2001 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)

	1999	2000	2001
Income, Production and Employment:			
Nominal GDP 2/	2113.5	1868.6	1867.5
Real GDP Growth (pct, y/y) 3/	1.8	3.0	0.8
GDP by Sector (pct):			
Agriculture	6.4	5.8	5.8
Manufacturing	22.8	23.3	23.3
Services	70.8	70.9	70.9
Government 4/	48.2	47.3	47.4
Per Capita GDP (US$)	25,711.7	22,732.4	22,719.0
Labor Force (000s) 5/	38,838	40,204	41,155
Unemployment Rate (pct) 5/	10.5	9.6	9.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.2	4.1	4.0
Consumer Price Inflation	0.6	2.0	2.5
Exchange Rate (DM/US$ - annual average)	1.84	2.04	2.02
Balance of Payments and Trade:			
Total Exports FOB	546.1	549.1	252.7
Exports to United States	55.2	58.5	30.5
Total Imports CIF	475.9	495.3	288.3
Imports from United States	26.8	29.4	16.0
Trade Balance	69.8	53.8	71.1
Balance with United States	28.4	29.1	14.5
External Public Debt 6/	1287.9	1122.4	1121.4
Fiscal Deficit/GDP (pct)	-1.41.5		-2.4
Current Account Deficit/GDP (pct)	-0.2	-1.7	-1.1
Debt Service Payments/GDP (pct)	3.5	3.3	3.3
Gold and Foreign Exchange Reserves	99.6	90.2	84.9
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

1/ 2001 figures are all estimates based on the first half, except GDP and fiscal balance, which are full-year forecasts.
2/ At 1995 prices.

3/ Percentage change in real GDP calculated in DM, national currency, at 1995 prices.
4/ Also included in services category.
5/ 2001 figures based on eight-month average and Embassy forecast.
6/ Total outstanding public debt

1. General Policy Framework

Germany's economy is the world's third largest, with total output equivalent to just under two trillion in 2000 (in nominal terms). Real GDP growth, which had dropped to 1.5 percent in 1999, rose to 3 percent in 2000. Most German public and private forecasters are now estimating growth to be less than one percent for 2001. 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 cyclical upswing in 2000 was based on the recovery in global conditions. The current decline in global economic indicators is reflected in German figures for 2001. Inflation remains very low, partly as a result of deregulation in the electricity and telecommunications sectors, and after rising in 2000 with the impact of higher oil prices, is now once again receding.

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. Differences in economic growth between western Germany, faster, and "new" states in the east, slower, have at least temporarily complicated economic convergence between the two regions, a key national objective. In addition, unemployment rates remain high, appearing to stagnate at almost four million people unemployed nationwide. Germany's total population stands at just over 82 million. 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 raising 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 contributed to the dramatic ballooning of public sector deficits and borrowing since 1990 and thus 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 sought the cooperation of unions and employers in fashioning its labor market policies. Consensus has been possible on some issues, such as wage restraint in centrally negotiated agreements, expansion of training opportunities for young people entering the work force and improved opportunities for older workers. However, on many other issues there has been no consensus and the government has pursued its own course of action, generally favoring pro union policies. Deficit reduction efforts have focused on federal spending restraint; one-off revenues, such as the auction of Universal Modem Telecommunications System (UMTS) wireless telephone licenses in 2000, have been applied toward debt reduction. The government has introduced tax reforms, which reduce corporate income tax rates and close loopholes, extending relief to families, and raise energy taxes for environmental reasons. The government has made progress in 1999 and 2000 in reducing the budget deficit. Strong economic growth and favorable demographic trends combined in 2000 to increase employment significantly and to reduce unemployment rates. However, unemployment has climbed steadily in 2001, due primarily to slower economic growth, and unemployment is again at politically sensitive levels. Slower growth and the fiscal actions taken in response to the September 11 terrorist attack in the United States are expected to lead to an increase in the budget deficit. Germany employs a broad range of fiscal and market tools in financing public expenditures.

2. Exchange Rate Policies

On January 1, 1999, the euro was introduced in Germany and the Deutsche Mark was fixed at 1.96 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 impact of German unification, pressure from globalization on traditional manufacturing industries, and 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 by the OECD. 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 contribution rates mandatory for social insurance programs.

