GATT TRAINEE PROGRAMME

Export Promotion

Report on Visit to United Kingdom, Sweden,
Denmark, Germany and Austria
(December 1956)

In the course of the trainee programme organized by the GATT secretariat in the second semester of 1956 for the benefit of officials from Ceylon, Cuba, Indonesia, Pakistan and Turkey, these officials paid a visit to various governments in order to study the export incentive systems in force and to see how the quality of goods exported can be improved by methods of trading, packing, blending, testing, classifying, etc.

The trainees visited first the United Kingdom then Sweden, Denmark, Germany and Austria in that order. The description of the methods used by the various governments to promote their export trade follows the order in which the trainees visited the governments. The reports concerning the various governments are divided into three parts. The first part gives a description of the general methods to promote export; the second part describes the export credit system in force and the third part contains a description of the treatment of special products the trainees had the opportunity to see. A collection of various documents relating to the problems involved can be consulted in the GATT secretariat.

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UNITED KINGDOM

1. Export Promotion

The United Kingdom is against any type of export subsidization since subsidies in one country would lead to subsidies in other countries and therefore to a type of competition resulting in reduced social standards of living. The United Kingdom therefore preferred to arrive at agreements with other governments (e.g. Germany) by which any export subsidization is excluded, and also to work towards the strengthening of international machinery (e.g. GATT) to outlaw such subsidies.

On the other hand, great attention is paid to what can be called legitimate export promotion. In this field of legitimate export promotion fall the following measures:

(a) The making available of information concerning the situation in foreign markets.

(b) Notices of publication of actual trade possibilities.

(c) Permanent publication of import rules and regulations in the countries of interest to the United Kingdom export trade. The main instrument of publication is the Board of Trade Journal.

(d) Contact with commercial officers attached to the Ambassies and Consulates of foreign countries.

In addition to the steps taken by government departments to promote exports by the above methods, several business organizations such as the Dollar Export Council, the Federation of British Industries and the Association of British Chambers of Commerce play a useful part.

2. Export Credit Guarantees

Another system of helping the export trade is the provision of a credit guarantee in the case of trade with governments where the payment due to the monetary situation might become impossible. In this case the State takes a part of the risk which otherwise no insurance company would be willing to accept. The government pays in such cases up to 50 per cent of the loss. This measure is purely an insurance measure and can therefore not be considered as subsidization. But there was no doubt that this measure did not lead to subsidization, considering the fact that on the whole the system led to a favourable return to the State.

Furthermore, there is the Dollar Export Council. This is an institution financed partly by industry and partly by the government. It provides for study of the dollar market, in particular, which was of great interest to the United Kingdom. It gives industrialists the opportunity for an exchange of their experiences.
The point has been stressed that all these special services of the Board of Trade are normally used for the export of finished products, due to the pattern of production in the United Kingdom. Similar services are seldom requested by the traders in raw materials. If, however, this trade asked for advice they would get the same sort of advice as the producers of finished products.

3. Treatment of specific products

To get an inside view of the big commodity trade in the United Kingdom, the trainees were given the opportunity to see a tea auction, a spice trading firm, as well as examples of the terminal market.

The tea auction was of great interest, especially to the trainees of those countries producing tea and having their national tea auctions. The tea auctions slightly differ from other auctions in that the products are not exposed or described, but the buying is done on the basis of samples distributed a week beforehand and tasted by the buyers. The speciality of this auction is that the buying can only be done through six officially acknowledged brokers. Probably to avoid a monopoly position of these brokers, the selling firm (in the chair) has the right to serve buyers through so-called marketmen depending on this firm. An interesting feature is that the tea auction now practically serves only the national market and that re-exportation is of very limited importance.

Spices are not traded by the auctioning system. The spice trade still has a very great international importance and the Continental markets are to a great extent served through London. The spice consumption on the Continent mainly depends on the sausage consumption in the particular country. The biggest consumers and distributors are merchants in Rotterdam and Hamburg. New York, on the other hand, became an independent market after the war, with its own rules.

The trainees had the opportunity to visit a spice trading firm. This visit was of great interest to those trainees coming from governments of countries producing such spices. It was pointed out to them in which cases production has in many cases not reached a satisfactory quality and where the system of grading is not followed, so as to show them where their export trade could be improved.

