial marketing there is more international selling than is true for consumer goods marketers. But even with the progressing integration of the EEC, industrial selling is often

done by national salesmen to a national market. While products and technology are more and more international, the selling task seems to remain quite personal and, therefore, affected by national influences.

Regarding COMECON, U.S. firms face quite a different selling task. One of the best ways in which to cultivate interest in their products is by participating in East European trade fairs. Special showings by invitation and private lectures can be very effective, though expensive.

Generally, U.S. producers are aware that the only organizations within COMECON with authority to place contracts with foreign firms involving expenditure of foreign currency are the purchasing organizations administered by the ministries of foreign trade in each respective member country. It is therefore convenient to develop contacts through exhibitions, conferences and other meetings with both potential ultimate users and the representatives of government departments responsible for the various industries.

Distribution Patterns

The distribution channels (linking the manufacturer and the customer) that were used while the sellers' market prevailed in the various national markets may not be appropriate in the new buyers' market of the integrated EEC economies.

As EEC's integration advances, distribution patterns are likely to be organized on a rational basis to serve natural market areas rather than being shaped by national political boundaries. Several conditions favor the establishment of a rational distribution on a West/East European-wide basis depending on whether a U.S. firm's products are identical throughout the integrating economies; whether its advertising, branding, and packaging are standardized; and whether there is centralization of production. Nevertheless, the continuation of distinctive national characteristics is a formidable factor to be reckoned with. "The Rome Treaty is a politico-economic document and won't soon change national psychologies." Yet, measures to implement a more international system of distribution are in evidence.

The difficulty of obtaining adequate distribution in the COMECON area is a major reason why many U.S. producers have decided to utilize the distribution network of already established organizations, frequently through either joint ventures, or, more likely, licensing. Doubtless, certain liberalization of intra-COMECON trade could facilitate Western countries' attempt to cover the COMECON market by licensing the manufacture

of their products in one of the member countries only.

The Pricing Aspect

The opening up of the Common Market (EEC) should lead to greater emphasis on price as a competitive weapon and eventually to a more distinctly European pricing policy by U.S. manufacturers. Price competition has increased in the EEC since 1957.

Another reason for the evident pressure on prices is the lower degree of profit consciousness of many European manufacturers. In adaptation, the EEC has encouraged U.S. manufacturers to initiate or expand European operations and to pay closer attention to all aspects of these operations, including pricing. Establishment of European production is the principal occasion when pricing is adapted to Europe. Thereafter, the U.S. producers' European prices tend to be determined by European demand and supply conditions.

Unlike the monies of Western Europe, COMECON currencies, except for the Yugoslav dinar, are

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GERMAN PRISM

50th Anniversary of InternorGa Hamburg — March 25-31

Between March 25 and March 31, the International Gastronomic Exhibition "InternorGa Hamburg" will open its doors for the 50th time. 800 exhibitors from 16 countries will expose their products on an area of 48,500 squaremeters. The emphasis of this trade fair will be on the hotel and gastronomic industry. Growing competition and manpower shortage are the problems of this industry which have to be solved. Rationalisation, mechanisation and the introduction of computers are necessary in order to maintain the high standards of the past. Therefore, many new machines will be presented at the exhibition, which during the last years has gained very much in importance, specially for the hotel and gastronomic industry of Northern Germany.

Tax Receipts in the FRG not as High as Expected

In 1970 the Federal and Lands tax receipts—without transfers to the communities—reached DM136.9 bn. This sum is higher by DM11.9 bn than in 1969, but lower by DM 5 bn than predicted at the beginning of the year. The receipts from taxes on wages exceeded in 1970 the value of 1969 by DM 8 bn, and were also higher by DM 0.5 bn than predicted. But the receipts from income and corporation taxes decreased by DM 3.2 bn in 1970, compared with 1969, and also failed the expected value by DM 5.7 bn.

Improved Con- ditions for German Shipyards and Shipping Industry

The situation of German shipyards is again improving. The merchant shipping tonnage being built in the shipyards of the Federal Republic of Germany has increased from 1.24 mn GRT 1969 to 2.02 mn GRT 1970. The Federal Republic has therefore reached a world market share of 9.4 p.c. Only Japan's shipbuilding industry has with 29.9 p.c. a higher share in the international market. It seems as though the severe incursion as a consequence of the DM-revaluation in 1969 has been overcome.

