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1991 Agricultural Developments Examined

92CH0476E Prague EKONOM in Czech 2 Apr 92
pp 16-19

[Article by Alex Bernasek, Federal Ministry of Economics: "Whither Our Agriculture"—first paragraph is EKONOM introduction]

[Text] Agriculture is a branch of the national economy which combines a number of contradictory functions. This fundamental "characteristic" of agriculture is not tied to the social system, to natural conditions, or to production goals, but is an irrevocable fact with which contemporary agrarian systems in individual countries are coming to terms, some better, some worse. Agriculture fulfills the function of producer of foodstuffs and supplier of the market, the function of consumer of products from other branches, the function of a branch which, on the basis of the migration of its workers, facilitates the expansion of production and of services in the remaining sectors of the economy. And finally, it is a function which creates landscape, an ecological and colonizing function which essentially gives priority to other areas of interest than the preceding functions.

Overvaluing some of the functions of agriculture leads to significant disproportions. This is what occurred in our country in the recent past when the production function was prioritized and, in the brief postwar era, the migration function was given priority. Overvaluing the production function of agriculture in the years past was wholly within the spirit of the strictly materialistic ideology of the communist regime. This, together with the express politicizing of the overall view of the structure in the allocation of production, the organizational structure, with absolute disregard for property law relationships and the negation of all historical experiences and interconnections, resulted in consequences, the rectification of which will be neither speedy nor simple.

It is totally understandable that, under such conditions, not even the production function of agriculture itself was able to be fulfilled to an optimum extent. Agriculture was gradually becoming a branch, the fundamental duty of which under actual conditions of a closed economy was to assure the provision of supplies for the domestic market—virtually and literally at any price. The gradually posed political goals of so-called "cheap food" or "the attainment of self-sufficiency while supplying the domestic market with foodstuffs of a moderate nature" were encountering ever greater difficulties in implementation, which were based primarily on the absence of natural property law relationships. Under conditions of a centrally controlled economy, not even the prerequisites necessary for the purposeful development of these relationships existed, that is to say, a free market with a clearly determined factor of supply and demand, liberalized prices, and liberalized trade, complete with an essential measure of competition. Czechoslovak agriculture thus gradually found itself in a maze and the further

development of its natural production potential was not solvable within the framework of the existing system.

Growth of Costs and Subsidies

The relatively high measure of self-sufficiency in moderate foodstuffs was achieved as a result of a high volume of material inputs. Given the rapid rise in production consumption and in capital assets, net production over the past 10 years actually stagnated and the relationship of agriculture to the state budget deteriorated rapidly. The positive balance of assets of 12.5 billion korunas [Kcs] in 1980 gradually changed to a liability (-Kcs1.8 billion in 1989). The extensive and resource-intensive method of increasing the measure of self-sufficiency was accompanied by negative ecological consequences. One of the reasons for the rise in costs as well as in the extent of state subsidies was the unnatural allocation of production resources, the "maintenance" of which required a permanent rise in the funds provided from the state budget.

At the end of the 1980's, for example, in the cooperative sector of Czechoslovak agriculture, Kcs100.00 invested funds resulted in Kcs126.60 of plant production in the corn and sugar beet area, whereas in the worst production conditions (the mountainous production region), this figure was only Kcs88.20. As recently as 1990, more than 26 percent of the subsidies paid by the state were used to subsidize production under the worst natural conditions, areas where a mere 9 percent of the overall volume of market plant and livestock production takes place (data obtained from the Czech and Slovak Federal Republic). For understandable reasons, which include particularly climatic and soil conditions, this problem is on an accelerating trend, particularly in the Slovak Republic, where about 30 percent of market plant and livestock production is produced under such conditions, and consumed approximately 62 percent of all subsidies.

"Escape" Into Related Products

In the very production undertaken in Czechoslovak agriculture, there was a predominant trend toward "escaping" into related products which, given the low state bulk-buying prices of agricultural products, resulted in the necessary resources. In recent years, some 50 to 90 percent of profits were based precisely on profits from related products.

Fundamentally, it can be stated that Czechoslovak agriculture was achieving comparable results in grain cultivation, in the cultivation of rapeseed and some traditional commodities, whereas products which demanded a high quality and were labor-intensive (products related to the raising of cattle, the cultivation of sugar beet, etc.) lost ground.

Low Level of Product Finishing

The level of finishing agricultural products, based on the technological obsolescence of the processing industry,

remained wholly outside of any discussion. The processing industry in the Czech Republic is written off to approximately 65 percent because, in the past, it was a victim of the "centrally managed" distribution of investments which prioritized the transfer of resources to the energy industry, heavy industry, etc. And no matter how new the foodstuffs industry is in the Slovak Republic, it is not possible to make an unequivocal judgment regarding its better results in the past based on that fact.

Thus, the starting position of Czechoslovak agriculture at the beginning of 1991 was highly unfavorable and did not provide the slightest guarantee of a successful "cure" for its afflictions on the basis of traditional measures, such as the price restructuring prescribed in the past or other methods of redistributing state subsidies. The transformation of agriculture was inevitable, taking the principles of economic reform fully into account. However, the necessity to take into account the biological character of production and ecological renewal as well as the landscape-forming and colonizing function of agriculture have remained a clear agricultural specific.

Legislative Prerequisites for Transformation

The transition of agriculture from centralized management to a market economy represents a complicated process of transformation. During the course of 1991, the appropriate limitations were outlined, one side of which is given by the legislative regulations which have been adopted (particularly by the land law, by the Commercial Code, by the transformation law, by the law on the transfer of state property to private individuals, etc.). For the present, it is very difficult to judge the effectiveness, the accompanying manifestations, and the complexity of the adopted laws. It is perhaps even more difficult to judge the extent to which they will actually help transform Czechoslovak agriculture into a modern sector capable of competition under conditions of an open market. At this moment, let us be satisfied with finding that the greatest advantage accruing to the majority of the laws is precisely the fact that they exist.

Government Agrarian Policy

The substantive side of the transformation process was outlined in the agrarian policy of the federal government, which was also worked out during the course of 1991. Its adoption required the finding and formulating of essential compromises between interests interested in the stability of agricultural production and the necessity to implement extensive systems changes, between the need to conceptually design agriculture as an open sector and the need to provide protection against subsidized imports from countries of the Economic Community for a limited time, compromises between the interests of producers and consumers. The agrarian policy clearly is aimed at a lower measure of state incursions. Gradually, direct incursions by the state into agriculture will be eliminated because advancing privatization excludes

such incursions by its very character. An essential measure of state incursions, however, remains justified, even during the period of transformation.

Evaluation of the Findings of Last Year

The year 1991 represented the first confrontation between the process of transforming Czechoslovak agriculture to a market economy and the inertia represented by the past decades of centralized management and the consequences of unnatural allocation of production resources and the forcefully outlined entrepreneurial forms. The past year also represents a set of findings, the analysis and evaluation of which makes possible the further more effective progress of transformation. Let us briefly consider some of them.

At the beginning of last year, the situation was characterized by a growth of unrealized agricultural surpluses. Over a short time horizon, agriculture was unable to react to the specific decline in demand, which occurred as a result of the elimination of state subsidies for foodstuffs produced, particularly for livestock products and the subsequent liberalization of prices. The paid-out compensation contribution was naturally unable to effect a change in this situation. The consumer behaved according to the principle: "Meat is more expensive and I am receiving a compensation contribution? Good. I shall eat less meat, but will buy a new necktie (however, that product also had its price decontrolled)." This type of conduct on the part of the consumer, predicated on the calculations pertaining to the change in the demand structure and verified by actual experience, placed agriculture into a situation which was virtually unsolvable in the short term. Production, which was based in the long term on a stabilized level of consumption, encountered a demand barrier and, quite understandably, this was followed by a depression of the realization price of agricultural products (in the better case, the prices stagnated). More than 30 percent of the growth in prices experienced by the final consumer, which occurred at the beginning of 1991, was shared in by monopoly businesses and the processing industry, rather than agriculture. Agriculture, in contrast, began to "collect" the higher prices being charged for inputs, to which it was unable to react by effectively raising its own prices, given the high overhang of supply over demand pertaining to its own products. Under these circumstances, it would be essential to devote primary attention to two fundamental problems—the renewal of the market balance and the solution of the agricultural revenue situation.

Renewal of Market Balance

The inconsistent utilization of national funds of market regulation at the beginning of the year tended to complicate the situation rather than solve it. It was not until the middle of 1991 that supplemental resources were made available by the federation and that principles for a coordinated approach in regulating the market were adopted at the same time and that a gradual equalization between supply and demand occurred on the domestic

market, accompanied by a recovery of the producer realization prices. These prices developed as shown in

Table 1 in comparison with the average for the year 1989.

Table 1. Development of Realization Prices for Agricultural Products From the Second Half of 1991 (average prices for 1989 = 100)

Item	July	August	September	October	November	December	Average From Beginning of Year
Total agricultural products	99.3	100.4	96.2	111.5	111.7	111.2	103.8
Including							
Plant production	102.2	104.0	102.4	121.1	125.5	113.6	110.1
Livestock production	93.6	93.2	91.9	96.7	102.9	110.6	99.8

To renew the market balance, the Federal Fund for Market Regulation purchased and exported 13,000 tons of butter, 21,700 tons of dried low-fat milk, and 9,000 tons of dehydrated whole milk. Of the 1991 harvest, intervention purchases resulted in the purchase of 1,081,500 tons of wheat for food production, and 182,600 tons of rye for food production. Until the end of

the year, cattle intervention purchases remained within the purview of the national funds for market regulation.

It remains an indisputable fact that the essential growth of producer realization prices creates pressure in related price circles for a rise in prices to be paid by the final consumer. These prices developed as shown in Table 2 in the second half of 1991.

Table 2. Development of Consumer Prices During the Second Half of 1991 (December 1990 = 100)

Item	July	August	September	October	November	December	Average From Beginning of Year
Total consumer prices for goods and services	149.2	149.1	149.5	149.4	151.8	153.6	145.3
Including							
Foodstuffs	127.2	127.0	128.0	127.9	132.3	136.1	129.5
Nonfood items	167.4	167.2	167.2	166.4	166.9	167.7	160.0
Public catering	146.2	145.7	145.4	144.7	144.7	146.3	145.2
Services	140.9	141.8	142.5	146.1	151.3	152.2	132.8

From the overview, it is clear that, at the end of the year, food product prices rose particularly, but that, on the annual average, the index of food product price increases is expressly below the prices for industrial goods and services.

In a more simplified manner, it is possible to state that the renewal of market balance (of course, we could more easily speak of its gradual creation) represents a process, at the end of which the producer must be willing to produce and sell and the consumer must be willing to buy the goods being offered. The mutual consensus is then expressed by the price which is acceptable to all.

It was precisely the unfavorable relationship between realization prices and the prices of inputs in 1991 which was one of the reasons for the unfavorable revenue situation in agriculture.

Solving the Revenue Situation

The integration of the state in favor of solving the revenue situation in agriculture last year had the character of direct as well as indirect assistance.

Indirect assistance consisted of the already-mentioned measures to bring about market balance. The signals of the market pertaining to the development of demand for agricultural products (understandably, these are signals of a market which is basically balanced) are an irreplaceable information source for the producer of foodstuffs and are an impetus for the natural allocation of resources. The role of the state can be seen primarily in active support for and initiation of market development. Such assistance on the part of the state is fundamental and decisive.

In 1991, direct aid was also provided, which consisted of forgiveness of parafiscal payments, a deferral of interest payments, and other measures, totaling Kcs3.1 billion.

However, not even these measures were able to prevent agriculture from suffering a deteriorating revenue position. The negative turnaround occurred in organizations of primary agricultural production as early as the beginning of the year as a consequence of the sales crisis affecting agricultural production, as a result of a restrictive subsidy and credit policy, as a result of the deepening disproportion between the development of realization prices of agricultural products and the cost of

materials, fuels, and energy. The economic situation of organizations was further influenced by problems of a property character, problems of a personnel character, of a production and economic character, with impacts upon a decline in work discipline and economic responsibility.

The drop in economic results experienced by cooperative and state organizations engaged in primary agricultural production amounted to Kcs21.1 billion by 31 December 1991 which, in comparison with the same period of the previous year, represents a worsening valued at approximately Kcs31.7 billion.

The revenue position of agriculture, in comparison with 1990, is characterized by the following overview of indexes for the CSFR:

Table 3. Development of Selected Indicators of Management in Cooperative and State Agricultural Organizations (in Billions of Kcs)

Indicator	Actual, as of 31 December		Difference Between 1991 and 1990	Index, 1991/1990
	1990	1991		
Total output	211.8	154.8	- 57.0	73.1
Material expenditures, excluding write-offs	112.2	99.6	- 12.6	88.8
Wage costs	34.1	27.6	- 6.5	80.9
Financing costs	40.5	33.7	- 6.8	83.2
Total costs	200.9	176.0	- 24.9	87.6
Profit (loss)	10.6	- 21.1	- 31.7	—

However, the revenue situation in agriculture is not fully comparable with previous years. The reason is primarily the different method of accounting for subsidies, which were previously entered as a part of the outputs and profit, whereas in 1991 they are shown particularly as

resources for distribution. This, together with the already mentioned forgiveness of parafiscal payments in the amount of Kcs2.6 billion, creates a result which is relatively comparable with 1990 (see Table 4).