Furthermore, it was pointed out that much trading is done through auctions in London, which, due to lack of time, we did not have the opportunity to visit. There was also, among the trainees, nobody coming from a country interested, for example, in the fur trade.
A very interesting feature, pointed out was that of terminal trade. This terminal trade is mainly used for cotton, wheat, wool, shellac, cacao, bristles and partly for rubber. It might also be used for sugar next year. The trainees were given the opportunity to see such a terminal market in connection with the bristles auction. The terminal trade (the Americans call it "futures" trade) permits the producers to buy commodities before they are available, so as to ensure that they will get them delivered at the time of production at a known price. Such purchases are made in a similar way to that used at the "auction" of available products, although the term auction is not used. The products bought on the terminal market do not normally reappear at the auction. The price of a product bought on the terminal market might be cheaper than at the time of consumption, a situation leading to a profit for the producer of finished products. On the other hand, declining prices lead to a loss.

For a way of avoiding heavy losses, in some instances the terminal market is used in a way as to ensure to the buyer a stable price. He sells in such an instance his buying right, a system which reverses the risk and leads to a profit in the case of increasing prices and to a loss in cases of decreasing prices, so leading to a medium price. This system (very often called "paper" trade) therefore is a type of insurance and, since it works internationally, avoids extreme fluctuations on the commodity market. It is sometime criticised for the reason that it leads to speculation. It was explained to us that this was true only to a limited extent, since the producers and the sellers are the normal users of this opportunity of buying and selling paper rights. The brokers, however, do not oppose purchases by outsiders, since this leads to an increased market. Only so far as this very limited trade is concerned is it correct to speak of a speculative market.
SWEDEN

1. General Export Promotion

Sweden, similar to England, has no recourse to export subsidization. The export promotion is - with the exception of the export credit guarantee - in the hands of the exporters. The Swedish Association for Wood Trade, the Pulp and Cellulose Associations, and the group of exporters of joinery are examples of such institutions. A general export association deals with those export industries which are not represented in any special organization. These groups provide the necessary information to exporters and create the required liaison with government officials, especially in the field of commercial negotiations. The general export association issues a bulletin which appears fortnightly and which contains information of interest to Swedish traders.

Typified contracts for certain products are considered a great help to export trade. Such contracts are carefully elaborated by the relevant associations (e.g. for the timber trade).

2. Export Credit Guarantees

The only field in which the Government takes a positive attitude is the guarantees of credits. This institution is entirely financed by the State. It is a very small institution consisting of only twenty-five employees. The actual regulations make a sum of 300 million Swedish crowns available for such guarantees. No information has been given as to what extent it was necessary to draw from this sum.

The Export Credit Department started in 1933, when the world crisis made it impossible for the private insurance institutions to cover all commercial risks (insolvency, etc.). Today insurance is very seldom granted against commercial risks. The main field became the so-called political risk mainly resulting from the unexpected introduction of transfer restrictions. The insurance in no case covers more than 75 per cent of the risk. The point has been stressed that the credit itself in each case has to be given by private institutions, normally banks.

The following are the main cases for which an exporter can get insurance:

(a) Payment guarantee. This guarantee might cover short-term credit for the time of transportation only, but it can also be used to ensure long-term credits,
(b) Warehousing guarantee insuring against risks inherent to a trade which offers the product from foreign warehouses.

(c) Production guarantee. In this case insurance is granted against the risk that a newly developed product does not find the expected market.

3. Treatment of a Specific Product

While the trainees saw in London how commodities arriving from overseas countries were treated at their landing in Europe, in Sweden they had the possibility to see how a technically highly developed country fosters the export of its own raw materials. The following points are specially brought out in this case:

(a) The creation of a sound basis for the production of the raw material involved. In the actual Swedish case, it was explained to the trainees, that the policy ensures that the quantity of wood available for production does not diminish; a very difficult task since trees in this Nordic region need 100 years for their growth to attain a usable size.

(b) The construction of the works at the most economically suitable place.

(c) Assistance to the industry to arrive at an uniform quality of the product.

In this connection the various institutions have to be mentioned which in most cases are sustained half by the producers and half by the State. These institutions make researches possible which otherwise could be too costly for an average mill. The results of these researches are made available to all producers, while bigger mills have their own laboratories for their own purposes. The laboratories control and standardize some of the exported products. The objectivity of the certification given by them is internationally acknowledged. Some governments even base the calculation of their duties on the certification issued by the relevant Swedish institution. The trainees also had the possibility to see the organization and functioning of a research institution for cellulose.

