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ARTICLES

EAST-WEST TRADE

Motor Vehicles for Eastern Europe

by Dr Bertold Ries, Frankfurt/M.

For 1½ years press items about the Italian and French automotive industries' success in Eastern Europe are multiplying. German producers hitherto did not succeed in really gaining a footing in these markets. The problems as expressed in these events are to be worked out in three steps. To begin with it is necessary to obtain a general survey of the market, for only then the obviously keen competition in this field will become understandable. Furthermore the individual business transactions with East European countries are of importance, and finally the obstacles to be met by the German automotive industry have to be pointed out.

The East European countries' population (excluding Yugoslavia, which will not be referred to in this context) with 314 million citizens is almost as big as that in Western Europe. As regards motorcars they belong to the less developed areas. Thus in 1965 in the Federal Republic of Germany one out of six persons owned a car as compared with one among 52 persons in the East European states. And, in addition, most of the motor vehicles are trucks. However, now the accelerated industrial expansion has reached a stage where necessarily a higher living standard is demanded, what last but not least is expressed by the wish for a motorcar. It is a well-known fact that numerous potential buyers in the East-bloc states are not discouraged even by high initial down-payments and considerable waiting periods.

Development of Motor Vehicle Imports

The tendency towards motorisation is evident in any case, and at present the demand as regards quantity and quality cannot be satisfied by the East-bloc's own production. Thus a market is opened up to Western motor vehicle producers, that, although it is entailing certain risks, is offering favourable prospects. Increasing motor vehicle imports from the West are already indicating this development:

□ The East European countries' total motor vehicle imports from the West rose from about 6,000 motor vehicles in 1963 to approx. 20,000 in 1966. That year most motor vehicles were imported by Rumania (about 7,700) and Czechoslovakia (6,000). Legging far behind are Hungary (2,000), Poland (1,700), Bulgaria (1,200), finally the Soviet Union (300) and Albania (30). Simultaneously Rumania registered the highest growth rate since 1963.

Above all the Federal Republic, France, Britain and Italy are exporting vehicles to East European countries. With regard to these four countries' exports of

new motor vehicles Italy's share was 51 per cent in 1966, France reached 31 per cent, Western Germany 10 per cent and Britain 8 per cent.¹ Although Western Germany is the biggest motor vehicle producer among these four countries and, moreover, is the world's major exporter of motor vehicles, in the East European market for new vehicles it has a moderate share only.

As indicated by recent developments the position of France and Italy should still improve even. Italian and French producers started a large-scale export drive in Eastern Europe and already concluded a number of agreements. Not only the number of contracts and the business volume are important for this analysis but also and above all the terms of delivery and payment. It is easy to understand that informations on this subject are—if at all—only incompletely available to the public. However, the available data suffice to gain some interesting glimpses. In detail the following agreements have been concluded:

□ In Oct./Nov., 1966, the French Régie Renault signed a contract for the delivery of 10,000 motorcars to Hungary up to 1970. The business in question combines credit operations and transactions in goods. The credit was granted at an interest rate of 5.75 per cent and it will be completely repaid in goods. In connection with each order and delivery 5 per cent of the credit will be repaid, the rest within five years. Expenditure for providing security for the credit must not be charged to the purchaser.

□ At the end of 1966 a contract was signed with Rumania according to which Renault will supply a total of 8,000 motor vehicles in the years 1966/67. At the beginning of 1967 a five-year contract has been concluded between Renault and Poland. This country committed itself to purchasing motor vehicles for \$ 10 million annually. Here, too, the purchase

¹) The French base figure (5,186 vehicles) comprises used vehicles.

money will be offset 100 per cent by goods. At the end of Oct., 1966, the Italian Fiat concern was given the assurance by Hungary that this country would buy 10,000 motorcars till 1970. The conditions are similar to those of the contract between Renault and Hungary.

However, the export of motor vehicles as agreed on in these contracts is only one of the automotive industry's possibilities of becoming active in the East European markets. The deliveries of productive equipment and the supply of knowhow in automotive construction are of considerably greater importance—not only as regards their volume.

Establishment of Motor Vehicle Factories

Already in May, 1966, Fiat succeeded in concluding a mammoth-agreement for the building of a motor vehicle factory that is to produce 600,000 motorcars annually. The value of this project amounts to between Lit 500 and 600 billion. The following has become known about the credit terms: 5.6 per cent interest rate; running period of the credit approx. 8½ years after the factory has become operative or—what is just the same—ten years after the conclusion of the agreement; down-payment 10 per cent; semi-annual instalments; export credit insurance costs about 1 per cent.

In February, 1966, a contract was negotiated between Fiat and Poland dealing with the assembling and later the annual production of 35,000 motorcars to begin with. After 1970 this production is to be increased to 70,000 cars annually. The value of this project figures at \$ 40 million. The period of the credit granted is eight years after the putting into operation of the manufacturing establishment.

In March, 1967, Fiat made a contract with Bulgaria, according to which to begin with 3,000, later 10,000 motorcars are to be produced annually in this country. The payment will be made 100 per cent in goods. In Rumania Fiat has already a foothold in the production of cross-country and other specialised vehicles. Between Fiat and Alfa-Romeo, on the one hand, and Skoda and Czechoslovakia, on the other, agreements were made for a closer cooperation.

The Yugoslavian Fiat-licencee Crvena Zastava could make a cooperation agreement with Poland for the period up to 1975, whose extension is being planned. The production of two middle-class cars in the vicinity of Warsaw was planned on the basis of a Fiat-licence. The value of the project amounts to DM 128 million. Payment will be made 100 per cent in goods.