Table 4. Utilization of Resources at the Disposal of Agricultural Organizations, Excluding Centrally Managed Organizations (Cooperative and State Farms)

Indicator	Actual, as of 31 December		Difference	Index
	1990	1991		
Profit (loss)	9.9	- 20.3	- 30.2	—
Subsidies	1.7	10.1	+ 8.4	586.5
Utilization of funds	0.5	5.6	+ 5.1	1,120.0
Other resources	0.2	1.1	+ 0.9	550.0
Payments	3.4	0.5	- 2.9	14.7
Fund allocations	9.7	2.1	- 7.6	21.6
Other uses	0.5	0.5	—	100.0
Shortage of resources	- 1.3	- 6.6	- 5.3	—
Forgiven payments included	—	2.6	—	—
Adjusted shortage of resources	- 1.3	- 4.0	- 2.7	—

Way Out for This Year

If we evaluate the results achieved in regulating the market and improving the revenue situation, it is clear that fundamental systems measures can comprise only incursions to balance the supply and the demand on the domestic market. The fact that there is no place here for the subsidizing of prices for the final consumer is clear because it would mean, on the one hand, a deferral, and

on the other hand, a prolongation of the problem, not its resolution. In principle, it is also essential to reject demands which lead to the preservation of the status quo in their consequences, such as, for example, quotas, price subsidies, full state guarantees of production and sales, or subsidizing prices of input materials in an across-the-board mode. This would lead only to stimulating agricultural workers to produce more than we are capable of consuming and produce it more expensively

than consumers would be willing to pay. Here, it would certainly be suitable to note the frequently heard arguments that we are capable of producing at lower (koruna) costs than, for example, farmers in Germany and that there is actually nothing to improve are not relevant to the given problem. The Czechoslovak farmer produces for a domestic consumer and it is precisely the demands on the domestic market which are an indicator of the efficiency of his production.

As far as the costs of domestic production is concerned, we can state, at the beginning of 1992, with a certain simplification, that they were more above the level of realizational prices for the majority of products for just about all of last year. Losses were incurred by more than 73 percent of the agricultural cooperatives and more than 87 percent of the state farms. Today, this fact is the objective status of things (however, it is not immutable) from which two possible conclusions may be drawn:

- The costs of Czechoslovak agriculture are excessively high;
- The realization prices of producers are excessively low.

For the reader who has carefully read the preceding paragraphs, the response to question number one is clear. Yes, the costs of Czechoslovak agriculture are excessively high—they are based on the unnatural allocation of production and a number of other objective and subjective factors. One of the subjective factors is undoubtedly the decline in utility, which continues to render a unit of produced production more expensive. This process reached dangerous dimensions, particularly in the Slovak Republic, where, for example, the average annual milk yield per cow declined by about 600 to 700 liters. A change in this status represents a process which requires a certain amount of time.

Basic information on the development of prices during the second half of 1991 is provided in Table 5, which lists the indexes applicable to the development of realizational prices (formerly bulk-buying prices).

Table 5. Indexes of Development Pertaining to Realizational Prices in the Second Half of 1991*

Item	July	August	September	October	November	December	Average From Beginning of Year
Industrial products	176.7	177.4	176.8	176.8	162.2	154.8	169.9
Construction	153.9	153.5	153.2	154.1	154.4	154.4	149.9
Construction materials consumed in construction industry	167.3	166.8	166.2	166.4	166.9	166.9	163.1
Agricultural products	99.3	100.4	96.2	111.5	111.7	111.2	103.8

* The indexes of development pertaining to prices in the production sphere for the CSFR were computed from a base where prices were as follows: in industry for the same period of last year = 100; in the construction industry as of 1 January 1990 = 100; in agriculture, in 1989 = 100.

From the overview, it is clear that, on average, realizational prices for agricultural products rose in 1991 as compared to 1989 by only 3.8 percent, whereas the cost of inputs (industrial products, construction work) increased by an average of 50 to 70 percent. To expect that such a status could continue is an illusion and dangerous. In view of the current capabilities and requirements of agriculture, the realizational prices for agricultural products are low and only an increase in these prices can facilitate the "survival" of an essential

number of producers necessary to safeguard the threshold of foodstuffs security. With regard to the interconnection of price circuits, it is realistic to expect that prices for the final consumer will also rise.

A factor which creates a risk for 1992 which cannot be overlooked is the relatively rapid decline in state subsidies which are already far below the level of such subsidies in the Economic Community, the United States, Canada, and Japan (see Table 6).

Development of Subsidies Expressed in Percent of Output

Year	1988*	1989*	1990*	1991	1992**
Percent of subsidies for outputs	17.4	17.0	19.5	16.4	12.5

* Excluding the negative sales tax applicable to food products.

** Forecast of the volume of outputs at the actual level of 1991; subsidies exclude the restructuring payments which amount to Kcs2.1 billion.

No matter how risky the expectations for 1992 and the subsequent year are, it is essential to emphasize that their starting point is the rapid transformation of Czechoslovak agriculture into an entrepreneurial and organizational form based on clear property relationships and equally clear business aims. It is essential to keep in mind that the high speed of the transformation process creates risks, the weighing of which is a constant component of agrarian policy. One of the necessary measures to mitigate these risks is, for example, the

restructuring subsidy program, approved by the federal government.

What To Say in Conclusion?

Currently, the outlook for the majority of agriculture is uncertain, even if the other sectors of the economy are beginning to climb out of the recession. Nevertheless, the trend is clear: the production of cheaper foodstuffs under conditions of an open market.

Commentator Deems 'Parys Affair' Damaging

AU0905155392 Warsaw GAZETA WYBORCZA
in Polish 4 May 92 p 1

[Commentary by Wojciech Maziarski: "Do Not Annoy the Gamekeeper"]

[Text] The presidential spokesman had some basis for talking about an escalation of the "Parys affair." One month after the minister's controversial speech, which is the subject of an investigation by what is already the second commission to have been specially set up for that purpose, it would appear that not only is the affair not drawing to a close, but that its scope is becoming ever wider. At first it seemed that we were only dealing with a dispute over authority between the Belveder and the Ministry of National Defense. Now, we suddenly find out that the minister is calling for the setting up of some sort of committees for the defense of the state, which are not defined any more closely, and crowds of his starry-eyed admirers sing the national anthem before him as if he were some hero who is to be dispatched across the ocean to save the fatherland.

A whole month has passed now, and neither Minister Parys nor any of his allies have produced any convincing proof that there really is a danger of a coup d'etat occurring in Poland or some form of authoritarian presidential rule being introduced. It is true that there is speculation about the intentions harbored by Lech Walesa, who would no doubt like to obtain more extensive powers, but for the time being he has confined himself to casual references to the subject. The charges formulated by Minister Parys to the effect that the president and his colleagues are supposed to be creating their own network of persons sympathetic to them in the army have not been conclusively shown to be warranted. So, they have to be approached with a large measure of caution: Perhaps, there is some element of truth in them, but it might equally well transpire that they are delusions on the part of a neurotic minister.

This is because there is no doubt that Jan Parys' latest moves and statements point to some great confusion that would appear to cloud his power of perception. A member of the Council of Ministers who calls for the creation of social organizations to defend the state—there is no mention of what or whom the state is to be defended from—somewhat calls to mind the crazy general in "The Good Soldier Schweik" who informs his troops that the details of the offensive for which preparations have been made will be given in the morning press (in this case it would no doubt be NOWY SWIAT).

This whole argument between Walesa and people who were until recently his enthusiastic supporters is embarrassing and damaging for the country. It is high time that both sides came to their senses. If they do not, it might all end like the story about the partisans and the Germans who fought such a long time over the forester's cottage until the gamekeeper finally got annoyed and drove all of them out of the forest.

Commentator Praises Walesa's 8 May Sejm Address

AU1205081392 Warsaw ZYCIE WARSZAWY in Polish
9-10 May 92 p 1

[Commentary by Kazimierz Woycicki: "A Task for the President"]

[Text] Lech Walesa has always been good at perceiving the general mood. He was right on this occasion, too, when he talked about a feeling of stagnation and despondency in society. He diagnosed the causes of the difficulties in governing the state. The cause of the confusion and chaos is a lack of clarity about the distribution of power between the main institutions of government: parliament, government, and the office of the president. Without clear-cut institutional solutions, there is no question of Poland being able to acquire an effective system of government. That is what makes adopting appropriate constitutional measures an urgent task.

The address was powerful and would appear to rank among Walesa's best speeches of recent times. Strong presidential authority would appear to be the best solution for a time of transition. The French system has many admirers in Poland.

If one accepts the validity of Lech Walesa's arguments, the question that immediately has to be asked is what preparations are being made in the president's office for assuming a greater burden of power? A president who is immediately responsible for directing the executive apparatus of state must abandon the strategy of "replacing bumpers," which destroys politicians who possess authority. The president's entourage should be changed and enriched through the inclusion of significant personalities who will not be treated as potential rivals by him. The "idea for Poland" that the president mentioned can only arise in offices in which independent thought and a desire for cooperation prevail, and not through court pomp. A strong president needs strong and independent partners around him.

So, Lech Walesa has addressed important questions to all responsible politicians in our country. He has also addressed them to himself. In seeking greater powers, he must expect to be exposed to criticism all the more, even if that criticism is well meant and conducted fairly.

Commentary Views President-Government Dispute

AU0805192092 Warsaw ZYCIE WARSZAWY in Polish
4 May 92 p 1

[Commentary by Jacek Zakowski: "The Limits of Tolerance"]

[Text] As the conflict between the Belveder and the government sharpens, Prime Minister Olszewski's closest colleagues seem to be forgetting what state officials may or may not do.

Krzysztof Wyszowski, a full-time adviser to the prime minister, said that the president is the greatest danger to Polish democracy, but did not explain why. Neither the prime minister nor any of his colleagues have considered it appropriate to dissociate themselves from this remark. Therefore, the impression is that they agree with Wyszowski.

During the same period, the minister of national defense mentioned a "list of national infamy" containing the names of politicians alleged to support a pro-Russian trend inside the army, but did not present any facts or mention any names.

The escalation of empty accusations aimed mainly at the Belveder could create a psychosis among society. People might be led to believe that the president is planning a coup d'etat. Key politicians in the ruling camp seem quite content to let people believe that. In fact, the NOWY SWIAT daily, linked to this camp, seems to be doing all it can to increase the social tension.

It is difficult to understand why government spheres are reporting this alarming news with such restraint. For a while it was believed that this restraint was deliberate, and that the political storm was supposed to disguise the vacuum in politics. However, Defense Minister Parys' call to establish a "State Defense Committee" gives rise to even greater fears and exceeds the limits of political tolerance, for the minister, who is in charge of the armed forces, has called for the creation of a body that could oppose the constitutional order. The response from the prime minister, who had previously expressed complete support for the defense minister, was limited to a ban on public appearances by Jan Parys. The head of the government is not even attempting to dissociate himself from these remarks. Therefore, he is doing nothing to dispel fears that the government is prepared to oppose the constitutional order if affairs fail to develop the way he likes.

Labor Solidarity Leader Bugaj Interviewed

*PM1205155092 Gdansk DZIENNIK BALTYCKI
in Polish 30 Apr-1 May 92 pp 1, 3*

[Interview with Sejm Deputy Ryszard Bugaj, Labor Solidarity leader, by Barbara Madajczyk-Krasowska; place and date not given]

[Text] [Madajczyk-Krasowska] Labor Solidarity no longer supports the government. Is your disenchantment with it connected with the policy pursued by the current finance minister Andrzej Olechowski?

[Bugaj] It is certainly not only the question of the person in charge of the finance ministry. Nevertheless, if the state budget is seen as an expression of the finance minister's policy, it is a very serious alarm signal indeed—serious enough to eclipse the government's announcement of a proposed revision of the economic policy and to leave it in the sphere of unrealized intentions. The budget is a fairly classic monetarist model,

with no attempt at finding a way out of the present difficult situation. However, we are more worried by other things. We are most concerned about the prime minister's personnel policy. It is incomprehensible, in our view.

[Madajczyk-Krasowska] Who do you object to?

[Bugaj] From the start we have maintained that it is a mistake to give the Interior Ministry to a person who is at the very forefront of politics. We have always believed that this position should be reserved for someone who is known for the stability of his views and who is not personally involved in political interplay. It would be best if it were, say, a university professor with almost no political sympathies, who could be relied on to safeguard the observance of the law above all else.

[Madajczyk-Krasowska] But the ministry in question needs a number of rather essential transformations. Among others, the old, conservative personnel should be replaced by new cadres. Would a nonpolitical and stable university professor be capable of introducing such changes?

[Bugaj] Why not? Only two conditions need to be met to replace the old apparatus: the will to introduce the necessary changes and the availability of suitable candidates.

[Madajczyk-Krasowska] Let us go back to the economic concerns. The state coffers are empty. Where are the necessary funds to be found? Should we simply print more money?

[Bugaj] Up to a point this course of action is inevitable. I have said it before, and I say it now: There is no way out. We must do as Balcerowicz has done.

[Madajczyk-Krasowska] What does this mean?

[Bugaj] Last year he authorized the printing of 20 trillion zlotys [Z]. And whereas this was quite deplorable and ideally should have been avoided, there seemed to have been no alternative course. This year the operation must be repeated.

[Madajczyk-Krasowska] The Confederation for Independent Poland [KPN] wants to print more money, too.

[Bugaj] I chose to use the example of Leszek Balcerowicz. I believe this is not without significance. I have the impression that the KPN wants to print more money almost without restrictions. In my opinion, the government will not be capable of financing the deficit that it forecast itself. Consequently, there will be no way out.

[Madajczyk-Krasowska] This means that, admittedly, we will have more money in our pockets, but its value will be less.

