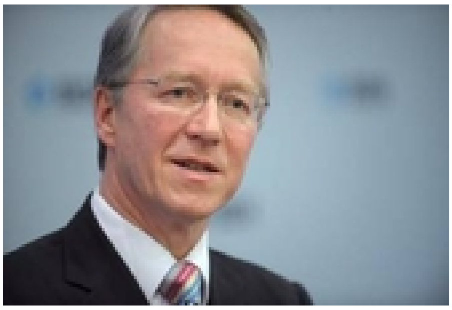
BDI FOREIGN ECONOMIC REPORT

1 | 2011

BDI The Voice of German Industry

Upsurge in Asia and Latin America impels exports



»The peak levels of German exports in the growing markets of Asia and Latin America prove how competitive German industry is globally,«

stated BDI Director General Werner Schnappauf on Sunday in Berlin.

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World Economy

Global developments

The global economy is currently in a phase of steady growth and will grow by 4.8% in 2011.

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German Exports

Export Developments

After more than 17% growth in 2010, industry exports will add on over 7% this year.

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Regional Focus

Latin America

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Upsurge in Asia and Latin America impels exports

Dr. Werner Schnappauf. Foto: BDI/Kruppa

»The peak levels of German exports in the growing markets of Asia and Latin America prove how competitive German industry is globally. «

stated BDI Director General Werner Schnappauf on the occasion of presenting the new BDI Foreign Economic Report in Berlin last Sunday.

German exportation to China was 53% higher in the last three reporting months than in the last pre-crisis quarter, the second quarter of 2008. Exports to Brazil exceed the pre-crisis level by 26%, those to India by 14%.

»German exports will experience an above-average increase also in this year. Exportation will continue to be an important powerhouse for growth in Germany,«

emphasized Schnappauf.

According to the latest BDI sector survey, industrial exports will increase by 7.3% in 2011. For this reason they will keep pace with the global development. The German share of world trade still amounts to around 9%. Last year industry exports grew by more than 17%.

The greatest challenges to the export industry are, according to the survey, rising commodity prices and a secure supply of raw materials.

»Maintaining German export success is only possible through a secure raw materials base,«

says Schnappauf. Decisive and forceful political efforts must be made to stem the tide of increasing export restrictions and distortions of competition. The quantity of international export restrictions on raw materials rose from 450 in the year 2008 to around 1000 in the year 2010.

Global Economics and German Exports

The global economy is currently in a phase of steady growth. Most recently the International Monetary Fund increased slightly its prognosis for global GDP growth in 2010 to 4.8% due to formidable growth in the developing countries, but also because of the unexpected good economic situation in Germany.

The Euro zone as a whole grew by 1.8% (+0.7%), the USA by 2.6% (-0.7%). Estimation of growth in Asia, at 9.4%, changed very little (+0.2%); in Latin America's GDP growth of 5.7% (+0.9%) was clearly quicker than expected. The IMF expects for the year 2011 a slightly lower growth of the global GDP at 4.2%. In 2011 the non-OECD countries will take the lead as in 2010 at 6%-7% and will grow by around 4 percentage points more quickly than the OECD countries (estimated at approx. + 2.5%).

International trade cooled down considerably in the third quarter with a growth of only 0.9% compared to prior financial quarters (3% and 6%), but in the entire year 2010 international trade grew by 11.4% (2009: -11%). After this rapid recovery a new phase of regular expansion is anticipated, for 2011 the IMF calculates a growth of 7.0%.

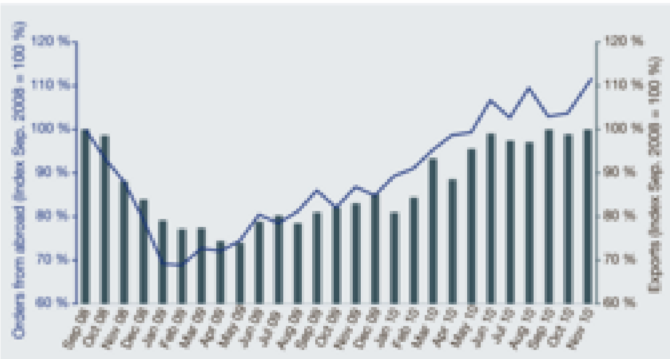
German export successes continue at a slightly reduced pace

At 17% German exportation increased to a greater extent than the overall global trade. This almost completely compensated for the slump of 14% in the year 2009. Consequently, the share of German exports in global trade should again lie at just under 9% in 2011, as it did in 2010. Reasons for this impressive recovery are the strong demand from countries outside the European Union for high-quality industrial goods and intermediate inputs that are "Made in Germany". The demand for German products increased sharply in the newly industrialized countries of Asia as well as in Latin America. This has led to a decrease in exports of four percentage points to countries within the European Union (to 60% of all German exports), while exportation to countries outside Europe increased by five percentage points to 29% of all German exports. Unchanged are the 11% of German exports that went to European countries not in the EU.

