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JOINT RUMANIAN-SOVIET INVESTMENTS AND JOINT ENTERPRISES

Summary: The 1971-1976 plan period may usher in a large number of joint Rumanian-Soviet investments for the development of the raw material sectors of both countries. The first of such agreements, covering the joint development of iron ore deposits in the Soviet Union and its enrichment, is all but ready for signature. Although the Rumanian Party has abandoned its long-standing opposition to the establishment of joint or mixed enterprises for co-operation production (in the 1971-1976 Plan Directives issued in June 1969), and has already agreed to create two joint enterprises with Chile (one in Chile and the second in Rumania) the newly proposed joint investment projects with the Soviet Union do not seem to involve the establishment of joint production enterprises.

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Two recent Radio Moscow commentaries in Rumanian discussed a number of proposed joint Soviet-Rumanian investment projects, and left the impression that the establishment of joint enterprises for the development of raw materials is a distinct possibility during the period covered by the next five-year plan (1971-1975). (1)

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- (1) Commentary by Alexei Krokotkin, section chief in the Soviet State Planning Commission, Radio Moscow in Rumanian, 9 September 1970 (1700 hours), and a commentary which quoted Gosplan chairman N.K. Baibakov, Radio Moscow in Rumanian, 10 September 1970 (2100 hours).

Although Rumania has participated in joint investment projects in the past, the proposed investments with the Soviet Union as its partner will be a new experience for her. (2) The possibility of establishing joint production enterprises (3) represents a reversal of Rumanian foreign economic policies outlined in the "Statement on the Stand of the Rumanian Workers' Party Concerning the Problems of the World Communist and Workers' Movement," adopted by the enlarged Plenum of the Party's Central Committee in April 1964. (4)

Joint Investments

The joint development of the so-called Braila project, which involved Czechoslovakia, East Germany, Poland, and Rumania and resulted in the establishment of the reed cellulose combine in Rumania, followed the conclusion of an agreement among the parties in 1956. (5) The first section went into production in 1961 and the second in 1964. Rumania's contribution to the first section was originally set at 150 million old rubles, Czechoslovakia's at 30 million, East Germany's at 110 million, and Poland's at 10 million old rubles.

Although other East European states have participated in the joint exploitation of raw materials located in the Soviet Union, (6) until 1970 Rumanian avoided such arrangements with

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- (2) If one excludes the notorious joint stock companies established in the immediate post-World War II period, which were disbanded in the 1950s.
 - (3) The Haldex company, established by Poland and Hungary, is today the only known joint industrial enterprise established by two or more Comecon members. It serves to sift coal mine tailings, from which briquettes are produced.
 - (4) Agerpres in English, 27 April 1964.
 - (5) Veac Nou, 22 June 1956; Radio Bucharest, 17 April 1957; and Romania Libera, 3 May 1957. See also Rumanian Situation Report, Radio Free Europe Research, 19 July 1963.
 - (6) E.g., the joint Polish-Soviet exploitation of Byelorussian potassium salt deposits, with Poland providing machines and installations on credit to a value of 70 million rubles; the joint development of the Kingisepp phosphorus deposits in the Soviet Union by Bulgaria, East Germany, Hungary, Poland, and the Soviet Union; the joint construction of the Friendship crude oil pipeline by Czechoslovakia, East Germany, Poland, and the Soviet Union, to bring Siberian crude oil to Eastern Europe; the construction and operation

the Soviet Union. Joint East European investments in the Soviet raw material sector were concentrated largely in two periods, the first period in the late 1950s and early 1960s and the second during the late 1960s and in 1970. The most extensive such investments are covered by the agreements signed recently, and no doubt more will soon follow.

In an article by Radu Constantinescu, Vice-Chairman of the Government Commission on Economic and Technical Co-operation, (7) references were made to the possibility of joint Rumanian-Soviet investments in the development of the raw material sectors of both countries. Constantinescu noted that:

With a view to expanding the exchanges of certain raw materials, such as iron ore, cellulose, etc., from the Soviet Union and soda or other chemical products from Rumania, [Rumania] has agreed to continue negotiations on co-operation in the production of these goods.

During the Maurer talks in Moscow on 28-29 May 1970 other raw materials were included, and negotiations on the issue of joint investments led to further developments in this field. An article by I. Ionescu in the June 26 issue of Viata Economica added further information when it observed that:

... Several new joint industrial projects are being contemplated, to effect an increase in deliveries of raw materials, semi-finished goods, or finished products.