[Bugaj] There is a certain relationship of interdependence between the extent of a state budget deficit, the

method of financing that deficit, and the rate of inflation. However, this relationship is a very complex one. It does not work in the simple and automatic way whereby, say, we can increase the deficit by some Z20 trillion and end up with inflation higher by a directly linked percentage. It simply does not work like this. It depends on a whole range of interrelated circumstances.

[Madajczyk-Krasowska] Do you claim that inflation will not rise even if we print an additional Z20 trillion, then?

[Bugaj] I cannot answer this question with a simple yes or no because the inflation rate depends on a variety of factors. The level of deficit proposed by the government could result in a higher rate of inflation than would be caused by a higher level of deficit accompanied by a less rigorous financing system. There is no simple relation of dependence between deficit and inflation. The relationship is a multifaceted one. However, from our viewpoint, we do not intend to insist unequivocally that much more money be printed.

[Madajczyk-Krasowska] So what do you propose instead?

[Bugaj] To look for possibilities of increasing the state budget revenues. This issue involves the counter recession policy which is of key importance to our economy. It is the end of April now and nothing essential is happening at all. It is necessary to tax certain kinds of income which so far have escaped taxation. I see a largely increased source of budget revenue here.

[Madajczyk-Krasowska] What kinds of income?

[Bugaj] To date, a considerable proportion of our imports escape taxation. I am thinking here of both income tax and excise duty. Let me point out that the budget bill assumes a real growth of imports of 2.5 percent and at the same time forecasts that, short of increasing, the related revenues will suffer a slight drop. At the same time we are very well aware that the collectability of excise and turnover taxes is very severely restricted at source. This means that there are some reserves and possibilities there. There is also the question of tax allowances which are no longer rational. Back in 1990 it made sense to introduce tax allowances for individuals and joint ventures to set up commercial ventures, but by 1991, and especially the second half of 1991 when Poland already had some 100,000 wholesale trading outlets established, it was no longer rational. We insisted that these allowances be abolished; it would bring in large amounts of money. Moreover, the allowances were responsible for very extensive pathological market phenomena. This finding was confirmed by researchers of the Gdansk Institute for the Study of the Market Economy. Despite the recommendations, the government insists on keeping the allowances. I estimate that this year we will lose several trillion zlotys on this account.

[Madajczyk-Krasowska] By the government you mean specifically the Finance Ministry, do you not?

[Bugaj] I am a Sejm deputy. As such, I view the government as our partner. After all, the finance minister represents the government.

[Madajczyk-Krasowska] Several years ago during a meeting arranged by the Dominican Fathers in Gdansk you said that there was no objective economic policy and that economists naturally brought in their own views. You yourself admitted then that the socialist viewpoint was closer to your own convictions. What does this concept mean today?

[Bugaj] I doubt that I could have said that the socialist viewpoint was closer to my own convictions. I would certainly have said "the social democratic viewpoint." Today this term means several things to me. First, our economic policy should not be one-sidedly monetarist; instead, it should constitute a pragmatic mix of monetarism with a policy of economic growth. There should be a large scope for state intervention aimed to support restructuring processes. This in turn presupposes the thesis that ownership transformation processes must take many years to complete and that there is no possibility of a shortcut to a market economy system within one year, or even two or three years. We must give up the thesis postulating the market's precipitate opening to competition, because the economy is so weak that such a move could destroy it. Of course, it also presupposes that great care is taken to guarantee everyone acceptable minimum standards of equal opportunity and of social protection. The question here is not only social justice but also the fact that an economy in which the opportunity to an equal start for all is not provided will become internally "blocked" at the very outset.

[Madajczyk-Krasowska] But surely in our case the problem lies not so much in the program itself as in the fact that theory and practice diverge widely. To date, not even the most perfect, optimum program has had a chance to be accepted and adopted. If, for instance, Labor Solidarity came to wield power, it would presumably enter into a contract with the trade unions. This is one of your chief recommendations. But has Prime Minister Olszewski not attempted to do the same?

[Bugaj] I do not recollect Prime Minister Olszewski ever attempting to do it. Prime Minister Olszewski has never submitted a program containing even a minimum of specific proposals. It was no accident that the Sejm rejected the one that he did submit. A contract of this kind is not a simple and straightforward thing to negotiate. But it is certainly possible. It seems that Olszewski has missed a vital opportunity here.

[Madajczyk-Krasowska] But now we detect throughout Poland a widespread tendency to make excessive claims and demands.

[Bugaj] I do not agree that the tendency to make claims and demands is particularly prevalent in Poland. There are hundreds of enterprises in which people receive social welfare benefits, and unemployment is increasing very rapidly.

[Madajczyk-Krasowska] If the Sejm approves the Constitutional Tribunal's recommendation to upgrade state budget-funded wages and age and disability pensions, do you believe that the budget will collapse?

[Bugaj] The Sejm's approval is not tantamount to a specific decision on budget expenditure. According to its powers, the Sejm can either restore the previous budget bill or adjust it. It can adjust it so as to prevent wage and pension expenditures from exceeding Z5-10 trillion. In my opinion, this will clearly fail to satisfy many people, but it could give others a real chance. I believe that such a provision could be incorporated into the state budget without demolishing it. It was the government which calculated these estimated effects according to some extreme reckoning alternative and which came out with the Z60 trillion—and, of course, it must follow that Z60 trillion is an impossible sum to budget for.

[Madajczyk-Krasowska] Speaking at a preelection meeting, Aleksander Kwasniewski disclosed that Zbigniew Bujak's party [Democratic Social Movement, RDS] and Labor Solidarity had discussed joining forces in coalition with the Social Democracy of the Polish Republic [SdRP], but that in the end nothing came of it. He also suggested that it was the SdRP (or the Democratic Left Alliance [SLD]) that was not interested in forming a coalition with less influential parties.

[Bugaj] If Mr. Kwasniewski said this, he was lying. We have never attempted to establish any kind of contacts with Mr. Kwasniewski.

[Madajczyk-Krasowska] Did he try to establish contacts with you?

[Bugaj] He did not—or at least I do not know of any such attempts. Nor do I know of any approaches on his part. On the other hand, in the Sejm restaurant there are always conversations with a variety of people: Janusz Korwin-Mikke at one time, the deputies representing the SLD at another. The SLD benches hold an assortment of very different individuals. For example, there is Mr. Sekula there, though I fail to understand why he does not sit with the Liberal Democratic Congress in their benches. Then again, there are many people there who can claim a degree of social conscience, and they can boast perfectly respectable political past. The only thing that mars them slightly is the fact that they stayed in the PZPR [Polish United Workers Party] to the very end—though this is not true of all of them. There are also those who have never belonged in the PZPR. I see no reason at all why we should not seek their support in a number of practical matters in Sejm voting. We will shortly come up with the initiative of creating a party representing labor in Poland. We want to integrate the left oriented circles.

[Madajczyk-Krasowska] Are you counting on obtaining support from the Solidarity parliamentary caucus in this cause?

[Bugaj] It will not be a parliamentary movement. As regards Solidarity's parliamentary caucus, I am very surprised at their low profile. We wanted to encourage them to join us in certain causes, but they are dragging their feet a little and our initiative in this area has not been very successful to date.

[Madajczyk-Krasowska] Thank you for talking to us.

Draft Law on State Asset Management Reviewed
92EP0360A Warsaw ZYCIE GOSPODARCZE
in Polish No 13, 29 Mar 92 p 3

[Article by Zbigniew Grzegorzewski: "In the Name of the State Treasury"]

[Text] Until now, the Ministry of Ownership Transformation has joined two functions in its operations. The function of the body of the state administration which determines privatization policy and supervises its implementation and the function of representing the interests of the state treasury, which directly executes the privatization. In as much as the first role should be assigned to a body of the state administration; the second seems more appropriate for an object acting on commercial principles and not for the Ministry of Ownership Transformations. The latter has been conceded.

Confirmation can be found even in the Government Program for Privatization (discussed in ZYCIE GOSPODARCZE No. 8, 1992).

As a result of this revaluation, the Ministry of Ownership Transformation is developing a proposed law on representing the State Treasury and on the management of some its asset elements and on changes in some laws. The document is worth discussion also because it proposes measures concerning disposing of inessential assets by state enterprises and thus is a departure from dividends paid for unused assets.

The law is to regulate principles for representing the state treasury and managing the assets of that "owner" in relation to state property of legal persons and state organizational units without legal identity, of part ownerships, and stock belonging to the state treasury, gifts, inheritances, bequests to it, or rights to nonmaterial goods. The Trust Agency of the State Treasury is to operate as a state legal person and be supervised by the president of the Council of Ministers. (This will probably become a disputed question because the Sejm wants to retain such power.) The membership of the supervisory council of the Trust Agency of the State Treasury is also to depend on the prime minister.

The agency is to conduct independent financial management and to draw income from sales, rents, and leases of assets of the state treasury and its stock holdings and part ownerships. The budget law is to settle what part of the income after payment of the income tax should be transferred to the state budget. The Trust Agency of the State Treasury is to be subject to the "tax man" on

general principles, with one exception: The "tax on excessive wage increases" does not apply to it. On the other hand, the power to conduct an independent financial management is extensive enough that it includes, among other things, giving loan guarantees and emitting bonds.

Inessential assets of the state treasury are to be taken over on application by a state body or a state organizational unit without legal identity which has control of the asset. The agency can take over, on their application and on terms defined in a contract, inessential assets not only of state legal persons but also assets of gminas or unions of gminas. The parent body transfers the assets or the credits and debts, excluding tax delinquencies, which are amortized, for liquidations of enterprises. When the assets are taken over by the Trust Agency of the State Treasury, the obligation to pay dividends ceases, and this feature will draw the greatest interest.

Rights to permit interference in some plans of enterprises associated with fixed assets they hold, however, are also included. The agency is to have the right of first purchase of fixed assets, including the right of repurchase—at a nominal price—if the asset is to be made part of a partnership or foundation and even to be able to take over fixed assets without compensation. The latter right would be available when an enterprise intended to make a gift or uncompensated transfer of the assets to other subjects, for at least five years, through a contract under civil law. The purpose then is clearly to strengthen the rights to protect the interests of the state treasury.

The rights of the agency to manage the received assets are defined in a fairly lapidary fashion. It can sell, lease or make assets part of a partnership. By means of contracts, the assets taken over can be transferred to gminas or unions of gminas. If the parts of the assets are real estate, sales, transfer for permanent use, use, lease, or rental are to observe the rules on the sale of lands.

Reportedly, the devil always hides in the details. And to be sure, only the executive decrees for such a law would define the way the agency would take over assets and also the rules according to which the Trust Agency of the State Treasury would transfer such assets. Thus, we will devote space to this problem in the next insert PRYWATYZACJA published jointly with the Ministry of Ownership Transformations as a supplement to ZYCIE GOSPODARCZE. In particular, since the proposed law does not say anything about the creation of local privatization agencies, mentioned in the Government Program for Privatization, which were to become the main supervisor of "unwanted assets."

1991 Import Boom of Z150 Trillion Analyzed
92EP0360B Warsaw ZYCIE GOSPODARCZE
in Polish No 11, 15 Mar 92 p 12

[Article by Bogda Zukowska: "The Year of Importers"]

[Text] In Polish foreign trade, 1991 was the year of importers. Exporters were able to balance the import boom only in turnover with the EC.

The results presented below are not final; they will be set at the end of March. They will not, however, significantly change the picture and the trends appearing in Polish foreign trade in 1991.

The value of exports in 1991 was 153 trillion zlotys [Z] and of imports Z150.9 trillion. In relation to 1990 in current prices, exports grew 12.5 percent and imports 66.7 percent. In constant prices, the value of sales in 1991 was 1.4 percent lower than in 1990. This was the first decline in 10 years. In constant prices, imports increased 39 percent.

The growth of turnover in current prices confirms what can be seen with the naked eye in the stores and in the entire economy. The exporters' entire effort was directed at those market nearest us and best known, the EC. Here there was a 30.3 percent increase in sales (in constant prices 20.9 percent). We sent 11 percent less goods and services to the countries of the former CEMA (in constant prices the decline was 41.8 percent); the level of exports to other countries was practically unchanged, an increase of 1.7 percent (in constant prices a decline of 7.5 percent).

Exporters had no special incentives in 1991. Until near the middle of 1991, a constant exchange rate was maintained as set on 1 January 1990. Its initial attractiveness was consumed over time by inflation and increasing production costs. On 16 May 1991, a decision was made to devalue the zloty by about 17 percent. A comparison of the value of exports calculated in dollars in the months immediately preceding and following this decision does not confirm any immediate influence the decision had on exports. In April 1991, exports were more than \$1 billion; in May and in June, about \$1.2 billion each; and in July again slightly more than \$1 billion. The majority of the contracts filled during this period were surely negotiated much earlier. The devaluation then had no influence on the increase of exports, but it appeared at the level of the enterprises in the form of an improvement in the profitability of the transaction. Second, in addition to the exchange rate, the shrinking domestic market can be considered an incentive to export. This particular stimulus, however, had limited effect. Simplifying, it was directly proportional to the competitiveness of Polish products on foreign markets.

Imports, in every view, with one exception, showed great changes. In current prices, the total change was 66.7 percent; for imports from the EC, 77 percent, from the former CEMA, 50.2 percent; from other countries, 63.6 percent. In constant prices, the grow was respectively 39 percent, 59.4 percent, -33.6 percent and 60 percent. There was a decline in imports only from the former CEMA and only in constant prices. The cause of this difference is the significant increase in prices paid for imports, especially for crude oil.