Several factors had a vigorous influence on the latest decrease (Q3: +0.9%): the downturn of catch-up effects in the area of capital-intensive goods, the depressed financial situation in the USA, and the precariousness of key markets in the European Union.

Orders from abroad and exports

Levels relative to September 2008 (100 %)

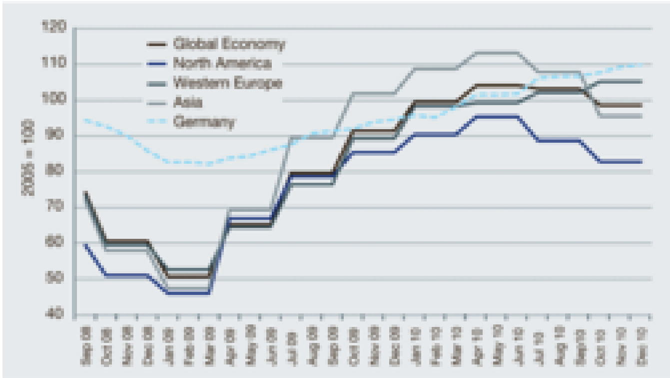


Source: Deutsche Bundesbank (seasonally adjusted figures)

For several months now incoming orders from abroad have reached the level they had before the crisis. The current weakening of exportation will characterize export development in the next months. Several different indicators confirm this. The joint index of the IFO Institute and the International Chamber of Commerce has receded, particularly due to the deterioration of the situation in the USA and Asia. The economic climate in Western Europe has developed positively, having profited from the good situation in Germany. The composite leading indicators of the OECD show that the financial situations in the most important economies have already transcended their peak levels since the crisis.

ifo Business Climate

Global Economy, regions, Germany



Source: ifo-Institute

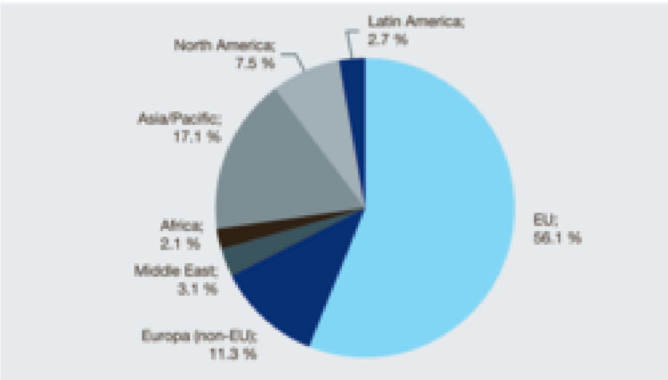
Information at a glance:

	2009	2010 (prognosis)	2011 (prognosis)
Global Economy (source: IMF, OECD)	–0.6 %	4.8 %	4.2 %
OECD countries	–3.3 %	2.7 %	2.8 %
Non-OECD countries	2.5 %	7.1 %	6.4 %
USA	–2.6 %	2.6 %	2.3 %
Euro zone	–4.1 %	1.7 %	1.5 %
Brazil	–0.2 %	7.5 %	4.1 %
Russia	–7.9 %	4.0 %	4.3 %
India	5.7 %	9.7 %	8.4 %
China	9.1 %	10.5 %	9.6 %
MENA	2.0 %	4.1 %	5.1 %
German exports (BDI)	–14.0 %	17.0 %	7.3 %
International trade (Source: IWF)	–11.0 %	11.4 %	7.0 %

	Q4 2009	Q1 2010	Q2 2010	Q3 2010
International trade (Change from prior quarter, CPB World Trade)	6.1 %	5.2 %	3.2 %	0.9 %
German exports (Change from prior quarter, Federal Statistical Office)	1.6 %	5.2 %	8.9 %	4.3 %
German imports (Change from prior quarter, Federal Statistical Office)	–1.1 %	10.3 %	10.8 %	2.7 %
German industry's incoming orders from abroad (index Sept 2008 = 100%, seasonally adjusted, source: Federal Statistical Office, BDI)	84.6 %	91.5 %	101.9 %	105.1 %

