Annex "A"

[illegible]

[illegible]

Attached to Annex "B" is a statistical statement of exports from the United Kingdom and Germany to Pakistan between July [illegible] and December [illegible] giving details of the ten principal commodities [illegible]. This shows [illegible] and the end of 1956 the United Kingdom [illegible] then lost ground, but has since succeeded in pulling [illegible] figure of 29% whereas during the same period Germany steadily increased her share from 5% to 11%. The statement, however, does not reveal the [illegible] statistical position since the figures shown are for private account imports only. Details of government account imports (which have varied between [illegible] and 50% of total imports during the period under review) are not available, but, from what little information the Ministry of Finance has disclosed [illegible], we believe that our competitive position in this field is very much better. For instance, we know that in the trade year 1955-56 the United Kingdom supplied 53% of imports on government account. We do not know what Germany's contribution was but it could not have been more than [illegible] which was the share of "all other countries" (i.e. other than the United Kingdom, the U.S.A. and Canada).

2. These percentages will perhaps be seen in better perspective if compared with the figures for actual imports on government and private account during the years under review.

Year	Total £m	On Private Account £m	On Government Account £m
1951-52	243	213	30
1952-53	150	102	48
1953-54	126	80	46
1954-55	120	100	20
1955-56	96	77	19
1956-57 (July-Dec.)	78	39	39

3. The main fields in which there has been a decline in the United Kingdom position on private account are the following: iron and steel and manufactures from 35% in 1952-53 to 19% in the first half of 1956-57 (over the same period Germany's position improved from 6% to 14%); chemicals from 50% to 48% (Germany 5% to 15%); machinery from 53% to 42% (Germany 12% to 20%); vehicles from 55% to 39% (Germany 5% to 6%); and dyes and colours from 33% to 28% (Germany 11% to 24%). Of these much the most important is the fall in our share of machinery imports, since on the one hand, despite the growing importance of raw materials, machinery is likely to continue for some years as the largest single item of Pakistan's imports (foodgrains apart), and on the other hand our own position in this market has become increasingly dependent on machinery exports. Here Germany has made the main inroad at our expense with a share which rose from 12% in 1952-53 to 26% in 1955-56, though there was a fall to 20% in the first half of the current trade year 1956-57.

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4. Statistics, however, are only one facet of an analysis such as this and in the following paragraphs it is proposed to examine the extent of German penetration under four heads.

I. Participation in local industrial and developmental activity;
II. Supply of plant and machinery;
III. Supply of industrial raw materials;
IV. Supply of consumer goods.

1. Participation in Local Industries.

5. German firms have in the last few years joined with local manufacturers in the following major enterprises - dry dock and shipbuilding yards (Stulken Sohn/Pakistan Industrial Development Corporation); telephone factory (Siemens & Halske/Post and Telegraph Department); dyes and dyestuffs plant (Bayer & Hoechst/P.I.D.C.); pumping sets (K.S.B./Batala Engineering Co.); switchgear (A.E.G./Malik Diesels Ltd.). There is also under consideration a Krupp/P.I.D.C. proposal for a steel mill at Multan and Mr. Amir Ali Fancy is reported to be negotiating with Klockner Industrie Anlagen, G.m.b.H., for a rolling mill and wire drawing plant and also a sponge-iron conversion plant.

6. Dry Dock and shipbuilding yards. The estimated total cost of the Karachi dry-dock and shipbuilding yard is 65m. of which 43m. has already been spent on Phase One. The P.I.D.C. first sought to interest United Kingdom shipbuilders in the project, but they and the Ministry of Transport in London were dubious about the practical and economic value of the scheme. Subsequently, H. C. Stulken Sohn of Hamburg agreed to design and build the yard and dry dock and to run them for a period of ten years. By the end of 1956 Phase I of the shipbuilding-yard (including workshops and foundries) was complete; the dry dock it is estimated will be finished by mid-1958. All the major items of equipment were purchased in Germany and, although open tenders were invited for workshop machinery, in this case also practically all the orders went to Germany. The response by United Kingdom firms was poor and what bids they did put in were considered uncompetitive as regards delivery and design. Some work was sub-contracted, but no United Kingdom firms tendered. The quay wall went to Germany, the building berths to France and the dry dock to Gammon (Pakistan) Ltd., a British-controlled local firm.

7. The only United Kingdom participation in this project has been:

(a) an agreement made in 1955 between Ruston & Hornsby and the P.I.D.C., under which the former are to assemble vertical marine diesel engines of from 30 to 500 h.p. in the shipyard. Progress in this direction has been constantly thwarted by the German management of the shipyard, but the first engine is expected to be assembled in November this year;

(b) a British concern, Overseas Dredging Co. Ltd, has contracted to clear the approach channel to the shipyard which at present has an insufficient through flow of tidal water. This was one of the reasons why United Kingdom firms and the Ministry of Transport in London were doubtful about the shipyard's practicability.