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- (6) (Cont'd) of the Peace power grid by Comecon countries; and more recently, the joint Bulgarian-Soviet development of the Komi SSR timber resources in the Soviet Union; the joint Bulgarian-Hungarian-Soviet construction of a calcinated soda plant in Bulgaria; the joint Bulgarian-Soviet construction of a cellulose plant in the Soviet Union; the joint Soviet-Bulgarian development of Soviet foundries and steel plants, with the aid of 5,000 Bulgarian workers; the proposed East-German-Soviet joint investment in various raw material projects, particularly those located in Kazakhstan; joint Hungarian-Soviet investments in the Soviet ferrous metallurgical sector; and the joint Czechoslovak-Soviet investments in the development of the Soviet crude oil, iron ore and natural gas industries. The overwhelming share of Soviet joint investments in East European countries has been made in Bulgaria. By the end of 1975, total Soviet investments on credit in Bulgaria will have reached about 1,750 million rubles.
- (7) Viata Economica, 6 February 1970; see also Rumanian SR/12, RFER, 12 February 1970, Item 2.

Rumanian and Soviet agencies and organizations are now examining the possibilities of undertaking a joint project to develop iron ore production in the Soviet Union in order to increase exports to Rumania; Rumania would contribute machinery, equipment, and financial aid. The appropriate agencies in the two countries are studying the possibility of Rumania's participating, under the same conditions, in developing the Soviet Union's asbestos fiber and cellulose production capacities, in order to increase delivery of these products to Rumania; they are also examining the possibility of the Soviet Union's participating in the production of caustic soda and soda ash in Rumania, to increase exports to the Soviet Union.

According to the Soviet commentator Krokotkin, in a September 9 radio commentary in Rumanian:

The two parties have arrived at an understanding regarding the conditions for Rumanian participation in the development of iron ore production and its enrichment in the Soviet Union. An agreement to this effect will be signed in the near future.

In addition, the Soviet commentator noted that "a decision has been adopted regarding joint participation in the establishment of raw material production units which require large capital investments, for the purpose of facilitating reciprocal deliveries." Included in the prospective co-operation in raw material production were coke and coal, metallurgical coke, pig iron, rolled steel products, iron ore, manganese, chromium, copper, nickel, cotton, etc. The Soviet Union, in turn, agreed to carry on negotiations concerning its participation in the development of Rumania's production of "caustic soda and other chemical products, as well as china and glazed tiles."

As can be seen from this listing, the range of raw material products which may be developed jointly has been expanded considerably. Nevertheless, the listing is incomplete. In addition to the June 2 agreements resulting from this year's visits by Maurer and Ceausescu to Moscow, mention has also been made of the joint development in Rumania of a continuous steel casting plant, a large rolling mill and an alloy sheet steel mill, steel converters, and a set of chemical coking units. (8)

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- (8) Dumitru Dinu, "Soviet-Rumanian Economic Co-operation Discussed," Scanteia, 7 June 1970 and Radio Moscow in Rumanian, 3 June 1970; see also Rumanian SR/32, RFER, 18 June 1970, Item 5.

In discussing the expansion of economic co-operation, Krokotkin referred to "joint participation in the establishment of raw material production units which require large capital investment." Some observers might conclude on the basis of this statement that the establishment of joint enterprises is contemplated by the Soviet Union and Rumania, though this would mean a reversal of Rumania's views on the question of establishing joint enterprises within Comecon, views which were clearly set forth in the Party's policy statement of April, 1964. The recent establishment of two Rumanian-Chilean joint stock enterprises (9) -- one in Chile, with Rumania holding a minority interest, and another in Rumania with Rumania as the majority stock holder -- would also tend to support the possibility of the organization of Soviet-Rumanian joint enterprises.

Joint Soviet-Rumanian Enterprises?

The April, 1964, Rumanian Party statement on problems in the World Communist and workers' movement opposed the establishment of "a single planning body for all Comecon countries," on the grounds that such an action would have the "most serious economic and political implications." The Party statement noted that a supranational planning body would violate "one of the fundamental, essential, and inalienable attributes of the sovereignty of a socialist state -- the fact that the state plan is the chief means through which the socialist state achieves its political and socio-economic objectives, establishes the directions and rates of development of its national economy, its fundamental proportions, investments, and measures to raise the population's living standard and cultural level." The statement then added:

The sovereignty of the socialist state requires that it effectively and fully avail itself of the means available for the practical implementation of these attributes, holding in its own hands all the levers by which economic and social life are managed. Transforming such levers to superstate or extrastate bodies would turn sovereignty into a meaningless motion.