The import boom was made possible by a set of circumstances favorable to importers. The liberal customs policy especially favored them. New duties, only sharpened slightly, were adopted by the Council of Ministers at the end of July 1991. In the fall, under clear pressure from the agriculture lobby, the customs duties for some food articles, chiefly proteins, went up again. That did not, however, have any significant influence of importers' behavior (they did not reduce their purchases abroad), but it increased prices. Especially since the importers found buyers. Devaluation also did not halt the wave of imports which grew from month to month. The favorable relation of foreign prices to domestic ones also had an effect. Finally, last but not least, the preferences of the consumers also played a large role; they more gladly reached for foreign than for domestic products.

The balance of trade for Polish foreign trade was positive, Z2.1 trillion. It is, however, half the level of the previous year. The balance remained positive chiefly because of the results of trade with the EC members. The balance of trade with this group was more than Z10 trillion, while the trade with the former CEMA countries produced a negative balance of Z-4.4 trillion; and with the other countries, the negative balance was not much less Z-4.1 trillion.

The percentage of exports settled in transfer rubles was 1.9 percent of total exports and in 1990 it was still 16.8 percent. In imports this percentage was respectively 1.2 percent and 15.1 percent. The positive balance, which was 4.4 billion transfer rubles two years ago, fell to 543.8 million transfer rubles in 1991. In ruble turnover, nearly two-thirds of the exports were done by the state sector and the percentage of the private sector was 39 percent. In imports, due to raw materials, these proportions were 81 and 19 percent.

In turnover for convertible currency and in clearing, the value of exports in 1991 was \$14.218 billion and imports \$14.218 billion. Compared to 1990, that is an increase respectively of 18.3 percent and 72.6 percent. For the 12 months of exports to the EC, the value was about \$7.9 billion, or 55.8 percent of sales settled in convertible currency. The percentage of imports from the Twelve was 48.6 percent, but for 1991 it was in absolute terms about \$1 billion lower than in 1990. In terms of the structure of goods, exports of electro-machine goods increased 15.2 percent, construction 40 percent; and other goods 18.1 percent. In imports, the change was greater and was for these three groups respectively 84.5 percent, 62.3 percent, and 79.1 percent.

In 1991, Poland began to settle with the countries of Central and East Europe in convertible currency. That caused, as was widely expected, a decline in turnover with these countries. Estimates that there would be an excess of imports over exports were also confirmed. Poland sold to the former CEMA as part of convertible

currency settlement goods and services valued at \$2.2 billion and bought \$2.7 billion.

In spite of numerous changes in the structure of foreign trade, the structure of use of imported goods remained nearly unchanged. In comparison with 1990, ruble imports remained nearly the same percentage of investment imports, about 15 percent; supply imports declined to 60.8 percent from 67.9; consumer imports increased to 22.6 percent from 15.4 percent. One must remember, however, that in value terms, in millions of transfer rubles, it was a fraction of a percentage of what was imported in past years. Investment purchases were about one-fifth of the level of 1990, and raw materials and materials and market imports were about 10 percent.

In the collision with the competition by Western goods, the offers of producers from the former CEMA were of very little interest. A part of Polish importers was interested in importing goods for transfer rubles not for the goods themselves but because it made it possible to get very favorable rates of the ruble to the mark in transactions, especially in imports with the former GDR.

In imports settled in convertible currency, we are dealing with an increase in purchases both in terms of value and in terms of volume. The percentage of supply and market imports increased by 4.1 percent, to 55.7 percent; that of market goods to 29.6 percent from 21.6 percent of total imports. The fact that in 1991 there was a decline in the purchase of investment imports to 14 percent is disturbing. In 1990, the level was 26.2 percent, although, in value terms \$750 million more was imported.

Table 1. Turnover by Industry (in Millions of Zlotys)

Industry	January to December 1991	January to December 1990
Total exports	153,039	112.5
Electromachine	34,719	87.0
Fuels and power	17,410	126.3
Metals	24,626	124.2
Chemicals	18,021	110.3
Light industry	9,072	104.1
Food industry	15,125	111.0
Agriculture products	9,875	134.6
Total imports	150,917	166.7
Electromachine	54,776	150.7
Fuels and power	30,414	160.6
Metals	6,344	104.4
Chemicals	19,048	183.3
Light industry	9,323	168.9
Food industry	15,432	224.3
Agricultural products	4,629	270.5

Table 2. Poland's Main Trading Partners in 1991, Exports

	FOB Million Zlotys	Percent
Total	153,039,200	100.0
FRG	44,185,881	28.9
USSR	16,818,361	11.0
Great Britain	11,004,831	7.2
Holland	7,793,524	5.1
Austria	7,752,377	5.1
Czechoslovakia	7,168,300	4.7
Switzerland	7,007,689	4.6
Italy	5,911,634	3.9
France	5,862,310	3.8
United States	3,886,841	2.5

Poland's Main Trading Partners in 1991, Imports

	FOB Million Zlotys	Percent
Total	150,916,745	100.0
FRG	38,580,515	25.6
USSR	22,884,452	15.2
Austria	9,500,000	6.3
Holland	7,192,180	4.8
Italy	6,945,552	4.6
Great Britain	6,026,720	4.0
Switzerland	5,290,737	3.5
France	5,209,877	3.5
Czechoslovakia	5,025,206	3.3
Iran	4,563,907	3.0

Accounting Errors, Military Spending in Budget

92EP0389B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 10 Apr 92 p 1

[Article by B.I.W. and Z.L.: "The Budget Debate in Sejm Committees: Deputies Have Reservations"]

[Excerpts] The budget proposal for the area of transportation was accepted with serious reservations by members of the Sejm Transport Committee. Members of the Agriculture and Food Policy Committee demanded an increase in expenditures on agriculture. At meetings of other committees as well (on Thursday, a total of eight Sejm committees discussed the budget proposal), doubts and reservations were expressed. The Social Policy Committee found mistakes in budget calculations, in the sum of more than 10 trillion zlotys [Z]. The discussion of the defense budget took place without the participation of the press.

Here are the details.

A Mistake in Calculations

The Sejm Social Policy Committee discovered an error, the correction of which might increase the budget deficit, in the budgetary law proposal.

The savings achieved by the modification of the guidelines for payment of family allowances were estimated incorrectly by Z7 trillion. For those allowances, the budget plans Z10 trillion less than would result from present guidelines, while the maximum savings from the change can be only Z3 trillion. Deputy Minister in the Ministry of Labor and Social Policy Aleksandra Wiktorow admitted that this is an error in calculations. Sejm deputy Michal Boni, noting the size of the mistake, states that "the Liberal Democratic Congress announced reservations as to the correctness of the budget design."

The Office of Combatants and Repressed Persons Affairs also discovered an error, though the committee agreed with the structure of expenditures of that fund. The proposal does not take into account the sum of Z120 billion to cover debts for reduced-rate telephones (Z96 billion for last year and a Z24 billion debt predicted for 1992). The fund's expenditures surpass income by that sum. [passage omitted]

The Army Is Counting on Consistency

The Sejm Commission on National Defense examined the Ministry of National Defense budget proposal behind closed doors. The army should receive Z26 trillion this year, counting in that total the sums planned in a reserve fund for wage revalorization. In the opinion of deputies, this means that the limit of the state's defense structures' capacity, at this level of expenditures, has been achieved.

For the military participants in the committee's meeting, it was most important to get guarantees that funds will come consistently; only then will any sort of planning or one-time moves in the area of equipment purchases or investing have any sense. Those two areas named have been the ones most drastically cut.

Meanwhile, the experiences with the drawing up of this year's provisional budget do not give any guarantee of steady financing. In the last three months, the army—not by its own fault—has made use of only 78 percent of planned funds. [passage omitted]

Enterprises Polled on Economic Prospects

92EP0389A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 10 Apr 92 p 1

[Article by Katarzyna Jedrzejewska: "A Higher Turnover Tax From 4 May"]

[Text] Turnover tax rates will rise in May. The scope of the tax will also be extended to some goods not covered by it until now. Three decrees signed by the minister of finance on 6 April will appear in the DZIENNIK USTAW No. 32, on 13 April. They will come into effect on 4 May. The rise in turnover tax on some goods "consummates" the implementation of a luxury tax, forecast earlier.

In the Ministry of Finance we were informed that:

The goods on which the turnover tax has been imposed are:

- Food products which have not been subject to the tax until now: the tax rate will be 5 percent (only unprocessed food, meaning rye and semi-rye bread, milk, meat, fruit (with the exception of tropical fruit), and vegetables, will be exempt from the tax).
- Some imported processed food products: 7 percent.
- Products for children (for example, toys, clothing, and also food processed for children): 5 percent.
- Imported products for children, and some hygiene articles (for example, tissues, towels, tampons): 7 percent.
- Building materials for sale on the market (for example, cement, bricks, gypsum): 5 percent (for imported goods, 7 percent).

The new regulations provide for the imposition of the turnover tax on the following services:

- Repair, construction, and installation services performed for individuals: 5 percent.
- Commercial activity and gastronomic services: 1 percent. The sale of alcoholic beverages is an exception; it is taxed at the rate of 10 percent.

An increase in the turnover tax rate presently in effect on personal automobiles is also planned:

On domestic automobiles:

- With engine capacity above 1600 cm³ to 2000 cm³, the new rate will come to 30 percent.
- With engine capacity above 2000 cm³, and automobiles with automatic ignition combustion engines, the rate will be 35 percent.

On automobiles whose sale price without turnover tax is higher than 120 million zlotys [Z], a tax of 50 percent will be imposed (regardless of the engine capacity). For the moment, this is not being applied, because no Polish personal automobile costs more than Z120 million.

On imported automobiles:

- With engine capacity above 1,600 cm³ to 2,000 cm³, the rate will be 30 percent.
- With engine capacity above 2,000 cm³, and automobiles with automatic ignition combustion engines, the rate will be 35 percent.

On imported automobiles whose customs value (without duties or turnover tax) surpasses Z120 million, a tax of 50 percent will be imposed (regardless of the engine capacity).

The turnover tax rate on numbers games and pari-mutuel games is being raised. The new rates come to 15

percent on numbers games, 10 percent on money lotteries and pari-mutuel games; 40 percent on casinos; and 35 percent on games in machines.

Minimum amounts of turnover tax rates are introduced for certain imported goods. They are: beer, wine, other alcoholic beverages, coffee, tea, tropical fruits, spices, and matches.

Minimum tax rates are also imposed on unbottled domestic wine in containers of more than two liters, and on unbottled domestic beer.

Producers and merchants are now required to present bills, with the exception of sales to physical persons who do not conduct economic activity.

Among other things, raw materials—coal and briquets, fuel and fuel products (with the exception of engine products), electrical energy and heat—will still be exempt from the turnover tax. Products for agricultural—artificial fertilizers, the components of mixed fodder and pesticides, lines for agricultural machines, industrial fodders and products for utilization, and products for field work, gardening, and husbandry—will also be exempt. And also exempt will be machines and appliances, medical tools and appliances, Fiat 126p automobiles for disabled war veterans; apparatuses for the hearing-impaired, medicines, medical equipment made of artificial materials, rubber, medical and sanitary products, products made of netting, orthopedic, rehabilitative, and prosthetic products, and coffins.

"It is estimated that around Z12 trillion will come in to the state budget at the end of the year, thanks to the proposed changes," said Deputy Minister of Finance Waldemar Manugiewicz. "This sum has been included in the budget proposal for this year."

According to ministry estimates, the raising and spreading of the turnover tax will cause a rise in prices of about 7 percent. This fits in the general index of price rises assumed in the budgetary law.

The Ministry of Finance plans the introduction of a value-added tax (VAT) from 1 January 1993.

The new decrees of the minister of finance on turnover tax rates will be published in their entirety in an upcoming issue of RZECZPOSPOLITA.

Land Sales to Foreign Investors Examined

92EP0381A Warsaw GAZETA BANKOWA in Polish
No 16, 19-25 Apr 92 p 3

[Article by Witold Gadomski: "Poland for Sale"]

[Text] Last year the minister of internal affairs consented to selling land to foreigners in the form of building lots, industrial areas, and farmland totaling 534 hectares in areas. The sales of Polish land to foreigners disturb some people, and some politicians consider a total prohibition

against such sales to be expedient. Can the purchase of 534 hectares of land menace our sovereignty?

The question is ridiculous: Such an area equals 10 large farms.

Land sales to foreigners are regulated by the law of 24 March 1920, which was passed not quite two years after the recovery of Poland's independence, at a time when a wave of nationalism surged across Europe and the memories of the "longest war" waged in Poznan province to defend Polish ownership [against Germans] had still been alive. In 1920 no one had dreamed of a united Europe.

The law requires of foreigners desiring to acquire the ownership of, or perpetual usufruct from, real estate in the Republic of Poland that they obtain a permit from the minister of internal affairs. The minister reports annually to the Sejm on the execution of the law. This duty was exercised at the end of March by Minister Antoni Macierewicz, so that we are able to get a closer view of the matter.

In 1991 the minister of internal affairs considered 635 applications for the permit, and in 604 cases the decision was affirmative, allowing 586 foreigners to purchase real estate in Poland, with 31 decisions being negative. The number of positive decisions increased by comparison with 1990, as did the land area sold—by more than 30 percent. Consider that this happened under a Liberal government, and so comparisons with the present year would be interesting.

Of the 604 positive decisions 416 concerned individuals and 163 companies with foreign capital. In addition 13 permits for real estate purchases were granted to governments of foreign countries for the housing needs of embassies and consulates.

The companies bought chiefly land, altogether 433 hectares, with 265 hectares bought by Polish-foreign joint ventures. The size of the land parcels purchased varied from 0.2 to 61.14 hectares. The companies most often purchase building lots or built-up lots. Individuals bought a total of barely 95 hectares, enough for two large farms, but predominated in purchases of housing and were granted 126 out of the 136 permits altogether granted.

