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INTELLIGENCE BRIEF

CZECHOSLOVAKIA BIDS FOR A LARGER SHARE
OF WESTERN MACHINE TOOL MARKETS

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CZECHOSLOVAKIA BIDS FOR A LARGER SHARE
OF WESTERN MACHINE TOOL MARKETS

A unique marketing arrangement for the sale of Czechoslovak machine tools in the US through a US machine tool firm is indicative of the current attempt by Czechoslovakia to achieve great increases in its exports of machine tools to the industrial West, long a virtually impenetrable market for Communist producers of machine tools. Under the agreement the Simmons Machine Tool Corporation of Albany, New York, has imported a group of "elephant-type" machine tools (very large and expensive -- \$350,000 per unit), has made certain modifications to the electrical systems, and is offering them at attractive prices in the US. The Czechoslovak machines -- a 17-foot vertical boring mill and two horizontal boring mills -- are of good quality and are technologically suitable to the requirements of Western industry. Simmons contemplates selling at least \$13 million to \$14 million worth of the Skoda machines by the end of 1966.

Such marketing agreements, along with overdue domestic reforms now being implemented, should enable the Czechoslovak industry to increase markedly exports of machine tools to the industrial West. The economic liberalization proposed in October 1964, which permits leading firms to undertake direct export dealings, also allows more freedom in determining inputs and is encouraging a program of standardization of parts and sub-assemblies, all of which should help to reduce costs. Czechoslovak negotiations to alter quotas and tariffs are now in progress with several West European countries and already have been successful in the UK.

1. Background

The industrial West long has been a virtually impenetrable target for Communist exports of machine tools. Requirements in the West for top-quality, well-designed, technologically advanced types very nearly preclude any chance for Communist countries to sell equipment at prices representing a reasonable return on the real cost of manufacture. Service organizations, supplies of spare parts, and extensive marketing arrangements also are necessary for the sizable export of machine tools. Thus, even at considerable price concessions, Communist countries have experienced great difficulty in selling machine tools to the industrial West. Most exports have gone to less developed countries in transactions that usually involve credits and not sorely needed hard cash.

C-O-N-F-I-D-E-N-T-I-A-L

2. Czechoslovak Machine Tools for US Industry

A unique marketing arrangement for the sale of Czechoslovak machine tools in the US by the Simmons Machine Tool Corporation of Albany, New York, and the Skoda Works of Plzen, Czechoslovakia, is indicative of current Czechoslovak attempts to achieve great increases in exports of machine tools to the industrial West. Under the agreement, Simmons, a rebuilder of machine tools that is now expanding into manufacturing, has imported "elephant-type" (very large, heavy-duty) machine tools from Skoda and has made certain modifications to the electrical systems. These machines will sell for approximately \$350,000 per unit.

Simmons has advertised the machines as "especially built for the US market" and "built by Skoda under the Simmons name and to our specifications." Actually the machine tools are nearly identical with models that have been made by Czechoslovakia since 1958. Lead screws of a US type have been installed instead of metric screws, and Simmons will accept requests for reasonable modification from a prospective customer.

The Czechoslovak machines were introduced to US buyers in November and December 1964 in the Simmons factory, along with working models of other giant Skoda machine tools. Three pieces of equipment were on the floor -- a 17-foot vertical boring mill and two horizontal boring mills, one of 8-inch and one of 10-inch bar capacity. All three are modern and well built and should be competitive in the US market. Simmons expects first that delivery times should be shorter -- only a few months for the Czechoslovak machines compared with 14 months for comparable US-made types -- and, second, that prices should average approximately \$100,000 (30 to 40 percent) below prevailing US prices. In order to provide further inducements to buyers, Simmons has guaranteed the machines under its own new machine warranty and will provide all necessary services and spare parts.