Standardization is considered to be a very important aspect of the export trade. The producers in most cases standardize their products themselves but a Swedish institution for standardization provides for Swedish standards, some of which are in conformity with the international standards agreed upon with the international office in Geneva. There is no obligation - with the exception of some goods produced in State factories - to standardize products. Sweden, only in few circumstances provides for quality standards which, however, seem to become of an increasing importance with the expanding export trade.
DENMARK

1. General Export Promotion

Export promotion in Denmark is, in the main, handled by the various export organizations. Agricultural commodities in particular have well-established organizations to promote exports to foreign countries; for example the export organizations for bacon and butter are entirely in the hands of such organizations which have almost as good a reputation overseas as if they were governmental institutions.

General trade information is provided by a section of the Ministry of Foreign Affairs and performs the usual functions of serving Danish exporters with trade information; for example, this unit obtains reports from its consulates abroad about trading conditions, exchange or import regulations, customs tariffs, prospects for the marketing of specific commodities, etc. The department publishes an export trade directory and monthly and fortnightly commercial journals indicating prospects abroad for Danish products.

An interesting feature is the institution of the "exportstipendier". Trainees from commercial high schools or with commercial education are attached to Danish embassies abroad in order to promote sales of domestic products in specially difficult areas. After two or three years they often become exporters in their own right, acting on their own behalf or for any commercial organization which they might represent in the future.

2. Export Credit Guarantees

The Danish Government has set up an export credit guarantee department to support the export of Danish goods up to a revolving total of 500 mill. kroner. These guarantees could broadly be divided into the following:

(a) The solvency guarantee which guarantees exporters' drafts accepted by foreign buyers. As a rule the guarantee extended does not exceed 75 per cent of the bill although there is provision to cover up to 85 per cent in special cases. The total amount now covered by the department on this form of guarantee is about 10 per cent of the total guarantees.

(b) The transfer guarantee which covers the exporter against loss that might arise from the fact that payment by the foreign importer cannot be transferred on the due day. Normally the guarantee is given up to 75 per cent of the claim although it could be extended up to 85 per cent. This category of guarantee has by now accounted for about 50 per cent of the total guarantees.
(c) The consignment guarantee covers possible loss ensuing from shipment of Danish products on a consignment basis. This form of guarantee is not frequently used; in fact the total obligations by the department on such guarantees have so far totalled less than $1\%$ per cent of the total guarantees.

(d) The financing guarantee is a guarantee extended to banks and other commercial institutions to cover loans granted to exporters for export purposes. There may be guarantees for loans to execute concrete export orders either as shipment credit or as production credit. The exporter has to prove to the satisfaction of the department that he has an order placed on him by the foreign buyer. Loans without concrete orders, but where the possibility of future export exists are also guaranteed in some cases.

The export credit guarantee department has, as in the United Kingdom, made profits from its guarantee operations. While premiums charged vary depending on the conditions ruling for each particular application, as a rule it would be correct to say that at present $1\%$ per cent p.a. is a normal premium. Applications are considered by the Government Export Credit Committee consisting of representatives of the trade, banks and the interested government ministries.

Information on the credit-worthiness of the applicant is obtained from private information bureaux or from the banks in addition to the data furnished by the applicant. In case of financing guarantees it is demanded that a chartered accountant goes through the books of the applicant firm.

The export credit system is practically not used in connection with the export of agricultural products, due to the fact that they seldom require long-term credits.

3. Treatment of specific products

Governmental controls are in force to ensure the high quality of the exports of Danish dairy products. The trainees were given an opportunity to visit the offices of the Government Grading Authority for Butter and Cheese and also to visit the office of the State Control of Dairy Products and Eggs. It was explained that Denmark is divided into four districts, and that chief inspectors and other personnel supervise and inspect dairy produce. Samples are taken at the dairy, at the frontier, ports and at distributors' stores. In the case of butter, only the highest quality is permitted for export under the brand issued by the control authority.
No butter can be exported under private brand names. The export of butter is handled by forty authorized exporters. Severe penalties which are imposed on exporters and producers who deliberately manufacture or attempt to export sub-standard or adulterated produce practically exclude such manipulations.

The trainees also visited the research institute of the bacon factories. Here they were shown the various stages of processing or manufacture of pig products beginning from the time of arrival of the pigs at the factories and the grading of the final product according to its quality.
1. **General Export Promotion**

   All subsidies and other financial means to foster exports have been abolished in Germany in conformity with an obligation Germany undertook in the QEEC. This obligation provides for temporary exemptions which Germany only uses for a very limited number of agricultural products.

   Exports, however, are promoted by making available necessary information to the export trade. Information on foreign customs laws and other regulations of interest to the export trade are made available through a special section of the Ministry of Economy which also publishes the Deutsches Handelsarchiv. Groups of producers of certain products (such as the Union of Textile Producers and the regional Chambers of Commerce) take the main burden in assisting the exporters.