Most in demand was land in Warsaw and the Warsaw voivodship, where permits for the purchase of 146 hectares, or 27 percent of the total area, were granted. The other voivodships in which the size of real estate parcels purchased exceeded 20 hectares were: Wroclaw (48 hectares), Lodz (39 hectares), Skierniewice (36 hectares), Poznan (28 hectares), Gdansk (27 hectares), Katowice (24 hectares), and Szczecin (25 hectares).

In most of the other voivodships the area of the land parcels for which permits were granted ranges from 0.7 to several hectares. In five voivodships no permit at all was granted.

Warsaw was also the place where nearly one-half of all the permits for the purchase of housing, 66, was granted. In no other voivodship were more than 10 dwellings sold, and in 26 voivodships none was sold. Of the individuals granted permits to purchase real estate a definite majority, 111, were FRG citizens. They accounted for somewhat more than 25 percent of all the permits granted, but even so this seems a low proportion if we consider the importance of Germany to the Polish economy and the proximity of that economic colossus. Let us also bear in mind that many Poles, especially recent emigrants, have German citizenship. German citizens are most interested in buying building lots or single-family homes; 13 permits concerned the purchase of apartments.

In no voivodship did Germans buy more than three hectares of land, and only in two, Katowice and Legnica, did they buy more than two hectares. Altogether, 24.15 hectares of Polish land were transferred to German ownership. Most purchases were in the Warsaw voivodship (14 permits) and in the Gdansk and Katowice voivodships (12 permits apiece).

Citizens of the former USSR were granted 65 permits for the purchase of real estate in Poland. That was fewer than in 1990. Of this total, 26 permits concerned land purchases and 39 apartment purchases (chiefly in Warsaw), as a rule from the State Treasury. It is chiefly Polish repatriates [from the former USSR] that are interested in real estate purchases. Altogether, citizens of the former USSR bought 4.57 hectares of land, of which 1.2 hectares were in Skierniewice voivodship.

The third nationality to be most interested in purchasing Polish real estate is the Swedes. In 1991 they were granted 58 permits, of which 41 were for land purchases and 17 for housing purchases.

The remaining permits were granted to citizens of: Austria (38), the United States (29), Great Britain (17), Italy and France (13 apiece), and other countries. In terms of size of the real estate purchased, they ranked as follows: citizens of Austria, 14.5 hectares; United States, 12.2 hectares; Italy, 4.16 hectares, Great Britain, 4.12 hectares; France, 1.46 hectares; other countries, 13.36 hectares.

German capital was present in 19 companies with 100 percent participation by foreign partners, which purchased real estate in Poland; Swedish capital, in 9 companies; Dutch, in 8; American, in 5; and Austrian and British, in 3 companies each. Other companies purchasing real estate included Yugoslav, Israeli, Korean, Bulgarian, Turkish, Vietnamese, Spanish, Norwegian, and Canadian capital. Companies with the participation of German capital bought about 144 hectares, or one-third of all the real estate purchased by companies.

A new trend in 1991 was the purchase of state enterprises by companies controlled by foreign capital. The minister

of internal affairs granted seven permits for the acquisition of such enterprises. Polish real estate was also subscribed as a contribution to the assets of joint ventures. A foreigner who acquires a block of Polish shares becomes the owner of a plant and hence also of the real estate belonging to that plant. But since we are not dealing in this case with a change in the ownership of real estate (the company remains the owner), this operation does not require the approval of the Ministry of Foreign Affairs; the ministry becomes involved only if the new owner of the company wishes a change in the name entered in the land register.

A Treasury fee of 1 percent of the minimum price of the real estate is charged for granting the permit. In 1991 the receipts of the state budget from this source totaled 7.86 billion zlotys.

Last year permits were denied in 31 cases, of which to FRG citizens in 13 cases, to Swedish citizens in six, and to corporations in three. The rejections concerned most often applications for the purchase of land parcels measuring from several to 15 or so hectares in area. One Swede, for example, was not granted a permit to purchase a 145-hectare parcel in Bialystok voivodship, and a Swedish company was likewise prevented from buying 800 hectares of real estate in Szczecin voivodship.

Foreigners submitted two applications fruitlessly for the purchase of about 70 hectares of land (the first time it was a Greek citizen and the second, an American company). Altogether, permits to purchase 1,284.66 hectares of Polish land were denied. Most of the refusals were dictated by the negative attitude of the minister of agriculture, who was of the opinion that foreigners should rest content with 30-year leases.

Investors react differently to the restrictions on real estate purchases in Poland. Americans most often are satisfied with leasing land, while Germans traditionally prefer to own it. Thus, the archaic law of 1920 may be an obstacle to the influx of foreign capital to Poland. Revising it would send a welcoming signal to investors, especially now that they are confused by the contradictory declarations of Polish politicians.

Lessons of Latin American Debt Reduction

92EP0377A Warsaw RYNKI ZAGRANICZNE in Polish
No 43, 9 Apr 92 p 3

[Article by Tadeusz Lamacz: "Lessons From the Latin American Debt Reduction"]

[Excerpts] According to OECD [Organization for Economic Cooperation and Development] estimates, there was a positive balance of flow of capital (\$10 million plus) for the countries of Latin America and the Caribbean region in 1990, for the first time since the explosion of the debt crisis. This was affected by a significant rise in private deposits in this region.

In this situation, the possibility of acceleration of economic growth on that continent (even to 5 percent yearly, to the end of the decade), and an increase in savings which make such growth possible to 7-8 percent GNP, are now spoken of without great skepticism. Because the economic disease in these countries had similar symptoms to the sickness which scourges Poland. It is worth considering the circumstances of this improvement. [passage omitted]

Conclusions for Us

At the outset, attention should be turned to the effect, which is not very advantageous for us, of the siphoning off of capital to a region which has dealt relatively well with the economic collapse of the 1980's. Observers of the international economic arena emphasize that Latin America now offers a stabilized market (with clearly defined property laws, a management cadre, a comprehensible accounting system, etc.), which does not exist in the eastern part of Europe.

In a situation when a program of "obedience" to the IMF and the international financial establishment has been proven in a country in which a debt crisis exploded (Mexico) and also in other countries of the region, it would be very difficult to convince anyone in the world that there is some other road to economic renewal other than that which is based on the IMF's stabilization program. After all, what with our securing the 50 percent debt reduction, the largest ever, the world expects that this fact will be made appropriate use of, and strengthened by a frugal budgetary policy, by a suitable cost of borrowing, a realistic exchange rate, and a pro-export restructuring—in a word, by everything which made the success of Mexico or Venezuela possible.

Next, it would be necessary to work for further external debt reduction. This projects itself on the state of savings and investment in the country in a very evident way; the more so since that 50 percent reduction is conditional upon an appropriate macro-economic policy. It is possible, then, to undertake a program of conversion of part of the debts into shares in the assets of enterprises, on the model of Chile perhaps, where this operation brought positive results and became the pillar of a debt reduction program.

Up to now, we have achieved two modest programs of this type in a completely haphazard way. The problem lies in the fact that without the announcement and organization of a suitable program, made clearly available to creditors, one cannot count on any results. Appropriate actions should be focused on five elements, subject to agreement: the foreign price of our debts; that price as increased by the cost of banking operations; the price offered by the financial authorities in our country; the price of assets acquired in this way; and the price of acquisition of property rights by a foreign investor. Some commitment is required in order to develop an agreement which is most favorable for the debtor.

Because an operation of this type comes down to partial debt reduction, in the eyes of Western creditors, the corresponding banking regulations in creditor countries which encourage conversions of this type should be noted with care. Up to now, European and Canadian banks (differing from American and Japanese banks) have employed tax exemptions on so-called reserves for risky loans. This has been rather a stimulus toward quick resolution of the problem of external debts.

The recent proposal of the British Chancellor of the Exchequer, offering tax abatements for debtors, with a much larger discount than is set forth in the guidelines of the Bank of England, merits attention. More and more initiatives of this type have been noted of late in the West. These will surely make debt conversion easier. They should be scrupulously made use of in our program of further foreign debt reduction. The possibility of conversion of debts into investments in environmental protection seems particularly promising. Moreover, these conversions can be a factor supporting privatization, as in Mexico, among others.

We are undoubtedly in a worse situation than Latin America, considering the underdevelopment of the capital market. At the moment, there is no way to imagine the sale of bonds on Western capital markets, or even the distribution of shares to foreign units through local stock markets. This situation cannot, however, be treated as permanent.

It seems that at least on three points, the experience of Latin America has practical significance for us. First, the easier resolution of debt problems with a developed financial market should be noted. Therefore, that which for the moment is referred to as the "deepening of financial markets," and which involves both the integration of our banks with the world system, as well as the development of the stock market or the creation of various financial institutions, has paramount importance in the practice of systemic reform.

Second, we should not feel inhibited by already existing practices on international capital markets. The innovative guarantee of Latin American stock issues with special assets or future income, which had positive results for the mobilization of foreign savings, shows that there is a certain range of freedom in the formation of instruments by which debtor countries influence creditor countries.

Third and finally, the role of so-called investment trusts or country funds, mobilizing foreign capital to purchase shares of our firms, should be looked at in more detail. Given low direct interest in investment in Poland on the part of foreign firms, and given our financial institutions' still-undeveloped ability to manipulate stock portfolios on Western capital markets, the need to make use of brokerage institutions arises. The example of Chile is encouraging, and is worth closer attention on the part of specialists.

Polish Arms Exports: Status, Licensing, Laws

92EP0366B Warsaw RYNKI ZAGRANICZNE in Polish No 45, 14 Apr 92 p 8

[Article by Maria Olszewska: "Weapons Under Special Supervision"]

[Text] The Ministry of Foreign Economic Cooperation has formulated its view on this matter unequivocally: Given Poland's economic situation, only arms exports can rescue the potential of arms and aviation industry, which is essential to the defense of our country and confirmation of our sovereignty.

In 1991, exports of what were called Poland's "uncatalogued" goods reached a value of \$386.3 million. This included \$244.8 million to the former USSR, \$56.9 million to NATO countries, \$57.7 million to Arab countries, and \$33.5 million to the so-called satellite states of the former USSR. Our exports exceeded imports (137 million) by 249.2 million zlotys [Z].

What particularly stands out in last year's exports in this area are the former USSR's substantial outstanding debts. They are presently still \$164 million, but negotiations are in process concerning repayment possibilities and methods. For example, the reexport of military equipment is one anticipated manner of repayment.

The government thinks that exports of this equipment should be expanded, but the atmosphere that has surrounded the Polish arms trade for some time now does not promote such plans. Generally, this is just gossip and miscommunication, such as the news about the ships going to Croatia, allegedly full of Polish weapons. Sometimes, as in the case of the notorious "Zadlo" affair, the illegal activity of unauthorized persons is taken as confirmation of the country's participation in transactions that violate international law. Competition in this area is exceptionally rigid. Various sorts of difficulties are employed, both through the political route and through economic actions.

People in Poland involved in the arms trade are required to have a license specifying the exact type of goods or services, countries involved, the trade authorized by the document, and the expiration date. The license always includes warnings that it does not authorize trade with countries under international embargo. The Minister of Foreign Economic Cooperation issues licenses at the request of the Central Engineering Administration (CZI).

The license is authorization only to negotiate a contract. Further permission is necessary before executing the contract. Last year 167 permits were issued in Poland for arms exports and 67 for arms imports.

In order to receive permission, it is necessary to supply an end user certificate, a statement from the buyer that the weapons purchased will not be transferred to a third party without the seller's permission. An intermediary's license must be attached. These two documents are

examined in extremely great detail, because they are sometimes falsified. For example, the CZI recently questioned several such end user certificates and recommended that the execution of the contract be suspended.

Getting back to the license: 47 economic bodies presently have them in Poland. Only three trade centers with predominately state capital (Cenzin, Cenrex, and Bumar Foreign Trade Enterprise) have licenses for a full range of "noncatalogued" goods and services. There are five stock companies and 11 private firms among those authorized for restricted operations. Only one private firm has a license to trade in active weapons. Besides it and three trade centers, only the producers of these goods have such licenses.

Minister of Foreign Economic Cooperation Adam Glapinski tells us that the Polish government thinks the list of licensed items is too long. There are plans to reduce the number of such items, in order to improve monitoring, which is after all imperfect, inasmuch as the Polish arms trade gives only the opportunity for talk. The next stage of writing contracts will be the first to receive closer monitoring. When Minister Glapinski announced the new law he emphasized that it was a question of reaching the proper level of monitoring, that is, one where falsehood would not be permitted but at the same time economic activity would not be overly difficult.

The law on foreign trade in strategically significant products and technologies is still at the Ministry of Foreign Economic Cooperation and should be sent for interministry approval during the first half of April and then sent on for governmental deliberations. The solutions in it are based on experience in cooperating with COCOM countries. It is intended to permit Poland to make practical use of agreements stemming from the elimination of the restrictions where were imposed against our country until recently.

In keeping with world trends, the scope of trade licensed by the state will be greatly expanded. The errors of the law on economic activity, which is currently in effect, will not be repeated. The plan is to create, among other things, an interministry committee for cooperation among all ministries interested in the development and monitoring of trade in strategic goods and technologies. And, of course, severe penalties will be meted out for failure to adhere to the regulations in effect in Poland.