BDI Industry Survey

Industrial exports 2011
Share of regions in percent



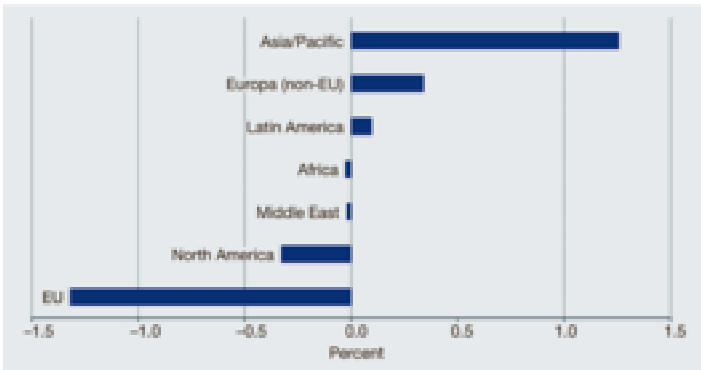
Source: BDI survey BDI

As in past years the BDI carried out an industry survey about foreign trade in November and December among all BDI member associations. The focus of the survey was the estimation of export development in the various sectors, as well as the inquiry into the greatest challenges facing export economy. Eleven industry associations that stand jointly for about 80% of German exports took part in the survey.

According to the estimation of BDI industry associations. Industrial exports will grow by 7%-8% in the year 2011. Considering the export rate of 47% last year, approximately half of the German national product will be generated outside of Germany in 2011. In particular, the sectors mechanical engineering, automotive industry and electrical industry, but also the food industry, will be profiting from the growth of exports. According to this survey, the significance of the European Union as a key target market for German products will drop about four percentage points to 54%, and the significance of countries outside Europe will grow from 29% to 33%.

The appreciation of commodity prices and the increasing shortage of commodities were named in the survey as the greatest challenge in 2011. Concern was expressed in the survey over the global rise of protectionism that is threatening particularly the export-oriented German economy. An additional challenge is the growing lack of specialized personnel; the search for qualified employees is becoming an aggravating shortage factor. Further challenges are increasing competition from the emerging markets and the concern over mounting economic turbulence within Europe.

Export-Regions: non-EU countries on the rise
Change in the share of exports 2009–2011 in %



Source: BDI survey BDI

Conclusion and Prognosis

Thanks to its internationally geared and competitive export sector, Germany is coming through the crisis better than expected. Contributing to such success is the demand from countries outside the European Union for high-quality industrial goods. Germany was already well positioned in this area before the crisis and has been able to further develop its share in the market. This was fostered by the euro rate that lies till today clearly under the pre-crisis level. Added to this are the globally applied economic stimulus plans that still made an impact in the second half of 2010 and accelerated exportation.

In past months export economy has evidenced increasing signs of slowing down. Catch-up effects in the area of capital-intensive goods are subsiding. Developments were also cooled down by the sluggish economy in the USA and the crisis in several markets of the European Union. Intensified consolidation efforts in the European zone will put pressure on German export economy.

The German export growth of 7%-8% forecasted by the BDI and its member associations will once again surpass the pre--crisis level. However, this presupposes that politics and business can master the looming challenges jointly. As suggested by the BDI, initial projects in partnership with countries rich in raw materials should contribute toward securing the supply of raw materials in Germany. Even if the Doha Round concludes in 2011 without visible results, the Federal government must advocate against protectionism and for free trade and open markets on the European and international levels. The BDI espouses an ambitious conclusion on a multilateral basis and the expansion of bilateral agreements with important trade partners such as India. Last but not least, it is increasingly imperative for export economy that the shortage of qualified personnel be confronted with a sustainable immigration policy.

Developments in the Industrial Sectors

Automotive Industry: Catch-up race continues slightly decelerated

In 2010 automotive exports were able to develop dynamically post-crisis in almost all market regions. For the number of passenger cars, the industry association VDA assumes for 2010 a growth of 23%. Growth was somewhat lessened in the fourth quarter, but this is explained by the base effect, since recover already began in the last quarter of 2009. Engines of economic growth are the USA and China with growth increments of 50% this year, whereby the dynamics are currently lessening to some extent in the USA particularly. The VDA predicts slight growth for the first quarter of 2011. However, exports to Western Europe are most likely to stagnate due to expiring government incentive plans. Positive impulses are anticipated from the BRIC countries, in which the VDA continues to see growth potential. The area of commercial vehicles, which fell sharply in 2009, will continue to develop well above average; but backlog demand here is much greater.