Eventually the "Simmons-Skoda" line will be expanded to include other types of elephant machine tools, such as heavy-duty lathes (up to a 13-foot swing), vertical boring mills (up to a 60-foot swing), planer-type millers, milling machines, and roll and crankshaft grinders. Simmons expects to sell \$5 million worth of the Skoda products in 1965 and \$8 million to \$9 million worth the following year. In view of the interest shown last December by potential customers, these projected sales may well be realized.

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The Czechoslovak machine tools sold to Simmons probably are priced below the real costs of manufacture. This is a common Communist technique to achieve market penetration, for once name and quality are established, prices can be raised. Czechoslovakia is faced with a tariff of 30 percent of the value on the boring mills exported to the US; countries with a "most favored nation" stature pay less than half these rates. High packaging and shipping expenses, when added to tariff charges, add up to \$90,000 per unit on the type of machine tools imported by Simmons. Batch production of heavy machine tools for customers in the Soviet Bloc and cheaper labor give Czechoslovakia a certain production advantage, but it is not likely that even the marginal costs incurred by adding a few extra units to production can be covered by the revenue gained from the sale of these machines to the US without changes in existing tariff rates.

3. Czechoslovak Prospects of Entering Western Markets

Of all the Communist countries, Czechoslovakia has the best opportunity to crack Western markets for machine tools. Although the industry is by no means modern and up to date by Western standards, many products, especially large multipurpose types, incorporate enough modern design features to make them attractive buys in world markets. A very wide variety of machine tools is built and, with production of about 21,600 metalcutting machine tools in 1963, Czechoslovakia ranks second of the European Satellites. 1/ US and UK experts on machine tools have commented favorably on many models exhibited at the 1964 Brno International Fair.

Foreign sales are vital to Czechoslovakia's machine tool industry; of the approximately \$90 million worth of such machines exported in 1963* (one-half of total production in terms of units), the Free World received about one-quarter -- \$22 million. 2/ West Germany, Switzerland, France, Italy, and the UK received only \$6 million of that amount, whereas the remaining \$16 million went to the less developed countries of the Free World, reflecting Czechoslovakia's dependence on them as markets for its machine tools.

The Czechoslovak machine tool industry lost ground in the industrial West in 1963. The major nations of the industrial West reduced their purchases of Czechoslovak machine tools by nearly 40 percent, from \$9.9 million in 1962 to \$6.0 million in 1963. Moreover, preliminary production figures for 1964 do not suggest a substantial improvement. Higher prices, caused in part by higher costs due to overdiversification of types and models, contributed to the decline.

* Metalworking machinery, nearly all of which is machine tools.

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4. Domestic Reforms to Boost Exports

Realizing the importance to the economy of exports of machine tools and its poor performance in the past 2 years, Czechoslovakia has begun to take concrete steps to make domestic producers more competitive in world markets. A standardization program, underway since mid-1962, is designed to reduce the number and types of machine tools produced and to increase the use of standardization parts and subassemblies. This program could go a long way toward reducing overly high costs of production.

Draft plans for liberalization of the Czechoslovak system of economic planning unveiled in October 1964, even if only partly adopted in the Fourth Five Year Plan (1966-70), may ease bureaucratic shackles that have hobbled leading industrial sectors for the past few years. 3/ The draft proposals should aid the program to reduce costs in the machine tool industry by permitting greater autonomy for larger plants in determining their inputs of labor and raw material and by allowing certain decisions on investment to be made at the plant level.

Of equal importance, however, is the fact that major plants are expected to receive more freedom in dealing with foreign customers. At present the state export monopoly, Strojimport, handles all but the smallest details in contracts for exports of machine tools. The reforms will increase producers' responsiveness to foreign demand by permitting customers to place orders directly with suppliers without the usual long delays. In addition, efforts now in progress to have Western import quotas and tariffs on Czechoslovak machine tools altered resulted early in 1964 in the UK's dropping import quotas on many Czechoslovak engineering products, including machine tools.

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Sources:

1. Rude pravo, 11 Feb 64, p. 2. U.
2. Facts on Czechoslovak Foreign Trade, 1964. U.
3. Rude pravo, 17 Oct 64, p. 3-4. U.

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