In Sept., 1966, Renault and Peugeot were entrusted by the Soviet Union with the rationalisation of some Russian motorcar factories. Among other things it is provided for to increase the production of a certain factory from approx. 80,000 cars annually to between 300,000 and 350,000 vehicles. Value of the project: ffrs 400 to 500 million. A favourable rate of interest is supposed to have been granted for this credit, which

will run for 8½ years after the factory has started to operate. Ten per cent of the value of the project has to be paid as a first instalment.

With Bulgaria Renault agreed in Sept., 1966, on the construction of an assembling shop. To begin with an annual 10,000 motorcars are to be produced, after 1970 this figure is to increase to between 50,000 and 100,000 cars. The value of the project amounting to DM 160 million will be paid 100 per cent in goods, in every instance within two months.

Also in Sept., 1966, Renault initialled a contract with Rumania for the erection of a motor vehicle factory, whose annual production is to reach 40,000 cars and 10,000 light delivery vans. The French contribution to the building of a factory, amounting to ffrs 300 million, will be made on a credit base with a period of 8 years.

German Firms Missing

In contrast with Italy and France the German automotive industry hitherto succeeded in obtaining major delivery chances for the East European market in only one case. In June, 1967, Hungary committed itself to buying Volkswagen to the value of DM 40 million. The deliveries will be effected within five years, payment will be made in goods. As regards projects for a cooperation aiming at the establishment of assembling shops, the rationalisation or erection of automotive factories, the names of German producers are entirely missing.

It should be quite evident by now that the Italian and the French automotive industries are coming more and more to the fore and did not only secure, but also expand their—at any rate already favourable—market position. Vice versa, according to experiences made it will be difficult for German producers of motor vehicles to carry their point.

In this connection a structural or long-term aspect is to be pointed out. A major part of orders from the Eastern countries is aiming at the establishment or the expansion of their own automotive industries. The reasons for this endeavour may be found in the fear of permanent foreign exchange troubles or, in general, in the well-known aspiration for autarchy of countries with state monopoly trading. Therefore regarding motor vehicle exports a sudden turn might occur already in the foreseeable future, although at present this is not yet a burning question. Just the same the foreign parent firms' deliveries of parts and accessories to the East European assembling shops will in the long run not remain unchanged regarding their volume, as the share of ancillary supplies provided by national production will rise. But even more is involved in this context. The presence for instance of a German make of motorcar does not only mean permanent goodwill for the parent company and the entire automotive industry, but also publicity for German industrial manufactures as such. One is even justified to speak of a political credit balance. What is alarming for Western Germany is therefore the fact that the decisive moment for the employment of

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an effective publicity medium might be missed, a potential chance might be lost, that economically and politically would be of indisputable advantage.

The question arises why the German automobile producers do not succeed in obtaining distinct successes in these markets offering a lot of chances.

Government Promotion

Negotiations on projects like the erection of an automotive factory by Fiat in Russia are taking years. However, the political relations between the East European states and Western Germany relaxed somewhat but recently. A project to the value of DM 4,000 million would have been unimaginable only two years ago. On the other hand, the Eastern states regarded Italy and France with more sympathy, while the latter countries, it is true, felt less obligation towards traditional political ideas. When it comes to major business projects, political relations doubtlessly play a major part some times. Considered individually it must not be ignored that Italian and French ministers, in one instance even General de Gaulle himself, supported their countries' automotive industries vigorously.

To some extent this political engagement may have been a direct consequence of the less favourable business trends in Italy and France from 1963 to 1965. The impression at least of the recent business re-

cession and stagnation of growth, respectively, was quite vivid still. In the Federal Republic, on the other hand, in view of the struggle against imported inflation lasting for years, from the first no appreciation of export support could be expected on the highest government level.

Another factor is the ownership relations in the case of Fiat and Renault. Both are state-owned enterprises. The semi-governmental Istituto Finanziario Industriale owns 70 per cent of Fiat and therefore this firm may de facto be considered a state-owned enterprise. State-owned firms, however, are enjoying a privileged position in Romanic countries—in contrast to the Federal Republic believing in the free market economy.

West German firms would not have been in a position to grant the above mentioned rates of interests in credit operations. It is obviously a question of subsidised interests. On May 12, 1967, the Italian Minister of the Treasury, Mr Colombo, admitted openly to the Finance and Treasury Commission of the Senate that the Fiat-Russia project would require interest subsidisation to the tune of Lit 35,000 million. The French state-owned enterprises can also obtain cheap credits from the public banking system. Therefore the Renault-contracts will have been promoted through interest subsidies, too.

Closely connected with the more favourable credit possibilities is the advantageous export credit insurance system. As regards the duration of providing security for a credit, the Federal Republic since 1965, it is true, grants reasonable terms in the case of assembling shop projects and recently also with regard to exports of trucks. Today the German system as a whole may not be worse than the Italian and French ones. However, business transactions involving national interests and requiring special conditions are not made allowance for.

Finally considerable difficulties are caused by the East European countries' habit of pressing for compensation transactions. From liberal aspects it must doubtlessly be admitted that the exchange of one good for another is a throw-back to primitive business practices and that its actual cause is to be found in the insufficient observation of Western markets by the state monopoly corporations. It is also well-known that only a small range of goods is offered, among which just those goods are to be found, that are difficult to sell. Nevertheless Fiat and Renault could agree to compensation transactions because also here their governments most probably granted special conditions.

Together with keener competition there remains but one way-out, i.e. to take over the competitors' conditions, all the more since at present there are still favourable market chances. However, for a successful début in Eastern Europe of German motor vehicle producers the Federal Government will have to create a favourable climate on the political level and to give individual aids in the economic sphere.