Projects To Expand Facilities at Western Border

92EP0366A Warsaw RYNKI ZAGRANICZNE in Polish No 45, 14 Apr 92 p 7

[Article by (mk): "Fewer Problems on the Western Border"]

[Text] The general opinion is that the Polish-German (FRG) border, which is also the outside border of the EC, has become a barrier that is difficult to overcome, with facilities inadequate for the present or future situation in

east-west relations. The circumstances call for rapid, concrete decisions and immediate action.

Politicians are noting this. At the instigation of the foreign affairs ministers of Poland and the FRG, the joint Government Commission on Border and Regional Cooperation held a special meeting in Frankfurt on the Oder at the end of March. The meeting was devoted solely to the problem of border crossings. People attending the meeting concentrated on three groups of issues: the absence of an infrastructure to meet growing needs, an insufficient number of ports of entry, and inadequate procedures for processing persons and goods.

The decision was made to begin building a joint customs facility at the crossing point between Frankfurt-am-Oder and Swiecko next August. The facility would be modelled along the lines of that on the German-Danish border in the town of Padborg. The Polish side will handle the planning and construction and has applied to the World Bank for the necessary funds. Until this credit is granted, the Germans are ready to finance work on the foundation and will allocate another 40 million marks [DM] to expand and modernize roads in the region.

In the middle of April, planning will begin for a similar scheme for Olsztyn. The Polish side has reserved a parcel of 10 hectares for construction of a joint customs station to handle trucks. The costs of the entire undertaking are estimated at DM40 million.

There are plans to begin construction to modernize the crossing at Kolbasikowo at the beginning of 1993. The project will take two years. It was agreed that in order to relieve residents of Gorlitz and Zgorzelec, the customs processing of trucks would be moved to designated places outside the city center. These stations already have special telephone connections on both sides to facilitate coordination of the work.

A new border bridge linking a section of the highway in Gorlitz with Zgorzelec will be built in 1993. By the end of this year, after certain essential work has been completed, the bridge linking Hohenwutzen and Osinow Dolny will be available for passenger traffic. It is ultimately to serve trucks as well. A railway link between Kustrin and Kostrzyn will begin operations as of 31 May of this year. The highway bridge will accept passenger traffic this year, and once renovations have been completed, trucks will be permitted too.

There are plans to put new border crossing points into operation as soon as possible between Kamminke and Rosowek, between Hintersee and Dobieszczyn, between Altwarp and Nowe Warpno, and between Uckermunde and Swinoujscie, but all of them will initially be accessible only to passenger cars and buses. Plans for the longer range include ports of entry in Gubinek, Przewoz, Pienk, Radomierzyce, Krzewina Zgorzelecka, Zasieki, and Leknica.

The Polish side proposed that one as yet undetermined border crossing point be considered a model, to be

financed entirely with EC funds. The German side and the representative EC commission declared support for such a project in the appropriate echelons in Brussels.

In allocating costs, the principle adopted was that joint crossing points would be financed by the country upon whose territory the investments are made, but the other partner must pay rent for use of the buildings. The costs of rebuilding roads is to be borne by the country in which they are located. Poland will apply to the EC and banks for aid, especially for the projects at Olszyna, Kolbaskowow, Osinow Dolny, Kostrzynie (total outlays of DM32 million), and Gubinek (DM37 million). The FRG will support Polish efforts at international financial institutions.

Agreement was also reached on a position concerning improved customs procedures. It was proposed that the thorough, longer inspections of passenger traffic be moved to separate stations. All traffic should flow smoothly, with travellers only being subject to random searches. There is also a recommendation to popularize the model of joint German-Polish customs inspection at a single point. Both parties agreed that the discussions on the border traffic agreement must be completed immediately.

Freight traffic should improve once customs points are adequately staffed and there are representatives of all Polish authorities charged with customs handling. Our customs officers must be trained and must become familiar with EC border practices. Two training courses were set up in the FRG last year. More are to be held this year, also under the auspices of the PHARE [Economic Reconstruction Aid for Poland and Hungary] program.

Conflict in Methane Gas Extraction Venture

92EP0351B Warsaw GLOB 24 in Polish 1 Apr 92 p 3

[Article by (mark): "Who Will Make Money Off the Methane?"]

[Text] The fate of the deposits of Polish natural gas, the resources of which are estimated to come to 600 billion cubic meters, will be resolved within days, during negotiations at the Ministry of Environmental Protection.

On Tuesday, Prime Minister Jan Olszewski received representatives of the company McKenzie Methane Corporation, who emphasized an opportunity to implement the concession granted to the Jastrzebie Coal Mine on 28 March 1990. The McKenzie company is a partner in the Pol-Tex Methane company to which the Jastrzebie Mine also belongs. Based on the concession granted for an indefinite period of time, the company was supposed to extract methane from the deposits of the Rybnik Coal District. Last year, it invested \$9 million into the business, and another \$27 million were supposed to be spent in the current year. In 1991, the law on mining regulations was updated; among other things, it regulates the

system of granting concessions for mining and processing minerals. The amendments included an article to the effect that concessions are granted for limited periods of time.

In the opinion of lawyers from the Ministry of Environmental Protection, the Pol-Tex Methane concession is not valid because the duration of its use has not been specified. In defending their position, they refer to Article 2, Paragraph 1 of the amended mining regulations law, according to which concessions granted before the amendments took effect remain in force insofar as they do not run counter to the provisions of the law.

Upon hearing the arguments of McKenzie, the prime minister concurred with the position of the company, and suggested that a compromise be reached in the course of negotiations with the Ministry of Environmental Protection. According to information from the Office of the Council of Ministers, the parties to the dispute may agree to the duration of the use of the concession of, for example, 25 years. The prime minister also promised that he would appoint a special commissioner for foreign investment in order to prevent similar conflicts in the future.

The use of domestic deposits is all the more important because it may eliminate the dependence of Poland on gas imports from Russia for several decades, especially given the fact that these deliveries are still uncertain in view of the complex domestic situation in Russia.

The yearly demand for natural gas in our country exceeds 13 billion cubic meters, of which we extract only 4.2 billion from our own deposits. Domestic production could be increased by a factor of almost two by using foreign investment.

In addition to conventional deposits of natural gas (600 billion cubic meters), methane extracted from hard coal deposits may be another source of gas. Pol-Tex Methane was supposed to engage precisely in drilling for methane. The U.S. Department of Energy estimates that Poland has about 1.3 trillion cubic meters of methane associated with hard coal, of which as much as 700 billion cubic meters are found at depths of less than 1,000 meters. The draft of the company calls for drilling 900 wells and building pipelines and facilities which would, among other things, convert gas with a low methane content into electricity. Investment outlays are estimated to amount to \$750 million spent over 10 to 15 years. In two to three years, output would come to five billion cubic meters annually. American experts estimate that between 380 and 450 billion cubic meters of methane could be produced in 40 years in the Rybnik district alone. Will it be produced by the Pol-Tex Methane company under a concession? Will this be resolved by a special commissioner?

POLITYKA Weekly News Roundup: 12-18 Apr

92EP0383A Warsaw *POLITYKA* in Polish No 16,
18 Apr 92 p 2

[Excerpts]

National News

[passage omitted] There will be no rent increases for publicly owned apartments in April. Instead, there will be increases probably in May. It is expected that fees for public rental and factory apartments will increase from 600 zlotys [Z] per one square meter to Z1,200 in buildings with basic equipment and from Z1,320 to Z2,640 per one square meter for buildings with hot water, heat, and gas.

"A week after Easter, the FSM [Compact Car Factory] will sign a contract with Fiat of Italy," said A. Olechowski, minister of finance. The state treasury will pay the Bielska factory's debts to Polish banks, and the Italian partner will reduce the debt to foreign banks by 50 percent.

The right to one's own radio station will be awarded on the basis of the law on radio and television. For now, the National Radio Communication Agency will issue the permits using more than severe criteria. Only four stations have met them: Solidarity Radio, Radio Zet, Radio Fun (in Krakow), and the Wroclaw television station Echo. On the basis of a separate agreement of 15 October 1990, the Catholic Church has received 17 of the 21 permits issued to date.

Electronic equipment in Polish households. According to a survey done by the Center for Research on Public Opinion, nearly all households have radios and black-and-white televisions; 74 percent have color televisions (in 1990 only 47 percent, but we still trail the rich countries: United States, 98 percent; Holland, 95 percent; Sweden, 93 percent). On the other hand, the number of video recorders is nearing, and even at times exceeds Western levels; 40 percent of the households have them (Austria, 36 percent; France, 38 percent, England, 62 percent).

Was the gypsy sentenced justly—a survey of the Studio of GAZETA WYBORCZA. Members of various parties and political groups (a sample of 1,018 individuals) were asked. "A young gypsy from Mlawa should be punished severely." "Yes" say 25 percent of those in Rural Solidarity, 21 percent in the Confederation for an Independent Poland (KPN), 19 percent in Solidarity, 18 percent in the Christian National Union (ZChN), 15 percent in the Party of Beer, 11 percent in the Polish Peasant Party (PSL), 10 percent in the Alliance of the Democratic Left (SLD), 8 percent in the Center Accord (PC), 4 percent in the Democratic Union (UD), and 2 percent in the Liberal Democratic Congress (KLD). Only 4 percent thought the sentence should be lighter "in order to weaken the common conviction that minorities are harassed in Poland."

Prof. Tadeusz Zielinski, the Ombudsman for Citizens' Rights, said in a letter to the Ministry of Justice that press publications that clearly suggest the guilt of the accused are violating a fundamental principle of the criminal process—the principle of assuming a person is innocent. "This principle is especially important now when some social groups and political parties are demanding settling accounts with the past. If we are not going to guard basic legal values like 'the assumption of innocence' we will easily fall into the habit of assuming guilt before the court hands down a verdict. We should avoid that at all costs, even for those whom public opinion regards as unquestionably guilty," the ombudsman told GAZETA WYBORCZA. He gave the example of Generals W. Ciaston and S. Platek, who in GAZETA WYBORCZA, TYGODNIK SOLIDARNOSC, and PRAWO I ZYCIE have been considered guilty of the murder of Father Popieluszko. [passage omitted]

Who sees the church in which way—a survey done by the Sopot Institute for Social Research for GAZETA WYBORCZA. What influence should the church have on policy and on politicians? Everyone agreed that it should be less than it is; the opinions of members of the various parties and political groups in response to a question how great that influence should be fell in this order (from the lowest to the greatest): Alliance of the Democratic Left (SLD), Liberal Democratic Congress (KLD), Democratic Union (UD), Polish Peasant Party (PSL), Center Accord (PC), Confederation for an Independent Poland (KPN), Solidarity, and Christian National Union (ZChN). GAZETA WYBORCZA concludes: "In questions about how it should be, the same accordance was observed everywhere, older people and people with less education thought that the Church's influence should be greater; the younger and better educated wanted it to be less."

Increases beginning 4 May 1992. The minister of finance signed a decree increasing the turnover tax. It will cause prices to increase by about 7 percent; the budget will receive Z12 trillion, which was previously assumed in the proposed budget law. Food (with few exceptions) will be taxed at the rate of 5 percent; alcohol, 10 percent; cars 30 and 35 percent. A few products for agriculture and forestry and caskets will not be taxed.

"We are protesting plans to introduce the required subject of religion/ethics into the schools on 1 September 1992. The above initiative of the Ministry of National Education constitutes a precedent tending to make elementary schools, which in our opinion should remain neutral as regards world view, into schools with a religious character," says an open letter to the president, prime minister, and the minister of education. It is signed by, among others, Andrzej Wajda, Krystyna Janda, Daniel Olbrychski, Jeremy Przybora, and Maria Janion. [passage omitted]

Increases in the budget sphere beginning 1 May 1992. According to announcements, wage increases for the

state administration, the health service, education, the military, and the justice system are to average Z930,000 gross.

Thefts of cars. A Peugeot 205 that belonged to former Prime Minister Tadeusz Mazowiecki was stolen from in front of his house. The police noticed the stolen car, but an attempt to catch the thief ended with a burned out engine in the police's Polonez. In the center of Wroclaw, thieves stole a Mercedes in which a delegation of the Bavarian Ministry for Education, Culture, Science, and Art that was visiting the capital of Lower Silesia was traveling. The guests were preparing for the opening of the exhibit "Bavarian Art of Our Times."

In Slupsk, Kapena, the municipal enterprise that repairs buses, has formed a joint venture with the Swedish firm Saab-Scania. The partnership is to assemble 200 buses and 1,000 trucks annually. Scania, however, ended talks with Autosan. [passage omitted]

Opinions

[passage omitted]

Prof. Bronislaw Geremek, chairman of the Parliamentary Club of the Democratic Union (UD):

(Interviewed by Anna Raczyńska, GAZETA POMORSKA 27 March 1992)

[Raczyńska] Is the president's proposal to ratify the constitution by referendum a clear sign of a lack of trust in the Sejm? Or is Jaroslaw Kaczynski right to call it a degradation of parliament?

[Geremek] I am not a decided opponent of the formula proposed by the president. I think, however, that a parliament elected by fully democratic means can itself, and should, adopt the text of the document. I consider Mr. Kaczynski's opinion, however, ridiculous. Political forces that make parliamentary debate a frivolous spectacle cause the degradation of parliament.

Jerzy Turowicz, editor in chief of TYGODNIK POWSZECHNY:

(TYGODNIK POWSZECHNY 4 April 1992)

"Writing' Christian values into state laws does not in the least serve the promotion of those values. A recent example is the proposed law on radio and television discussed in the Sejm that demands state media 'respect Christian values.' As a Christian, I obviously desire radio and television to respect these values but not on the basis of a law. If on the basis of a law, then which values? The evangelical advice and the blessing of the Sermon on the Mount? Who will decide whether they are respecting them or not respecting them? How will the provision of the law be enforced? For if radio and television serve 'antivalues,' if they promote hate and intolerance, chauvinism, and xenophobia, if they spread lies, or promote pornography, there are other provisions in the proposed law that apply which no one questions.