The competitive position of the German shipping industry seems also to be improving. Due to the Federal Government's measures to aid this in-

dustry which have been approved by Parliament, the special depreciation allowances for merchant ships can amount to 50 p.c. of newly incurred or increased losses. The second demand by the shipowners' association that subsidies for the building of new ships should be increased from 10 to 15 p.c. of the costs of acquisition, has not been accepted by Government and Parliament. Although conditions for the German shipping industry will improve during 1971, as in the past the industry will receive again less state assistance than its foreign competitors.

Siemens AG: High Volume of Foreign Investments

In the business year 1969/1970, Siemens AG increased its turnover by 22 p.c. to DM 12.65 bn. For 1970/1971 the company is expecting another increase in turnover of about 10 to 15 p.c. to 14 or DM 14.5 bn. The very high volume of incoming orders will again be reached during 1970/71.

Siemens invested DM 1 bn in 1969/70, 200 mn of which were foreign investments. For 1970/71, DM 900 mn are to be invested. Again a very high volume of foreign investments (DM 180 mn) is planned, due to labour shortage in the Federal Republic and the growing importance of foreign markets for the company.

Although wage costs increased by 13 p.c. during the last business year, the rentability of Siemens remained high. The Chairman of the Board of Management, Dr Gerd Tacke, expects a decline in business activity for the future. But the electrical industry in his view will continue to remain a growth industry, and Siemens a growing company within this industry.

Competitive Difficulties of Large-scale Plant Constructors

The 40 machine-building companies and engineering firms that founded the working group "Gropa Anlagebau" two years ago, have now presented their demands for the improvement of the international competitive position of the large-scale plant construction industry.

Due to the high share of exports of this industry (65 p.c.), its international competitive position is of great relevance. The increase in turnover of the large-scale plant construction industry was

with only 17.6 p.c. slower between 1965 and 1969 than the turnover increase of the investment goods industry as a whole (+30.6 p.c.). In the opinion of the working group this was mainly due to the insufficient export financing assistance of the Federal Republic. The governments of the other major countries competing on this market—USA, Great Britain, Italy and Japan—grant assistance on a larger scale. The usual rate of interest granted by these governments lies between 5.5 and 7 p.c. When one acknowledges the fact that the interest rate demanded by the Federal government is about 9 to 10 p.c., in the opinion of the working group the competitive disadvantages of German firms become obvious. It is therefore demanding lower interest rates and the abolition of all other state measures that endanger the competitive position of this industry.

German-British Chamber of Industry and Commerce

A German-British Chamber of Industry and Commerce will be founded in London. This chamber is to promote the economic and trade ties between the two countries. To this purpose

it will build up a trade information service and compile economic data to be used by its members. As all the other 29 official foreign chambers, it will be organised as a "mixed" chamber, in which German and British firms, organisations and personalities will have a seat and a vote. Firms from both countries, which are interested in participating at the constituting session in spring 1971 or in becoming a member, should contact the London office of the Central Association of German Chambers of Industry and Commerce, 25, Victoria Street, London S.W. 1.

Development of Electrical Energy during 1970

The trend in business activity is reflected by the development in the electric manufacturing industry during 1970. While gross consumption of electrical energy increased

in 1970—as compared with 1969—by 8 p.c. to 251 bn KWh, the increase in gross consumption of the first half was with 10 p.c. much higher than it was in the second half-year with 6 p.c. This was mainly due to the cooling-off in business activity and to the mild weather in November and December 1970 vis-à-vis 1969.

National power stations produced 243 bn KWh. The share of production of state supply installations was 67 p.c., the share of power stations of mining companies and other industrial plants

was 31 p.c., while the share of the Bundesbahn was 2 p.c. 8 bn KWh were imported mainly from Austria and Switzerland.

Increased Trade Volume between the FRG and Poland

The People's Republic of Poland has undergone a process of rapid industrialisation during the last years. Despite its internal problems that became visible during the last months,

economic relations with foreign countries have been increasing.