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 compatibility with the desired economic growth and employment levels identified by the German government and Germany's competitiveness as a location for business and investment. The government, as noted, has pursued tax reform, but the significant tax overlay encompassing federal, state and local taxes remains one of the highest tax burdens in the world. The government has not undertaken formal structural reform of the labor market and has instituted some changes that make the market more inflexible. At the same time, however, 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 reorganized the German Federal Railroad, the Federal Post (Deutsche Post) and Deutsche Telecom (DT). The initial public offering for Deutsche Post (DP) was in November 2000 and was quite successful. The government opened the telecommunications network to competition on January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post (RegTP) began operation. From that time on, the government has reduced its ownership share of the former monopoly DT to 42 percent in several tranches. Since then, however, U.S. telecommunications trade associations also filed complaints with USTR (in February 1999, 2000, and 2001) under Section 1377 of the Omnibus Trade and Competitiveness Act of 1988, charging that Germany was not fully complying with the WTO's Basic Telecommunications Agreement. USTR continues to monitor the German market. The federal government also has sold its remaining stake in the national airline**,** Lufthansa. The EU gas liberalization directive went into effect on August 10, 2000, but the negotiated third-party access agreement (TPA) agreed to by market participants in Germany has not produced the degree of competion that followed the electricity deregulation in April 1998. 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.

Despite the real progress in market liberalization in recent years, lack of competition and overregulation remain a problem and drive up business costs. Services subject to excessive regulation and/or market access restrictions continue to affect the telecommunications, posts, utilities, banking and insurance sectors. For example, after RegTP issued numerous procompetitive decisions in 1998-1999, competitors to incumbent DT charged that decisions have since then tended to favor DT, or at least have not promoted competition. The state's large ownership share of DT, however, has made the government very sensitive to the DT share price, which plummeted in 2001 to below its initial offering price after reaching its high in March 2000. In 2001, the government extended the DP monopoly on letter service until 2007, having earlier undertaken to lift the monopoly on January 1, 2003. DP lost two cases brought by competitors before EU competition authorities in 2001. On the positive side of the structural reform ledger, the German government in 2001 also repealed two important laws dating to the 1930s that severely limited price competition.

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 (consolidated) 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. Significant Barriers to U.S. Exports

Germany is the United States' fifth-largest export market and its fifth-largest source of imports. In 2000, U.S. exports to Germany totaled $29.4 billion, while U.S. imports from Germany reached $58.5 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, however, enforces import license requirements placed on some products by the European Union.

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. Germany has supported the "safe harbor" agreement of July 2000 that bridges different approaches to protection of personal data between the United States and the EU. A 1998 EU data privacy directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protection that the EU deems adequate.

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).

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.

Investment Barriers: Under the terms of the 1956 U.S.-FRG Treaty of Friendship, Commerce and Navigation, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. As noted above, U.S. investors in recently privatized/deregulated sectors, such as postal services, telecommunications and energy, have encountered government activities that favor former monopolists. Beyond this, 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.

Within the European Union, the European Commission has authority for developing most aspects of EU-wide external trade policy, and most trade barriers faced by U.S. exporters in EU member states are the result of common EU policies. Such trade barriers include: the import, sale and distribution of bananas; restrictions on wine exports; local (EU) content requirements in the audiovisual sector; standards and certification requirements (including those related to aircraft and consumer products); product approvals and other restrictions on agricultural biotechnology products; sanitary and phytosanitary restrictions (including a ban on import of hormone-treated beef); export subsidies in the aerospace and shipbuilding industries; and trade preferences granted by the EU to various third countries. A more detailed discussion of these and other barriers can be found in the country report for the European Union.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Competitors have charged DP with cross subsidization to preserve its domestic market share and gain entry to and increase market share in third countries, including the United States. The European Commission in early 2001 ruled against DP on a formal antitrust complaint from a U.S. parcel delivery company for abusing its dominant position. The Commission, however, is continuing a major anti-trust investigation of state aids for DP, which has been underway since 1994.

The German government is also providing a DM 2.5 billion loan on attractive terms to Airbus Germany for the development of the A 380 airliner. Repayment is contingent on future sales of the airplane.

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 Berne 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 used infrequently. Basic wages and working conditions are negotiated at the industry level between trade unions and employer associations. Nonetheless, some firms, especially 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 have withdrawn at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. Those no longer covered by centrally negotiated agreements have not, however, refused to bargain as individual enterprises. German law mandates a system of work councils with broad rights of "codetermination" on some aspects of company policy and practice. In addition, German law provides for worker membership on supervisory boards of larger firms and those in particular industries. Thus many workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against antiunion 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 generally bars child labor under age 15. There are exemptions for children employed on 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, the collective bargaining agreements set minimum pay rates and are legally enforceable. In most cases, 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 **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		2,946
Total Manufacturing		26,801
Food & Kindred Products	467	
Chemicals & Allied Products	4,873	
Primary & Fabricated Metals	1,210	
Industrial Machinery and Equipment	6,063	
Electric & Electronic Equipment	2,537	
Transportation Equipment	6,979	
Other Manufacturing	4,673	
Wholesale Trade		3,215
Banking		699
Finance/Insurance/Real Estate		14,678
Services		2,729
Other Industries		2,542
TOTAL ALL INDUSTRIES		53,610

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