[illegible]

firm and they may well [illegible] to [illegible]. But the very fact that they are considering the proposal [illegible] [illegible] firms have usually shown a certain reluctance to [illegible] with the P.I.D.C., a reluctance which has not been shared by the Germans.

12. The only other examples of actual participation by German firms in local industrial enterprises are:-

(1) The PIDC-KSB Pump Manufacturing Co. - a joint venture between [illegible] (51%) and Klein Schanzlin & Becker, A.G. (49%) for the manufacture of centrifugal and deep-well turbine pumps. Generally speaking, the venture has proved successful (only two component items are now being imported from Germany) though recently the company appears to have over-reached itself in trying to meet the whole of the indigenous demand for pump units;

(2) The arrangement between A.E.G. and Malik Diesels under which switchgear components supplied by the German company are assembled in the Pakistani firm's factory at Lahore. This arrangement almost duplicates that of Johnson & Phillips Ltd. who have their own branch factory for the assembly of switchgear sets on the Sind Industrial Trading Estate, Karachi

(3) The Siemens-[illegible] plant on the Sind Industrial Trading Estate. This was set up to assemble switchgear, cast iron distribution boards and electricity meters. It has only recently gone into production and so far activity is confined to meter assembly.

13. Proposed steel mill and baling hoop/wire drawing plant.

(1) The Krupps/P.I.D.C. Steel Mill project, under which Krupps would put up 10% of the capital and would over a period of ten years combine the roles of managing agents and consultants, has been the subject of bitter controversy between the P.I.D.C. on the one hand and the Finance Department and Planning Commission on the other. It has yet to receive financial sanction. Our understanding of the present position is that the Planning Commission has given the proposal a very low priority on the basis of its exchange-saving potential and that it is unlikely to mature in the foreseeable future. Mr. Faruque, the Chairman of P.I.D.C., has not, however, given up trying to force his will upon the Government and the latest unconfirmed report is that he has secured an offer from Germany of three years credit on 80% of the price (initially £16 million, total £26 million) starting from the date the mill enters production (i.e. approximately 6 years credit altogether).

(2) Even better credit facilities (4 years on 100% from the commencement of production) are understood to have been offered to Mr. Amir Ali Fancy in connection with his proposed baling-hoop and wire-drawing plant; in addition to a 20% capital investment. None of these projects is likely to have any significant effect upon the U.K's normal trade with Pakistan. They are all largely "once for all" projects and to the extent that their products would replace imports (mainly ingots and billets), Belgium, France and Germany itself would be the main sufferers.

[illegible]

(d) Transformers. The pattern here is much the same as for steam turbines, though English Electric recently obtained a £103,000 order for the new Multan power station;

(e) Hydro-electric plant. United Kingdom prices and deliveries in general appear to be competitive although the scope for business is limited in view of the plant being supplied, or likely to be supplied, as gifts by Canada under the Colombo Plan and the United States under F.O.A. aid.

(f) Telecommunication equipment. Siemens and Halske are the principal competitors of U.K. interests in this field and their success is generally acknowledged to be the result of salesmanship rather than price. They are well established here (the telephone factory at Haripur) and have excellent relations with the Posts and Telegraphs Department. Lorenz products are cheaper than Siemens' or Marconi's but that firm has not so far made an attempt to enter the market.

Nevertheless, local representatives of U.K. firms are generally optimistic about the market for electrical equipment. They speak of lengthening German order books, recent wage awards in Germany and a noticeable tendency for German firms to raise prices once they have secured a foothold in Pakistan. There is a feeling that the period of German superiority in this field is ending and that German prices must increasingly come into line with our own;

(ii) Internal combustion engines. In Pakistan these are nearly all diesels. Germany is our principal competitor, particularly in the 200 to 500 h.p. range of vertical engines. There is little or no competition in lower horsepower engines, either in the vertical or horizontal class, where the market is dominated by the United Kingdom. German slow-running engines in the 200 to 500 h.p. range [illegible], principally [illegible] extent sacrificed standards in order to produce a cheap engine which is sold for 10% to 15% less than a comparable British engine. As in other fields, delivery dates are no longer a determining factor in the diesel oil engine market.

(iii) Boilers and boilerhouse equipment. Pakistan is predominantly a United Kingdom boiler market. Last year the United Kingdom supplied Rs.1.2 million worth of boilers against Rs.0.1 million supplied by Germany. The only competition comes from Germany; Krupps, M.A.N. and Steinmuller. Competition from Krupps and Steinmuller is vigorous; these two firms have in the past quoted at a loss to gain a foothold in the market. They have also secured business by quoting deliveries which they knew could not be fulfilled, secure in the knowledge that Pakistani estimates for the related civil works were equally unrealistic;