The trade agreement between the People's Republic of Poland and the Federal Republic of Germany, signed on October 15, 1970, and valid until December 31, 1974, aims to increase the yearly trade volume and to achieve a structural improvement in the exchange structure. While the exchange volume between the Federal Republic and the East European countries increased by 11 p.c. during the period between January and September 1970, it increased by 30.2 p.c. between the FRG and Poland. The export value to Poland amounted to DM 612 mn in 1969, while the FRG's import value from Poland reached DM 532 mn. In the first half of 1970, exports to Poland increased by 26 p.c., while the rate of growth of imports was 28 p.c., vis-à-vis the corresponding values of the year before.

For the Federal Republic, Poland ranks third among the eastern trade partners, behind the Soviet Union and Czechoslovakia. On the other hand, the Federal Republic is the second most important western trading partner behind Great Britain.

Criticism of Monetary Union by German Industrial Institute

The German Industrial Institute (Deutsches Industrie-Institut) in Cologne is concerned about the economic effects to be anticipated as a result of the EEC-agreement of February

9, 1971, on the establishment of a monetary union in the EEC. Speaking on behalf of German industry, it criticises the failure to pass a monetary union's development plan for the next ten years. In 1973 new negotiations will have to take place probably between ten rather than six members, so that the chances to arrive at a compromise acceptable to all will be even less. Due to the fact that the necessary economic and political prerequisites to a true monetary union are not yet given, the Institute fears that the Federal Republic will of necessity have to import foreign inflation because of the lack of price discipline in most other EEC-member countries.

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inconvertible. As a result, the availability of foreign currencies is a very important criterion in a COMECON member's decision to purchase goods from a foreign country.

U.S. firms usually quote prices to prospective COMECON customers in U.S. dollars with goods delivered to the West/East border. While only for the Soviet Union is the letter of credit a usual instrument of payment, in the other COMECON countries the U.S. firm is as a rule prepared to engage in the much more unusual arrangements such as barter, switches or sourcing. (The latter is an arrangement where an East European producer would make parts for a U.S. subsidiary operation which is shipping a finished article.)

Another obstacle that American firms will find in the pricing area with COMECON is the strictly limited credit facilities that can be obtained in the United States. The EXIM Bank is barred from extending loans, guarantees, or insurance to any government furnishing aid to North Vietnam. Neither can loans be made to any government which is in default on its obligations to the United States. Consequently, many U.S. firms interested in selling to Eastern Europe are being driven overseas to do it. There they can benefit from the more liberal credit-insurance facilities available for European-produced goods.

Increase in Competition

Inasmuch as restraints on international trade are restraints on competition, with trade liberalization between EEC member countries, competition in this area is bound to increase. Producers who used to sell primarily to their national market, can now sell to other members. The renewed strength of the European producer is evidenced by modernized plants, generally strong financial

resources, extensive R & D (research and development), and more and more mergers.

A second source of competition has been the growth of international selling because with the formation of the EEC the doors were opened to new "foreign" competitors. In each national market, the number of sellers increased relatively more than the number of buyers or the latter's purchasing power.

A third source has been the entry of firms from outside the EEC, including the new or expanded activity of U.S. manufacturers which constitutes the major foreign element. These firms have frequently found that other American competitors are among their chief rivals in Europe. Nevertheless, the major increase in competition for U.S. firms is the new strength and sophistication of European firms. In addition to price competition, there is non-price competition in the form of cartels or collusive practices. (The effect of the Rome Treaty on competition is felt to be rather insignificant since most American firms act in accordance with U.S. antitrust laws and find this to be a sufficient guarantee of proper conduct in the context of the "Rules of Competition" in the Treaty.)

When attempting to sell to the COMECON area, the U.S. firm producing only in the United States faces substantial competition from European-based producers. Increasingly keen competition is being experienced from Italian, French and West German firms, while Japan remains a tough contender for the Soviet market.

In the face of the present bilateral trading systems of the COMECON countries it is not simple for the U.S. to obtain a competitive share of East Europe's growing imports. So long as the COMECON area depends largely on its internal trade and remains outside such international institutions as GATT, opposition toward normal contacts with the West continues.

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