Chemicals Industry: Catch-up process is weakening

The chemicals industry is Germany's second largest export industry with exports at a total of 144 billion euros and a 15% share in all German exports. The industry's export rate of 84% was therefore exceptionally high. After the slump of chemical exports resulting from the economic crisis, chemicals trade recovered quickly in the course of 2010. Exports increased in all market regions except North America. In the sector's most important market, the European Union, demand for chemicals grew at double-digit rates. Exports to Asia and Latin America could even attain growth rates between 30% and 40%. Other foreign markets grew dynamically, too. Only foreign trade with North America was disappointing.

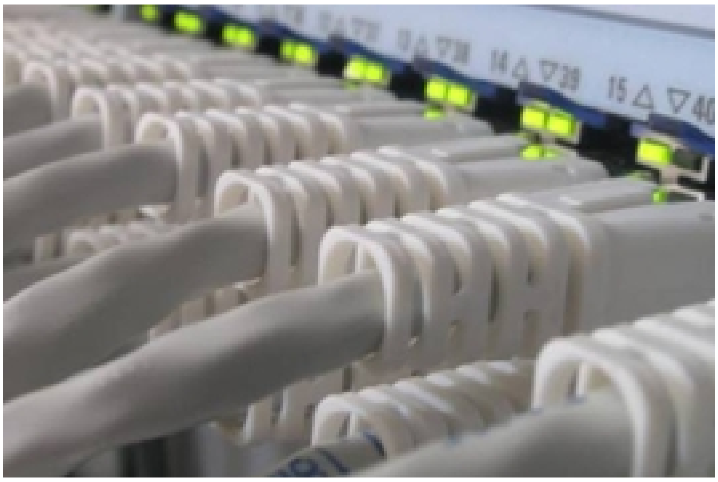
After rapid recovery, German chemicals exports had already reached pre-crisis level in the summer. In the entire year 2010 a total growth of 17.5% could be posted. However, the rate has lessened recently and continued to normalize. In the coming year exports are predicted to attain an added 5%.

Electrical Industry: Companies remain confident following upturn

With an export volume of approx. 144 billion euros, the electrical industry has accounted for 15% of all German exports. In this sector too, the export rate of 83% is exceptionally high.

In September 2010 the electrical industry was able to export a volume of 13 billion euros, a 26% increase year-on-year. Thus, foreign trade continues to be the pacesetter for industrial recovery. A similarly high export value has not been measured since autumn 2007. In the first three quarters of 2010 electrical exports amounted to 103 billion euros, a 24% increase year-on-year. This made up for more than 90% of crisis-induced export losses.

Anticipated exports continue to show expansion, and 94% of the electrical companies are counting on stabile or growing export business in the coming three months. Although the German electrical industry markets more than two-thirds of its exports within Europe, the strongest export impulses, however, are coming invariably from Southeast Asia and Latin America. From January to September the electrical exports to Europe exceeded the previous year's level by 22%. At the same time exports to Southeast Asia and Latin America increased by 40-46%. In the first nine months of 2010, exports to China (7.2 billion euros) were almost as high as exports to the USA (7.6 billion euros).



Data processing technology. Photo: BDI/Fotolia (Thiery Burot)

Mechanical Engineering: Vigorous growth in foreign countries

Machinery and installations accounted in 2010 for a volume of 122 billion euros and 13% of all German exports. With an export rate of almost 70%, this sector is at home in the global markets.

Exports of this sector were able to inscribe an exclamation mark in September 2010 with an increase of 29% year-on-year! In the first three quarters of 2010 machinery exports marked an increase of 10.3% year-on-year, a double-digit upsurge for the first time. All world regions are profitable, but still there is quite a spread. Market leader in the first three quarters was Latin America with +29.5%. At the end of the spectrum was the "EU 27", the largest export region for machines, with a restrained growth of 1.5%. A pleasant relief is the growth of North America with a plus of 16.5% after such a long dry spell. The boom of mechanical exports to China (+28.1%) continues unabated; this boom has helped many companies through the crisis, and its end is unforeseeable.

In all key target regions for German exports there are countries that come out of the crisis only very slowly. In Europe these are Great Britain and Spain. In Asia Japan is no longer in the top 20 target destinations for German mechanical engineering and has been replaced by Taiwan. On the import side, the German market became the driving force for engineering sales in Europe from January to September with a plus of 12.7%. Mechanical engineers in Italy, Switzerland, the USA, France, Japan, and China profited from these imports.

