2000 Country Reports on Economic Policy and Trade Practices
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GERMANY

Key Economic Indicators 1/

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000
Income, Production and Employment:			
Nominal GDP 2/	2,150	2,107	1,992
Real GDP Growth (pct) 3/	2.2	1.5	2.8
GDP by Sector (pct):			
Agriculture	1.2	1.2	1.2
Manufacturing	25.4	25.1	29.6
Services	73.4	73.4	69.2
Government			
Per Capita GDP (US$)	26,202	25,685	24,242
Labor Force (000's) 5/	40,262	40,508	40,800
Unemployment Rate (pct) 5/	11.1	10.5	9.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.0	5.2	4.1
Consumer Price Inflation	1.0	0.6	1.9
Exchange Rate (DM/US$ annual average)	1.76	1.84	2.04
Balance of Payments and Trade: 4/			
Total Exports FOB	542.7	543.7	277.0
Exports to U.S.	51.0	54.9	28.3
Total Imports CIF	470.6	474.0	248.1
Imports from U.S.	38.8	38.8	21.2
Trade Balance	72.1	69.7	28.9
Balance with U.S.	12.2	16.1	7.1
External Public Debt	1,296	1,264	1,166
Fiscal Deficit/GDP (pct)	-1.7	-1.1	0.0
Current Account Deficit/GDP (pct)	-0.2	-0.1	-0.2
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	66.7	90.2	84.2
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

1/ 2000 Figures are all estimates based on the first half, except nominal GDP and fiscal balance, which are full-year forecasts.

2/ GDP at factor cost.

3/ Percentage change in real GDP calculated in national currency at 1995 prices.
4/ Goods and services trade.
5/ Estimate based on eight-month average and Embassy forecast.

1. General Policy Framework

Germany's economy is the world's third largest, with total output equivalent to just over $2 trillion in 1999 (in nominal terms). Real GDP growth, which reached 2.2 percent in 1998, dropped to 1.5 percent in 1999. Most German public and private forecasters estimate growth of at least 2.8 percent for 2000. Germany is highly integrated into the global economy: just as the slowdown in German growth in late 1998 and early 1999 resulted mainly from adverse international economic conditions, so the current cyclical upswing has been based on the recovery in global conditions. Inflation remains very low, partly as a result of deregulation in the electricity and telecommunications sectors, but has risen with the impact of higher oil prices.

The German "social market" economy is organized on market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. Although economic growth is increasing, with some estimates suggesting that rates of three percent or more are attainable, growth has been faster in western Germany than in the east, slowing, at least temporarily, economic convergence between the two regions, a key national objective. In addition, unemployment rates remain high, with almost four million people unemployed nationwide. Unemployment is about twice as high in eastern Germany as in the west.

Increased government outlays associated with German unification put pressure on fiscal policy during the 1990s. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high, as productivity growth has lagged behind wage increases. This process led to the higher unemployment in the east and resulted in a sharp increase in federal unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or roughly four percent of German GDP). These transfers accounted for the dramatic ballooning of public sector deficits and borrowing since 1990 and contributed to the need for the current government's belt-tightening measures.

Top policy priorities of the coalition government elected in September 1998 are to lower unemployment and reduce the fiscal deficit. The government has organized an "Alliance for Jobs, Training and Competitiveness" involving labor union and employer representatives, with the principle aim of creating jobs including through wage restraint and training programs. Deficit reduction efforts have focused on federal spending restraint, although one-off revenues, such as the auction of UMTS wireless telephone licenses, are expected to go toward deficit reduction. The government has introduced tax reforms, which reduce corporate income tax rates and close loopholes, extending relief to families, and raising energy taxes for environmental reasons. The government has been successful in reducing the budget deficit. Better than expected growth and a shrinking of the working age population have also contributed to recent success in reducing unemployment.

2. Exchange Rate Policies

On January 1, 1999 the euro was introduced in Germany and the Deutsche Mark was fixed at 1.95 to the euro. Euro notes and coins will be introduced on January 1, 2002, but many non-cash transactions are already denominated in the new currency. All monetary and exchange policies are now handled by the European Central Bank.

3. Structural Policies

Since the end of the Second World War, German economic policy has been based on a "social-market" model which is characterized by a substantially higher level of direct government participation in the economy than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions, has worked to limit market entry by not only foreign firms, but also German entrepreneurs.

Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its EU partners, the shock of German unification, pressure from globalization on traditional manufacturing industries, and record-high unemployment have forced a rethinking of the German post-war economic consensus. A number of structural impediments to the growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new market entrants; and
(3) high marginal tax rates and high social charges.

While many Germans value these structural features for their presumed benefits in terms of social security and relative equality, the public debate has focused on their suitability to desired economic growth and employment levels and German's competitiveness as a location for business and investment. The government, as noted, has pursued tax reform, but has not undertaken formal structural reform of the labor market. Nevertheless, gradual changes are taking place in the labor market as a result of competitive forces, new technologies, new forms of employment, and the process of negotiations between unions and employers, at both the firm and the industry level.

In recent years, the government has carried out a reorganization of the German Federal Railroad and the Federal Post (Deutsche Post). An initial public offering for Deutsche Post is expected in November 2000. In conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom has been substantially privatized (42 percent of shares has been made public) in several tranches. The German government has largely fulfilled its commitment to open the telecommunications network monopoly to competition as of

January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post also began operation. USTR largely acknowledged this in its June 2000 1377 report; however, USTR continues to monitor Germany's compliance with the WTO's Basic Telecommunications Agreement, after two U.S. telecommunications trade associations filed complaints in February 2000 under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988. The federal government also has sold its remaining stake in the national airline, Lufthansa. The EU gas directive went into effect on August 10, 2000, but the negotiated third-party access agreement agreed to by the parties in Germany looked unlikely to unleash the level of competition and other changes that followed the electricity deregulation in 1998.