"People concerned with the use being made of Christian values have reason to fear there is a striving for an ideological state, a religious state."

POLITYKA Weekly News Roundup: 19-25 Apr

92EP0383B Warsaw POLITYKA in Polish No 17, 25 Apr 92 p 2

[Excerpts]

National News

[passage omitted] KURIER POLSKI presented its readers an April basket. In the current month, a single person will have to spend 1.278 million zlotys [Z] in order to live; a family of four (including two children) will have to spend Z4.144 million; a retired couple Z1.974 million. GAZETA WYBORCZA calculated that the holidays will cost a family of four Z250,000. [passage omitted]

According to a communique of the Central Office of Statistics, the average monthly wage in the six basic sectors of material production in March 1992 was Z2,544,526 or 4.8 percent more than in February. Prices of goods and consumer services were 2 percent higher in March.

Prof. Andrzej Stelmachowski, minister of national education, presented a program of reform in education and science at a press conference. The Union of Polish Teachers has announced that it will ask the prime minister to remove Minister Stelmachowski; it accuses him, among other things, of "voluntaristic actions," aimed at closing 1,700 rural schools and massive firings of teachers.

Minister Stelmachowski signed a decree on the conditions and the organization of instruction in religion and ethics. Nine representatives of churches and religious organizations also signed the document. Schools are required to organize two hours of classes each week. In the coming school year, school reports will show, immediately after the conduct grade, grades from religion and ethics (if someone has not participated in these classes, a line will be entered). Catechists will not be subject to pedagogic supervision. Students of religion are to be guaranteed three days off for recollection. Prior to and after the (voluntary) classes, students will say a prayer. The texts are as follows: "Come Holy Spirit, enlighten our hearts and minds so that this instruction becomes, now and forever, food for us, through Jesus Christ, Our Lord. Amen." "Thank You, God, for the light of this instruction; we desire that enlightened by it we will always be able to love and to fulfill your will, through Jesus Christ, Our Lord. Amen."

The prestige of the occupations according to a survey done by the Sopot Institute for Social Research (the respondents were to arrange 17 occupations by importance): In first place were doctors (14.1 percent of the responses among the 17 possible), then in order were: professor (13), teacher (13), farmer (10.3), miner (9.9), businessman (9.1), journalist (9.1), politician (8.9),

craftsman (8.8), priest (8.6), worker (8), accountant (7.4), office worker (7.1), railroader (6.8), salesman (5.5), taxi driver (4.5), garbage worker (4).

A committee to defend Parys, the minister of defense on leave of absence, has been formed in Lodz. Piotr Jaworski, the organizer, told NOWY SWIAT: "Our main task for now is to gather signatures to an appeal to the prime minister not to remove Parys and not to make him the victim of the large coalition. We hope this decisive action will restore Lech Walesa to a common-sense view of the entire conflict and that he will hold to the rules set up at the roundtable." Meanwhile, a spokesman for the president said that L. Walesa sees no way of continuing cooperation with Minister Parys. In turn, Prime Minister J. Olszewski told journalists in Washington that Parys's comment "was not devoid surely of some justification." He also recalled that the provision of the president's supervision of the army was introduced "for the benefit and use of then president Gen. Wojciech Jaruzelski."

In Jozefow, the resistance of the residents supported by the local authorities has prevented children infected with the HIV virus from living in the house given to Monar. Marek Kotanski, the head of Monar, has given up on the center. [passage omitted]

According to the Central Office of Statistics, the number of unemployed at the end of March 1992 was 2,238,400 or 12.2 percent of the labor force. Among the unemployed, 63 percent are young people ages 18 through 35.

The division of the assets left by the former Central Council of Trade Unions (CRZZ) is to be done according to the number of members paying dues in the particular trade unions. Reports by the main offices of these unions show that the OPZZ (All-Polish Trade Unions Agreement) has 4.752 million members and Solidarity has 1.790 million. [passage omitted]

Is it worth buying Polish products when one has a choice of a Western product at a similar price? A survey by Demoskop showed the following results: yes, 55 percent; sometimes yes, sometimes no, 20 percent; no, 19 percent, hard to say, 6 percent. The older a respondent, the greater the percentage who said yes.

The new graphics for the television program WIADOMOSCI, according to NIE, were ordered in France and cost Z200 million; the new set for the main news program cost Z500 million. But it was done by Poles. [passage omitted]

Opinions

[passage omitted]

Ryszard Bugaj, chairman of Labor Solidarity (SP):

(Interviewed by Igor Zalewski and Piotr Zaremba, ZYCIE WARSZAWY 30 March 1992)

[ZYCIE WARSZAWY] In the provinces, Labor Solidarity (SP) cooperates here and there with Cimoszewicz's people. Do you want a reproach with the Alliance of the Democratic Left (SLD)?

[Bugaj] That can happen only with some of them. In the PZPR [the communist party], there were people with various views: communists, social democrats, liberals. Today they are still together in the Alliance of the Democratic Left (SLD). Professor Wiatr said that we are only divided by our biographies. That is not true.

The SLD is demanding higher retirements and social benefits. But they are always against it if someone wants to reach into their pockets, for example, with higher taxes.

[ZYCIE WARSZAWY] Is cooperation possible then?

[Bugaj] Not with the liberals and not with the communists. Also not with those whose biographies have black pages. Not with Jaskiernia, Szmajdzinski, Miller. Perhaps also not with Kwasniewski

Stanislaw Lem, writer:

(Interviewed by Ligia Kubas, DZIENNIK POLSKI 3 April 1992)

[Lem] Around the world, the fact that someone wants to be president or premier is not enough for him to take the position. He must have some ideas, conceptions, programs in order to be accepted. One selects among programs and not just among people. But in Poland a true cult of incompetence is spreading. A horrible agitation prevails. There are various breakthroughs and fractions, hopes, accelerations and retardations, which shows that this democracy is just learning to walk.

Wladyslaw Frasyniuk, deputy chairman of the Democratic Union (UD):

(Interviewed by Adam Kilian, GAZETA ROBOTNICZA 3 April 1992)

[Frasyniuk] The prime minister is also a destabilizing factor in the work of the government. Jan Olszewski cannot cease being a lawyer. At every hall where he speaks he attempts to gain applause. And that causes him frequently to say contradictory things. I have not heard thus far, for example, comments by the prime minister supporting the economic program promoted today by Ministers Eysymontt and Olechowski. On the contrary, at every turn the prime minister's comments sound as if they were closer to the Confederation for an Independent Poland (KPN) or to the social democrats than to the free-market program which is being pursued.

Father Bronislaw Dembowski, bishop of Wroclaw:

(Interviewed by Ewa Berberyusz, GAZETA WYBORCZA 10 April 1992)

[Dembowski] If some group in Poland labels itself Christian, then what are the others? I put a deep question mark here. In all the others, there are many Christians. Christianity is above parties. It assumes brotherly love. Thus, if a "party Christian" speaks more about the defects of his opponents than about his own program, then something here worries me.

Slovenia, Croatia To Export M-84 Tank

92BA0779F Ljubljana DELO in Slovene 4 Apr 92 p 3

[Article by Tonja Slokar: "New Tank Love?"]

[Text] The news that the Ravne Steelworks will continue to produce steel turrets for the M-84 tank, although only for export, is already making a stir and will probably do so even more. Some people are scandalized, others approve, and yet others doubt the feasibility of the transaction, which would reunite 50 large contractors and a thousand small ones from all the former Yugoslav republics. Specifically, this has to do with exporting the Yugoslav version of the Soviet T-72 tank to Kuwait and Iran.

Those who are familiar with the disastrous situation in the Slovene steel industry, and especially at the once more than flourishing Ravne Steelworks, which lived well on the sale of tank components to the former Yugoslav Army [JA] and for export, cannot be surprised by that decision. Even after the state took all three of the Slovene steelworks under its wing (it has already been a year since then), they have still been living hand to mouth, and their life line is slowly heading toward bankruptcy. That is also why it is not surprising that the Ravne Steelworks will once again grasp at the only straw to save it, i.e., the manufacture of military equipment, especially if it is approved by the Slovene Defense Ministry, which we can ultimately also understand as part of state assistance in financial rehabilitation of the nationalize Ravne Steelworks.

It would all be lovely and right, of course, if this whole transaction did not involve a sensitive commodity, the politicized relations between the republics of the former Yugoslavia, a moral issue, and generally, a different view of the matter through economic or only political or politicized eyeglasses, which has also been seasoned to boot with suspicions about the strange paths of military trade. In this transaction as well there are several such suspicions.

Viewed through economic eyeglasses, the Ravne Steelworks would be acting more than unreasonably if it did not seize the opportunity. In fact, it would be unreasonable to reject the knowledge, experience, and equipment for military production, in which \$443 million has been invested. Because of the well-known events with the JA last year, the Steelworks was understandably forbidden to continue that activity, and last September payments stopped coming to Ravne from Belgrade for tank equipment that had already been exported. In fact, Belgrade and the Federal Directorate for Supply and Procurement owe them another \$11 million, which has been frozen ever since last September, for exports of tanks to Kuwait. That is why the Ravne Steelworks also proposed to our government some time ago that it write off its \$286 million in debts, which arose through the closure of part of the Steelworks and the halt in so-called special-purpose production.

Businessmen claim that transactions in general do not recognize enemies of any kind, and that they are at most trade rivals. Consequently, it is in that light that one should view the reunion of a multitude of enterprises from the most diverse parts of the former Yugoslavia in this export project, regarding which even such opposing sides as the Serbs and the Croats claim that it will provide millions of dollars in cash. By the way, according to Serbian sources, \$1.5 million would be earned from each export tank.

First of all, it will be necessary to assemble the tank. During the period of Yugoslav love, it was assembled at Djuro Djakovic in Slavonski Brod. That should also be the case now. It will be difficult to accomplish, however, from all the indications. According to the coverage by Serbian newspapers, both Croatia and Serbia would be interested for their own sakes in organizing joint production in Slavonski Brod, even with the same contractors. Slovenia would include in its 15 percent share steel components for the Yugoslav tank from the Ravne Steelworks, Iskra's electronic measuring instruments, and products from the Kamnik chemical plant; Bosnia-Herzegovina would contribute the largest share, a third, and it would be followed by Serbia with 38 percent [as published] and Croatia with 22 percent. Something small would be added by Macedonia and Montenegro, and Czechoslovakia and Poland would also participate as before. Since the entire deal, together with the sale, has been rather veiled, it is hard to say what is really true in the Serbian press coverage. The Croats are already shouting that it is very immoral of Slovenia to maintain trade with Serbia and sent it tank lasers by secret channels through Hungary. It is strange, since their Djuro Djakovic would also contribute the assembly and the lower parts of the tank in question.

With all of this shouting, it is appropriate to ask who is even supposed to be selling the tank of love and hatred to Kuwait and Iran. Furthermore, isn't it risky for Slovenia to continue its old dealings with those two states, if it still has not received all the overdue payments? Although no one wants to say clearly yet which channels the trade would go through, experts assume that it will be through the ones already in place. That means still through Belgrade. If that is true, then since our Defense Ministry has approved the arms exports, we could conclude that our government nevertheless had to sign some sort of agreement with Belgrade. Rumors, to be sure, are also mentioning the possibility of exports through neutral Sweden and Switzerland, which have been involved in such deals for a long time. It will already hold true that the path of military trade is strange.

New Slovene Currency To Be Issued in June

92BA0779C Ljubljana DELO in Slovene 2 Apr 92 p 3

[Article by Miha Jenko: "The Value of the Tolar Will Still Not Be Influenced by Beauty Alone"—first paragraph is DELO introduction]

[Text] We may get real tolar as early as this June; doubts about whether it is sensible to introduce real tolar when annual inflation is more than 100 percent; will the exchange ratio between the coupons and the new tolar be 1:10?

Ljubljana, 1 Apr—When the tolar coupons were issued last October, it was said that this spring we should also get real tolar bank notes. It is quite characteristic that the public at large is (also) now more interested in the name, shape, and color of the money than in whether the money is also good and performs its function correctly (as a measure of value, a medium of exchange, and also a means of storing wealth). It has not yet been determined exactly when we should get the real tolar. It will probably be in June, but not even the leadership of the Bank of Slovenia knows exactly.

If we are already going to get new bank notes, of course it would not be good if inflation were to change them at the very beginning into otherwise exceptional in form, but monetarily worthless paper. The question is whether it is even worthwhile to introduce real money when the annual rate of inflation is more than 100 percent. It is therefore necessary to raise the question of what standards will have to be met—in addition to the technical ones, which include primarily the preparation and printing of the money—to make it possible to decide on introducing the new bank notes as soon as possible.

Furthermore, one should not forget that in the first three months of this year the tolar lost 40 percent of its value. Consequently, the views and rumors that the exchange ratio between the "old" and "new" tolar should be different from 1:1, for instance, 1:10, are not without a solid foundation. The new bank notes would thus automatically attain greater buying power. By the way, the largest, the 1,000-tolar coupon, is now worth less than 20 marks, approximately \$12, and seven British pounds. Most of the present tolar coupons have denominations which in value and buying power are worth approximately as much as coins in Western monetary systems. When introducing the new money, it would be sensible for practical and prestige reasons for the bank notes to have a greater exchange value; for instance, for the largest one to be worth several hundred marks. "Standards for replacing money are a matter of agreement. For the time being, the discussion of this has not yet begun. The government would also have to participate in this, and it would have to prepare a program. If we determined that it would be advisable to use a different exchange ratio, this decision would even have to be adopted in the Assembly by a special law. All of these discussions have yet to be initiated, but the most important thing is for inflation to be reduced. If we succeed in doing this in the coming months, we would thus guarantee a good basis for the new bank notes and money," stated Dr. France Arhar, government of the Bank of Slovenia. In response to a question about whether the coupons would be exchanged for real tolar as early as June, he told us that it could also be done then, since some bank notes will already be finished by then.