The German Engineering Federation VDMA is anticipating an additional strong export volume for the first half of 2011. This has been signaled by incoming orders from January to October 2010. In this time period foreign demand increased by 37%, while the demand increase within the Euro zone was below average at 21%.

Food industry once again on path of growth

Food industry exports amounting to almost 43 billion euros account meanwhile for almost 5% of all German exports. The sector's export rate of 26% is, however, below the German economy's average.

In the first nine months of 2010 food amounting to 30 billion Euros was exported. That is a growth of 9% year-on-year and signifies a return of the export-oriented food companies after the crisis year 2009 to the pre-crisis path of growth. The export record level of 2008 will not yet be reached, however. About one-third of exporting growth in 2010 can be ascribed to price increases. After the international price slump at the end of 2008 and start of 2009, the international prices for agricultural commodities and food have clearly risen again in the last 18 months. Export business is the growth force in the food industry. Major export products of the foods industry are dairy and meat products, candies and alcoholic beverages. The most important markets for German food are the European Union, Russia, the USA and Switzerland.

Bottling plant. Photo: BDI/Fotolia (SP)

Textile and Clothing Industry: Commodity prices slow down

The textile and clothing industry, with an export rate of around 75%, belongs to one of the strongest export-oriented sectors in German industry.

The economic recovery of global economics has had a positive effect this past year on this sector. Year-on-year in the first nine months, textile exports experienced an increase of approx. 15%, and the imports increased approx. 14%. In contrast, the clothing exports increased by +4% year-on-year, while imports from the EU and third countries rose by 6.4% year-on-year. Exportation of textiles and clothing to the EU rose by 7.9%.

The growth driver is first and foremost the technical textiles division, with non-woven fabrics contributing significantly to this development. The acquisition of raw materials and semi-manufactured products causes a lot of difficulty for the industry, since the supply prices of natural and artificial fibers have risen sharply in past months. The price for cotton alone rose in November to an all-time high of over 1.60 USD per pound, which is more than double in year-on-year comparison. Besides the globally attractive demand for textile products, stock market speculation and export restrictions play a large role in the commodities sector. Even in the medium term there is unfortunately no easing of the price and buying situation to be counted on.

Textil industry. Photo: BDI/Fotolia (Moreno Sopelsa)

Steel and Metals Industry on the road to recovery

The German non-ferrous metals industry generated almost half of their revenue abroad.

The non-ferrous metals industry association WVM anticipates an increase in exports of up to 20%. In the period of January to September 2010 there was a distinct increase of 27% to 13.8 billion euros. In the crisis year 2009 foreign revenue was 28% below that of the previous year.

Trading volume is strongly influenced by volatile stock market quotations of the non-ferrous metals: After the lows at the turn of the year 2008-2009, most of the non-ferrous metals quotations recovered considerably. Exports to Asian countries increased with unique force, especially in China. In the first three quarters of 2010 the aluminium industry increased exports by 24% subsequent to a slump of 27% to 5.0 billion euros in 2009.

The steel industry also demonstrates an export rate of almost 50%.

In this sector in 2010 the exportation of rolled steel to the EU and third countries increased by approx. 23%, but remain with 20 million tons clearly below the level of the years 2004-2008. On the import side, imports of around 19 million tons will fall short of the peak value of 2007 by approx. 20%. At the same time on the import side, clear shifting has taken place, and the third country imports to Germany between January and September 2010 have dropped slightly. They fall below the level of 2007 by more than 50%. In contrast, imports from other countries of the EU were clearly in an upward trend, with a plus of over 30% emerging for this year. In 2011 the German steel trade's surplus will presumably decrease in light of the relatively good demand in this country.

Welder. Photo: BDI/Fotolia (John Casey)

Paper Industry: Subtle expansion in 2011

The German paper industry also exports almost 50% of it production.

Subsequent to the deep recession in 2009, the paper industry has recovered perceptibly and will nearly reach its pre-crisis volume level in 2010. Production and sales in the first ten months of 2010 increased by 12%, substantially higher year-on-year. The mainspring for recovery in the first ten months of 2010 was once again the foreign sales that rose by 16% more markedly than domestic sales did by 7%. Demand from Western Europe grew by 11% and from Eastern Europe by 19%. Deliveries to countries outside Europe developed vigorously with an increase of 34%. This demonstrates the positive development of the global economy, but also the relatively weak rate of the euro. The high growth rates compared to the pre-crisis year 2008, however, put things into perspective: Sales abroad were slightly higher than 2008 at 2.5%, but domestic sales were 3% below the level of 2008.