   Great attention is also paid to ensure that export products are properly advertised, mainly through the international fairs, and special Chambers of Commerce in foreign countries consisting of members of the relevant country and the interested German exporters.

   No general export control is exercised, and no obligation exists to standardize export products.

2. **Export Credit Guarantees**

   The point has been stressed that Germany does not entertain any export financing system. The guarantee is granted by two companies, although both are formerly joint stock companies the capital is entirely in the hands of the State. The names of these companies are: Hermes Kreditversicherungs AG and Revisions Treuhand AG. These companies accept under the existing system, guarantees up to a sum of about 6,500 to 7,000 million D.M. In cases where a guarantee is granted it covers the political as well as the transfer risk. Guarantees are granted only for long-term credits for the export of investment products. This practically limits such guarantees to the trade with countries in the process of technical development. Due to the general trend to reduce the volume of trade in Germany for anti-inflationary reasons this guarantee might soon be limited. The guarantees cover, depending on each case, 70 to 80 per cent of the credited sum. The premium to be paid is about 2 per cent. The guarantees are granted after a check based on bankers information and a consequent decision taken by a special committee in which all interested groups are represented. No official investigation takes place.
3. Treatment of Specific Products

The trainees had the possibility to visit a rayon staple fibre production factory where they could see the transformation of cellulose partially imported from Sweden, into rayon yarn and cellophane sheets. In Krefeld they also saw the production of velvet from various yarns including rayon staple fibres. In both cases they had an ample opportunity to see installations for ensuring the equal quality of the product, the internal standardization and other measures necessary to provide for uniform quality and appealing presentation of the products.
AUSTRIA

1. General Export Promotion

General export promotion is, in Austria, mainly the task of the Federal Chamber of Commerce and Industry which is an official body supervised by the Federal Ministry of Commerce and Reconstruction. The Chamber's Foreign Trade Department provides business circles with information relating to trading conditions, prospects for the selling of particular commodities and customs tariff rates applied by foreign countries. This type of information is available not only at the Federal Chamber itself but also at the various regional chambers which exist in each of the federal provinces of Austria. Commercial notices relating to prospects for selling Austrian products abroad are frequently published by the Federal Chamber's Foreign Trade Department. Another department of the Federal Chamber is in charge of Austrian participation in foreign industries fairs. Moreover, about seventy trade commissioners and delegates appointed by the Federal Chamber of Commerce after approval by the competent Federal Ministries, take care of Austrian export promotion in many countries all over the world.

Great attention is paid in Austria to the problem of ensuring a good reputation to Austrian products. To arrive at this task a very elaborate system has been created which is just going to be legalized. This system provides for special marking of products which fulfil certain conditions. In each case this quality mark of Austrian products is combined with the word "Austria". They are issued in two types: a utility type indicating that the product can be used safely for its purpose and a higher quality type indicating that the product is not only safe, but fulfils conditions which make its use specially convenient. Although there is no obligation, most of the producers are trying to acquire the right of the mark. Some 300 testing laboratories are in charge of the quality testing and of the permanent supervision of products which get such a quality mark. The Austrian authorities are convinced that the quality of all Austrian products has been considerably improved by the application of this method.

2. Export Credit Guarantees

The opinion is held in Austria that export credit schemes at present in operation have no definitive character and may be supplemented by new legislation in the future. For no reason other than historical, two schemes are distinguished.
(a) Export promotion loans guaranteed by the Federal Ministry of Finance. The Federal Ministry of Finance may support exports of Austrian goods by financing medium or long-termed sales to foreign countries after having consulted a special committee advising the Ministry of Finance. These loans are connected with a solvency guarantee which covers the amounts invoiced to foreign buyers. Fluctuations in the rate of exchange are not included in this guarantee.

In certain cases production loans are granted in order to meet particular risks arising out of the production of goods to be exported.

(b) Loans granted by the Export Promotion Fund. Certain counterpart funds deriving from ERP aid have been affected to a special Export Promotion Fund which supports mainly short-termed export business to different areas including under-developed countries of Latin America, Africa and Asia. Under this scheme production loans may be granted as well as advancements of the amounts invoiced up to a limit of 80 per cent.

The Fund is directed by a special advisory body.

3. Treatment of Specific Products

The trainees were given the opportunity to visit a quality testing office for electrical appliances. Furthermore, they were afforded the possibility of getting an explanation of the promotion of exports of magnesite products. In this connection it became very obvious how the ensuring of a standard quality of the magnesite bricks used in many metallurgical and other processes could be developed by standardization of the product and through a stable quality as well as the technical services made available to the foreign consumers.