The threat to sovereignty, as seen by Rumania, was not limited to joint planning through a supranational Comecon agency. This is clear from the following passage in the Party policy statement:

All these things are also fully applicable to interstate technical-productive branch associations, as well as to enterprises jointly owned by two or more states. The state plan is one and indivisible. No part or section can

(9) See Rumanian Unit, "Rumanian-Chilean Joint Stock Enterprise," Rumanian Background Report/16, RFER, 7 September 1970.

be separated from it and transferred outside the state. It is impossible to manage the national economy as a whole if the management of some branches or enterprises is removed from the jurisdiction of the Party and government of the respective country and transferred to extrastate bodies.

Then came a statement to the effect that Rumania does not wish to stand in the way of others who want to establish such joint enterprises. However, they should not be established under Comecon auspices. This "option doctrine" was stated as follows:

Undoubtedly, if some socialist countries see fit to adopt forms of direct co-operation that differ from those unanimously agreed upon within Comecon, that is a matter which concerns those countries exclusively and which they alone must sovereignly decide.

A number of Comecon countries criticized Rumania for her "negative attitude." Nevertheless, Ceausescu stuck to the April, 1964, Party statement on supranational planning and suprastate economic organization in an address at a meeting in the Jiu Valley on 11 August 1968 (10) on the occasion of Rumanian Miners' Day, and at a session of the Rumanian Parliament in November of the same year, (11) shortly before the 23rd Comecon Council session took place.

It was in the 1971-1975 Economic Plan Directives, issued in June, 1969, that the Party came out unequivocally in favor of establishing joint enterprises for co-operation in production. (12) The Directives declared: "One must take into consideration the realization of joint investments designed to meet raw material needs as well as the establishment of mixed enterprises of a production or commercial nature.

This does not mean, however, that Rumania would now be willing to permit Comecon to organize joint enterprises without the unanimous consent of its members. The establishment of the Chilean Rumanian joint enterprise, nevertheless, represents the application of this new (for Rumania) form of economic co-operation in production. Previously only joint marketing and servicing companies had been established.

(10) Scanteia, 12 August 1968.

(11) Radio Bucharest, 29 November 1968 and Scanteia, 30 November 1968.

(12) Scanteia, 1 June 1969.

Turning to the imminent agreements on economic co-operation between the Soviet Union and Rumania, one may ask if joint enterprises are also contemplated. Although references to new forms of economic co-operation have been made in commentaries by Radio Moscow in Rumanian, it would be premature to conclude that the establishment of such enterprises by the Soviet Union and Rumania is assured. It is clear that the iron ore project is a joint investment venture which does not involve the establishment of a joint enterprise. While Krokotkin did mention the "establishment of raw material production units," a statement which could be interpreted to mean the establishment of joint enterprises, his listing of various raw materials to be developed jointly includes iron ore, where seemingly only joint investments are contemplated. In support of this view we have Ionescu's statement in his article in Viata Economica. (13) After mentioning the "joint project to develop iron ore" and Rumania's contribution of "machinery, equipment and financial aid," he clearly stated that in the development of Soviet asbestos fiber and cellulose production the "appropriate agencies in the two countries are studying the possibility of Rumania's participating under the same conditions" -- namely, on a joint investment basis, with the credits to be repaid by Soviet deliveries of raw materials from the about-to-be-developed "joint projects."

In conclusion, one may state that at present the evidence points to the establishment of joint Soviet-Rumanian investment projects that do not involve the creation of joint enterprises, with all the concomitant difficulties they bring in their train. (14) However, the creation of the Chilean-Rumanian enterprises for the development of copper resources in Chile and the fabrication of copper products in Rumania will make it more difficult for Rumania to refuse to enter into this form of economic co-operation should the Soviet Union ever express the desire to create such a joint Soviet-Rumanian enterprise. The inclusion of a clause guaranteeing Rumania a controlling interest in all joint enterprises established on Rumanian territory would ensure that such

(13) 26 June 1970

(14) For an early discussion of possible types of joint enterprise and economic-political problems raised by their creation, see H. Trend, "Conflict Over Comecon Joint Investment Enterprises," Bloc Economy Background Report, RFER, 28 May 1963.

units would be managed by the Rumanian state and government, subject to the policies set in the Rumanian national plan. In extraterritorial joint enterprises in which Rumania would hold only a minority interest, she would have to rely on her representatives on the management boards of the enterprise in question (or perhaps resort to some type of arbitration procedure) to present official Rumanian policies, perhaps exercising the option to sell her proprietary share in the enterprise as the "ultimate weapon" in her effort to encourage the foreign partner to agree to her policy views.

Harry Trend