In 2010 the largest share of the German sales abroad (63%) went to Western Europe. In the meantime the share of exports to Eastern Europe is 24%. That has increased strikingly in the last years. The share of total foreign exports is again at 13%; the effects of the crisis were strongest here. Demand from abroad in 2011 will increase only slightly because of the already high level in 2010. Challenges for the paper industry are the high cost of commodities and the newly developed production capacities in Asia and South America.

Paper industry. Photo: BDI/Fotolia (SemA)

Shipbuilding Industry: Problematic financing

The shipbuilding industry is at home in the foreign marketplace thanks to an export rate of 63%.

The global crisis in shipbuilding is not over yet. The improved economic situation has not yet led to enough incoming orders in the German shipyards. Even though there was a substantial delivery of new ships, almost 90% of which were exported, at the same time the degree of capacity of utilization for the construction of new merchant vessels worsened. According to available information, the incoming orders for the whole year will encompass about two billion euros, which is less than the targeted average annual production of approx. three billion euros. Orders for new merchant ships have remained well behind production goals on the global scene as well. The financing of new orders causes problems because the restraint of banks is still always great when investing in special ships. This is even more painful with regards to competition, since their own governments provide extraordinary support to Asian competitors in China and Korea. In other areas of shipyard activity with a high export rate, such as naval shipbuilding, repairs and rebuilding, capacity utilization has worsened. Low demand for new ships also places a great burden on the shipbuilding suppliers industry.

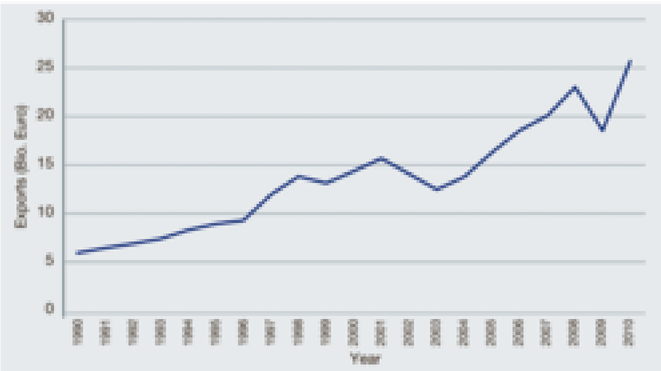
Shipbuilding. Photo: BDI/Fotolia (PictureArt)

Regional Overview

Focus on the Region

In Germany the growing focus of politics and business is Latin America. The German federal government introduced a Latin American and Caribbean concept in August 2010, on which the Latin American Initiative of the German economy collaborated. Political supportive measures in the region will be distinctly increased: The Ministers of Foreign Affairs, Economics, and Education and Research have visited Latin America in 2010. The Federal Minister of Economics, Rainer Brüderle, and the Minister of Foreign Affairs, Guido Westerwelle, were accompanied by business delegations. German companies have clearly expanded their commitment to the region: From 1990 to 2010 exports have increased by 432%.

German exports to Latin America
2010: BDI Forecast



Source: Statistisches Bundesamt, BDI

Increased focus on the region is well justified; Latin America has weathered the international financial and economic crisis much better than Europe or the USA. A solid economic growth of approx. 6% is expected for the entire region in 2010. Individual countries such as Brazil (7.5%), Argentina (7.5%) and Peru (8.3%) are developing even more dynamically. Even a country like Mexico, which suffered notably in the crisis because of its close interdependence with North America, grew last year by 3.5%. But smaller countries like Paraguay and Panama offer interesting opportunities for German companies. The growth trend will continue in the coming year to a somewhat slower extent and will benefit from the region's large abundance of natural resources, increasing industrialization and high investments in energy and infrastructure. Economic policy conditions have improved as well; many countries used the pre-crisis upswing to reduce indebtedness and pursue stability-oriented policies.