Despite the progress in recent years, lack of competition remains a problem in many regulated sectors and drives up business costs in Germany. Services which continue to be subject to excessive regulation and/or market access restrictions include communications, utilities, banking and insurance. The government intends to review existing legislation that limits price competition between firms, as well as laws that reduce competition in the insurance and transport sectors and to encourage competition in the telecom sector. The Regulatory Authority for Telecommunications and Post has issued many pro-competitive decisions prompting an explosion of growth in the telecom sector. Paralleling German government efforts to deregulate the economy, the European Commission is expected to continue to pressure member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

As a condition of its participation in the European Monetary Union, the government was required to reduce its accumulated public debt and lower its debt/GDP ratio. Germany is also subject to a constitutional limitation to hold its new net borrowing at or below the amount invested in public sector infrastructure. Current policies seek to achieve a balanced federal budget by 2004.

Germany has recorded persistent current account deficits since 1991 due to a drop in the country's traditionally strong trade surplus, related in part, to strong consumer demand in eastern Germany. These deficits have been small, however, in relation to GDP. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has contributed to the current account deficits. Nonetheless, Germany continues to maintain a surplus in the merchandise trade balance.

5. Potential Barriers to U.S. Exports

Germany is the United States' fifth-largest export market and its fifth-largest source of imports. In 1999 U.S. exports to Germany totaled $26.8 billion, while U.S. imports from Germany reached $55.2 billion. During the first six months of 2000, U.S. exports to Germany totaled $14.4 billion, while U.S. imports from Germany reached $28.8 billion. Other than EU-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. Ingrained consumer behavior and strong domestic players prevailing in German product and services markets often make gaining market share a difficult challenge, especially for new-to-market companies.

Import Licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. The World Trade Organization's dispute resolution panel and the WTO Appeals body have found the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods, requiring the EU to reform this trading regime, which it has yet to do.

Services Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services have been fully open to competition since January 1998, when the EU's telecommunications market liberalization came into effect; great dynamism and intense competition characterize the long-distance, but not local, market. Liberalization has opened up opportunities for U.S. telecommunications and internet service providers. Germany has no foreign ownership restrictions on telecommunications services. A 1998 EU data privacy directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protections that the EU deems adequate. In July 2000 the United States and the EU concluded a "safe harbor" understanding that bridges differences in approaches to protection of personal data.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer – intentionally or not – local producers a degree of protection. EU health and safety standards, for example, can restrict market access for many U.S. products (e.g., genetically modified organisms and hormone-treated beef). The European Union's attempts to harmonize the various product safety requirements of its member states have further complicated the issue. Existing high German standards will likely form the basis in a number of cases for eventual EU standards.

Government Procurement: Germany's government procurement is nondiscriminatory and appears to comply with the GATT Agreement on Government Procurement. The German Public Procurement Reform Act, which establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process, came into effect on January 1, 1999. In September 1998, however, the federal government implemented a so-called "sect filter," which prohibits the awarding of certain contracts related to education, training, or consulting to companies that have a Scientology connections. Certain state and local governments have also drafted sect filters. USTR noted U.S. objections to the use of sect filters in this year's Title VII report.

Investment Barriers: Under the terms of the 1956 Treaty, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative procedures at German ports of entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

Deutsche Post (DP) has been accused of cross subsidization in order to gain market entry and increase market share, thereby disturbing a competitive market interest to U.S. companies. Accepting a complaint from a U.S. parcel delivery company, the European Commission announced on August 9, 2000 that it would begin a formal antitrust investigation into DP for abuse of its dominant position. The investigation will examine predatory pricing in DP parcel service and possible unfair pricing in its letter delivery service. The EU has also initiated a separate decision to conduct a separate investigation of state aid for DP.

The German government has also indicated that it is likely to provide financial support to Airbus for the development of its A380 megaliner. The terms of its financial support had not been decided at time of writing.

7. Protection of U.S. Intellectual Property

Intellectual property is generally well protected in Germany. Germany is a member of the World Intellectual Property Organization; a party to the Bern Convention for the Protection of Artistic and Literary Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on Neighboring Rights. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Germany's commitments under the intellectual property rights portions (TRIPS) of the Uruguay Round, implementation in 1993 of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped address concerns from some U.S. firms about the level of software piracy.

8. Worker Rights

a. *The Right of Association*: Article IX of the German Constitution guarantees full freedom of association. Worker rights to strike and employers' rights to lockout are also legally protected.

b. *The Right to Organize and Bargain Collectively*: The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is rather seldom. Basic wages and working conditions are negotiated at the industry level. Nonetheless, some firms in eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. German law mandates a system of work councils and worker membership on supervisory boards of larger firms and those in particular industries. Thus many workers are able to participate in the management of the enterprises in which they work. The law thoroughly protects workers against anti-union discrimination.

c. *Prohibition of Forced or Compulsory Labor*: The German Constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children*: German legislation in general bars child labor under age 15. There are exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work*: There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors with U.S. Investment*: The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support chambers of industry and commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		-113
Total Manufacturing		4,055
Food & Kindred Products	-22	
Chemicals & Allied Products	1,608	
Primary & Fabricated Metals	-444	

Industrial Machinery and Equipment	706	
Electric & Electronic Equipment	1,203	
Transportation Equipment	330	
Other Manufacturing	674	
Wholesale Trade		88
Banking		-194
Finance/Insurance/Real Estate		2,169
Services		153
Other Industries		-282
TOTAL ALL INDUSTRIES		5,875

Source: U.S. Department of Commerce, Bureau of Economic Analysis.