BDI: Great expertise in the region

The BDI does not have to reinvent its Latin American activities. We have worked continually in past years on the promotion of German-Latin American economic relations. The traditional focus was on Brazil, which belongs to the most significant major players in international recovery due to its size and current growth. For almost 30 years now the BDI has organized the German-Brazilian Economic Conference, actually the most important and largest regular economic meeting with any country. In 2010 it took place in Munich from 30 May to 1 June and, with 800 participants including several German and Brazilian ministers, formed an excellent platform for exchange and new business initiatives. Vice Chancellor and Foreign Affairs Minister Guido Westerwelle gave a highly acclaimed speech on the special strategic relations of Germany and Brazil and their future. An integral part of the economic conference is the German-Brazilian Initiative for Cooperation in Agribusiness and a Workshop on Innovation. In March 2011 a Workshop for Value Creation from Bio-Resources will take place in Sao Paulo. One of the cooperating partners of this event is the German House of Science and Innovation that was established in 2010. Together with four other houses of this kind in the world, the interface between German research and industrial implementation will be visualized, and cooperation will be promoted. The main focus of the German House of Science and Innovation in Sao Paulo is bio-resources and renewable energy technology – areas in which Brazil is a cooperation partner on equal terms.

Priority Country: Brazil

The BDI fortified its activities with Brazil in 2010 by establishing the Brazil Board. The initiative "WinWin 2014/2016" was established as the first operative project that will facilitate German companies, primarily small and medium-sized businesses, in sharing in Brazilian investments connected with the two great sport events, the FIFA World Cup in 2014 and the Olympic Games in the summer of 2016. There are meanwhile almost 100 companies working together successfully in this initiative. The BDI will also assume the project leadership of the "Year of Germany" 2013-14 in Brazil. For the first time an economic institution will head up this prestigious all-inclusive exhibition of Germany overseas. The presentation in China went from 2007 to 2010 under the motto "Germany and China - Moving Together". BDI activities play a part in fulfilling the economic dimension of German-Brazilian partnership specified in an agreement between President Lula and Chancellor Merkel in 2008.

Other countries in the region are also in the focus of BDI's foreign trade endeavors. In 2010 the BDI held a German-Chilean Economic Conference for the first time in close cooperation with the Chamber of Commerce Abroad in Santiago. The conference keynote was "Innovation and Sustainable Resource Management". This conference was a success and will be continued. The BDI is also planning to strengthen cooperation with countries such as Mexico and Argentina. In November 2010 cooperation agreements with the Mexican entrepreneurs' association COPARMEX were made. The aim of all BDI activities in Latin America is the promotion and advancement of German business activities in each country. Hence, the BDI works intensely with the LAI (Latin American Initiative of the Germany Economy), which is supported by the Association of German Chambers of Industry and Commerce (DIHK), the Federation of German Wholesale, Foreign Trade and Services (BGA), the Banking Association, the Business Association for Latin America (LAV) and the BDI.

The LAI organizes the Latin American Conferences of the German Economy, which take place every two years. In 2010 this conference was held in Mexico from 16 -18 June. Holding this event in Germany is under consideration in order to better involve the target group of German companies in the future.

Optimism in politics and business

Latin America is not only an important and strategic partner for Germany, but also for the EU, in shaping global determining factors for matters such as climate protection and international trade. In a multilateral sphere, the BDI energetically participates in building stronger ties with Latin America through BusinessEurope. Currently, negotiations for a free trade agreement between the EU and Mercosur are scheduled, the resumption of which was concluded at the EU-LAC Summit in 2010 in Madrid. The BDI is working closely with political leaders in Germany and Brussels to submit German industry interests into the contract negotiations.

Rio de Janeireo. Photo: BDI/Fotolia (Pavla Vanicka)

Protection of German foreign investments

German industry is well positioned internationally and is keeping pace with globalization. This is demonstrated not only by extraordinarily high export rates of 47% of the GDP, but also by German investments in other countries amounting to approx. 945 billion euros. German companies have direct or indirect share in around 30,000 companies on foreign soil, which employ roughly 5.5 million staff. With these investments, German companies are advancing the economic development of those countries, creating jobs, and guaranteeing the competitiveness of their companies on the world markets.

The high financial and entrepreneurial commitment of German companies abroad is tied to a large risk. A good measure of political stability and legal security in the target country is a key criterion in making a decision to invest as a business and thus influences the financing of a project. One way to protect investors from infringements on their foreign investments is through investment promotion and protection agreements (IPPA). Since the 1950's the German federal government has ratified around 140 such contracts under international law with other countries to promote and protect our foreign investments. In many cases it is only then possible at all for German industries to become involved in large projects in developing and emerging countries. IPPA's are always bilateral – they also protect the foreign countries investments in Germany. That is a beneficial factor in Germany in view of increasing investment readiness of companies, e.g. from China.

When the Lisbon Treaty entered into force in December 2009, the competence for negotiating the IPPA's went from the member states to the EU. In July the European Commission published a draft of transitional agreements intended to regulate the transfer of competence from the member states to the EU. In a position paper the BDI challenged the institutions of the European Union in particular to guarantee legal security for the existing IPPA's. Furthermore, new IPPA's negotiated by the EU must allow for investor-state arbitration proceedings that offer companies an exceptionally high degree of legal security. On 9 December 2010 the BDI, the Society for the Promotion of Foreign Investments (GfA) and the law firm K&L Gates organized a panel discussion on the topic. The participating company representatives stressed the great significance of IPPA's for risk management of business and banks. The political value of the agreements rests in the avoidance of conflicts that can be solved in many cases through diplomatic channels and political support.

The Committee on International Trade of the European Parliament is currently dealing with the Commission's proposed regulation. Presumably in April the vote will be scheduled in the European Parliament. The BDI is lobbying for the highest possible degree of protection for German foreign investments.

BDI position paper on the transfer of competence to the European Union: *Link*

Industry Sector Focus: Security and Defense Industry

Security policy responsibility requires industrial competence

Germany's responsibility in terms of global security has changed considerably and for this reason has expanded. An intrinsic element of this responsibility is the industrial competence in the areas of security and defense and Germany's own access to it. The German security and defense industry (SDI) makes a strategic contribution to national capabilities on the security front that reaches way beyond its quantifiable economic significance. It is therefore necessary to integrate the dimension of industrial policy into longer-term structural concepts. The German SDI is a driving force for technological innovation. It is leading internationally in many fields of technology and can only acquire its technological capabilities for the necessary national needs through success in export markets. In view of the different prevailing conditions in the European member states, political support and government backing for the industry are vital for exportation.

Framework conditions are crucial

Sustainable, secure competence in German technology is foundational to Germany's role in achieving a powerful and competitive European armament base. A European arms market that is based on competition and quality of products with the same general conditions (level playing field) for all participating countries is imperative. Today's research has a decisive impact on tomorrow's economic and technological success. Research and development are therefore the foundation of Germany's top technological position and success in the global market. The products of the German SDI are based on high technologies and huge investments for research and development. This high-tech sector contributes directly to the task fulfillment of German security forces deployed for the protection of the population. To this end, efficient procurement procedures must be ensured by dismantling bureaucratic hurdles. This requires not only close cooperation between government authorities and industry, but also the optimization of processes and sequences. Reciprocal information-flow and even staff exchange between industry and government authorities are necessary; close and trustful cooperation among the industry, the armed forces and the procurement agencies is imperative.

Business and Politics must play their part

The involvement of the German security and defense industry is vital for reliable and assertive German foreign and security policy. This will require the Federal government's pivotal coordination of the industry and all participating departments. The industry is prepared to assume its share of the responsibility.

Navy ship K130. Photo: TKMS

Christian-Peter Prince of Waldeck, BDSV

»The German security and defense industry is a vital element of reliable and assertive German foreign and security policy. The industry bundles its core competences and provides an internationally accepted basis as prerequisite for inner-European and trans-Atlantic cooperation. Only those who maintain their own skills can function as equal partners internationally.«

Christian-Peter Prince of Waldeck, Director General of the Federation of German Security and Defense Industries (BDSV)

Federation of German Security and Defense Industries (BDSV)

The Federation of German Security and Defense Industries (BDSV) is a member of the BDI since 1 October 2010. This new member with its future-oriented and technology-oriented approach, as well as its economic weight, is now member of of the BDI. The BDSV represents the interests of companies that are understood as an important factor for foreign and security policy in the European and global context.

The federation officially started operations in Berlin in January 2010. Its overall goals include safeguarding and expanding the competitiveness and sustainability of the German security and defense industries and Germany as a technology and business location. The BDSV is a lobby for companies of the security and defense industry nationally and internationally. It regards itself as a partner for companies of all sizes in a rapidly changing economic sector. Medium-sized companies make valuable and essential contributions in many areas both independently and in partnership with systems houses. The sector takes a top position owing to its research and innovation know-how, quality and reliability, and its distinct abilities in international cooperation; it also provides decisive impulses to a variety of industries. The BDSV therefore represents an industrial sector that contributes significantly to security, innovation, economic strength and employment in Germany.

The significance of the BDSV stems from the strength of its member companies and serves them as a competent and accepted partner on all levels of politics and administration. The BDSV works together with other associations and lobby groups. The federation serves as a platform for its members and bundles the interests of the sector to political and administrative decision-makers, as well as to the public through professional and communicative competence. The BDSV underscores the vital role of the German security and defense industries in peace and security.

BDSV | Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie e.V.

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