Appropriate foreign exchange reserves are a precondition for a relatively stable currency, and thus a good omen for new money. They also primarily determine the objective possibilities for exchange rate policy. The current Slovene foreign exchange reserves are relatively encouraging: According to Dr. Arhar, they amount to 540 million U.S. dollars (about 890 million marks). This, for instance, is about \$320 million more than last October when the tolar was introduced. About \$200 million of those reserves belong to the Bank of Slovenia.

The form, i.e., graphic appearance, of the new tolar bank notes is still to be a secret for the time being, but some information has already reached the public. As we have learned, a certain British company is preparing the brush proofs for the new Slovene bank notes, and as we have heard from well-informed circles, the people abroad were also surprised by the aesthetic design of the new Slovene money. Those who have already seen the money say that in terms of aesthetic criteria, the bank notes are among the world's best, and because of this they rank them side by side with the recognized design of Dutch money. The seven bank notes will bear the pictures of prominent figures from Slovene history (Trubar, Valvasor, Jakopic, Vega, Gallus, Plecnik, and Preseren). Both the bank notes and the coins were designed by Miljenko Sical and Zvone Kosovelj.

Governor Arhar said in the room that he would not talk about the beauty of the money, "since money is not a woman. Money has to be good, but if it is beautiful at the same time, it will be a great satisfaction and pride for Slovenes." In any case, according to him, the preparation of the money is proceeding with certain technical difficulties. "The Slovene paper from the Radece paper factory was well received and is of suitable quality. Now the plates are being prepared. Bank notes, of course, have to be made very precisely, there are seven colors on them, and the color shadings also have to be specified very precisely. When the right moment comes for issuing the bank notes, we will have already notified the Slovene public ahead of time how far things have come and what the technical results are like in connection with the new bank notes."

The bank notes have all the protections, and the water mark is being made back in the paper factory. Will we also print Slovene money in England later on? According to the governor, the plates are actually what is essential, but further printing depends upon an agreement and the demand for the bank notes. This in turn depends upon the exchange ratio. If the exchange ratio between the old and new money is more than 1:1, then in the very beginning you get considerable reserves in the printing of the bank notes. This means that the immediate printing of new bank notes is not necessary.

With respect to the replacement of the money itself, it will also be necessary to determine the method and pace of the replacement. Two approaches are known in this regard: The first is immediate replacement of all the money in a brief period of time, for instance in one

week—that is how the tolar was introduced last October, for instance. The second method is gradual replacement, on which the Germans decided when introducing new bank notes. In this case, old and new money are in circulation for some time. In Dr. Arhar's opinion, that kind of replacement would also be the simplest, since the new bank notes would be put into circulation over a longer period of time, while the old ones would be taken out of circulation and given to the treasury.

Everywhere in the world, a distinction is made between bank notes and coins: The former are issued by the central bank, and the latter are minted by the state. In some places bank notes are the only legal medium of payment. It is interesting, however, that in our case a coin mint has not yet been selected. According to Dr. Arhar, bids are still being collected, and we do not yet have the technology here for producing coins. As he said, we are "working on having the coins issued at the same time as the bank notes. That would have to be the case, since if you are aiming at a different ratio than 1:1, then you necessarily need coins." In this regard it is clear that with that ratio between the old and new money, the

metal in the coins would be worth considerably more than the coins' nominal value itself. This would be most obvious with the hundredths. In any case, it has been planned that the coins are to be in denominations of five, two, and one tolar, and 50, 20, and 10 hundredths, and the bank notes in denominations of 10, 20, 50, 100, 200, 500, and 1,000 tolar.

"Our desire is to have the money, the new bank notes, issued when inflation has stabilized, so that we could start with them in a different situation than in October, when we issued the Slovene tolar," the Bank of Slovenia emphasizes. The dilemma caused by two elements which are apparently contradictory in our situation—maintaining the liquidity of the bank monetary system, and controlling the size of the money supply—and which are necessary for good money will have to be reconciled in a harmonious system, of course, together with effective measures by some more effective government. Only then will we be able to hope that the beautiful bank notes that the public is already awaiting impatiently will not be just an ornament for a purse, but also a solid measure of value.

Yugoslav Air Force Commander Interviewed
92BA0883A Belgrade INTERVJU in Serbo-Croatian
3 Apr 92 pp 4-7

[Article including interview with Yugoslav air force commander Lt. Gen. Bozidar Stevanovic by Slavoljub Kacarevic; place and date not given: "I Am Not a Putschist"—first paragraph is INTERVJU introduction]

[Text] When I came to the command, I had the opportunity to read through that which I had not been allowed to know previously.... Perhaps that is where they got the putsch idea. Afterwards, I learned that they wanted to imprison me too at the end of last August.

Perhaps a little unnoticed, the latest change in the head of the air force took place at the end of February: After Gen. Tus, who "deserted" to Croatia last summer, and Gen. Jurjevic, who was retired this past winter, the new commander of the air force was Lt. Gen. Bozidar Stevanovic.

Gen. Stevanovic began his military and aviation career 39 years ago, at the old airport in Skopje. Over the course of the past 39 years, serving in many cities all over the country, he has performed every kind of command duty, in addition to serving in a number of specialist posts, and prior to his current post he was the commander of the Belgrade corps of the RV [Air Force] and PVO [Air Defense].

Popular among aviators, Gen. Stevanovic is probably the only air force commander in the world who still flies in the most modern aircraft. He was born 58 years ago in Kragujevac, and he reminds us that he is the third person from that city to head our air force: The first was Gen. Dusan Simovic (the leader of the 1941 putsch), and the second was Gen. Stevan Roglic, who held that position from 1979 to 1981. Perhaps it is precisely because of someone's memory of Gen. Simovic that a half a century later Gen. Stevanovic is also suspected of attempting a putsch. Now that he is in the post of commander, Gen. Stevanovic promises that a new history of our air force will be written, and he points out that not all generals are the same, as is often imagined by the public: He lives on the third floor of a Novi Beograd apartment building in a three and a half-room apartment with his family of six, and is paid 68,000 dinars a month.

"When I became commander, I told my pilots, 'I know where I am going and how hard it is to put all of this in order, but I am also doing this for you, young pilots, and I will give you an accounting of what I will be doing, but you will also do the same for me.'"

The new air force commander reluctantly agreed to an interview with journalists, primarily because, as he says, he would not want to give the impression that he was getting revenge on anyone. And it can be assumed that there is reason for this, given the number of disagreements that he has had with commanders during his career as a pilot.

[Kacarevic] Could you explain to us briefly what the RV and PVO are, exactly?

[Stevanovic] The RV and PVO are part of and one of the branches of the armed forces, with a dual purpose: anti-air defense of the territory and of groups of armed forces against air activities by the adversary, and air support for the army and navy in all phases of armed conflict.

I must say that the Supreme Command has not committed the RV and PVO in terms of our maximum capabilities, just as it has not done with other parts of the armed forces as well. There are probably numerous reasons for this. However, my opinion is that the basic reason is that the role of the overall armed forces has been to separate the clashing sides, which is why they could not be adequately utilized.

I did not agree or reconcile myself with this sort of commitment of the armed forces and of our branch. Regardless of that, I maintain that to the extent to which the RV and PVO were committed, they carried out their assigned duties professionally, patriotically, and efficiently, and that they even had a decisive effect on the outcome of individual land operations, despite all obstacles.

This assessment has been expressed by nearly all unit commanders in the army and navy whom we supported during war operations, and that is also the assessment of the Supreme Command, even though there were other, unfounded assessments by unqualified circles during the operations.

[Kacarevic] Do you not think that with regard to the adversary's weak air defense, air force losses were nevertheless substantial?

[Stevanovic] I would not say so, because conditionally speaking, in standard warfare between equal adversaries, experience shows that air force losses on both sides amount to between 1 and 3 percent of the number of sorties. Our losses during the entire conflict amount to 0.2 percent, although the other side is saying that they were many times more. But we know why they are doing that.

On the other hand, the effects of air force operations are such that they outweigh the expended resources and suffered losses many times over.

[Kacarevic] Did you leave behind significant facilities and property in the territory of Slovenia and Croatia?

[Stevanovic] Yes, we left behind many facilities of the infrastructure and other real property there.

But all movable property, equipment, and weaponry was completely withdrawn, so that the facilities that were left behind are not functional even today. However, even that which was left behind was not left because a unit surrendered or withdrew, meaning that the adversary captured these facilities, as was the case in certain other

parts of the OS [armed forces]. On the contrary, everything that was left was the result of state agreements and decisions by the Supreme Command.

[Kacarevic] Is it possible to speak of treason in the armed forces, and to what extent did this contribute to the abandonment of the territories of Slovenia and Croatia?

[Stevanovic] There has certainly been treason in the armed forces, and on all levels of leadership and command. Right now it is hard to say exactly how much of it there was and how much it has influenced the results thus far.

These days, however, all sorts of things are considered treason, from deserting the armed forces to unfitness for the performance of certain duties. Perhaps this is proper, but one must still make certain distinctions. Specifically, we must bear in mind that those who left us out of cowardice, or those who went over to the other side because of their national orientation, essentially strengthened our ranks. A bigger problem for us is presented by those who have stayed with us, especially at higher levels, and who have skillfully concealed themselves, or where our opportunism continues to enable them to survive and engage in treasonous activities.

[Kacarevic] So what is the situation in the RV and PVO, especially in light of press reports on certain events within the command of the RV and PVO?

[Stevanovic] Many people have left our ranks for various reasons. This has meant certain hardships for us, but has not essentially disrupted the combat potential and operative capability of the RV and PVO. Only two pilots deserted with their airplanes, out of the thousands of sorties that we flew. No matter how difficult these cases are, they should not be regarded as tragic, because in some armies, even mononational ones, there are more such cases during peacetime than we experienced during wartime, and we know what kind these were.

As far as the second part of the question is concerned, I can say, recognizing all the complexity of the situation in which we found ourselves and the moves with which we did not agree, that we in the RV and PVO managed, internally and from below, to achieve a complete renewal of personnel in the command of the RV and PVO, and I think that this very fact shows the strength, determination, and toughness of the personnel potential of the young generation that we in the RV and PVO have at our disposal. Following the personnel changes, a few events and unacceptable actions from the previous period gradually came to the surface; these issues are in the process of being resolved, and the public will be informed of the results. The RV and PVO and I personally have nothing against a free press, on the contrary, but one must not create rumors, make a fuss, and prejudice results, and especially not accuse people in advance.

[Kacarevic] To what extent are the RV and PVO, as well as the overall armed forces, or JNA [Yugoslav People's Army], Yugoslav?

[Stevanovic] We are Yugoslav to the extent that the remaining part of Yugoslavia is Yugoslav. The national composition of the current armed forces, and thus also the RV and PVO within them, corresponds approximately to the national composition of so-called "rump Yugoslavia." Perhaps this does not suit those who advocate the creation of a so-called "Serbian army," but if we proceed from the fact that every army is a state organization, and not a national one, then even the advocates of such an army must accept the fact that the Serbian state is not mononational, so that even an army that belonged to it only could not be mononational. In this sense, we must avoid attempts to create frontal mistrust of members of certain nations in the OS, because there are simply no grounds for that sort of thing.

[Kacarevic] To a certain extent, your assessments of the situation and possibilities of the OS, RV, and PVO differ from the rather widespread opinion in certain circles, according to which the army has disintegrated together with the state, and that it is even the cause for the state's disintegration because it did not carry out its constitutional role. What do you think about that?

[Stevanovic] I am first and foremost an aviation professional; I am not a politician, historian, sociologist, or military theoretician. I believe that sometime in the future experts from those fields will provide complete answers to the question that you raise. Still, out of respect for your readers and your profession I will present my personal opinion on this.

In the ideological state that was established after the second world war, the national question and national ambitions were not resolved. On the contrary, tensions grew continuously, while attempts were made to resolve tensions by applying the principle of symmetrical responsibility and by setting up the entire federal leadership on the basis of parity. Through this course, we moved in practice from a federative to a confederative state under the 1974 Constitution.

Whatever the state was like, the army too was mostly the same way. The ideological state established an ideological army, as the basic guarantor of its authority. This is why a dual role for the armed forces, or JNA, was incorporated into each of our constitutions. First, to defend the freedom, independence, and territorial integrity of the SFRY, which is logical and is the duty of every army in the world, and second, to defend the constitutionally established social order. But that is actually an ideological provision, because the state, society, and the Constitution were all founded on ideology, not on democracy.

As the state was confederalized, the confederalization of the army also began to take place, and that was made possible by the application of national quotas in selecting personnel, at the expense of competence, especially at the higher levels of leadership and command. This disrupted the principle of the unity of the armed forces, because national personnel—some publicly and some

secretly—were more responsive to “their” republic than to the federal state. This was especially pronounced in the leadership and command of the territorial defense forces, but also in parts of the operative army, even at the very top. Even under such conditions, I think that the JNA was capable of effectively performing its first constitutional role. However, no one directly attacked us from outside, so that our armed forces were not able to prove themselves in terms of this role. Despite various forms of foreign assistance, the state nevertheless disintegrated internally, which I believe is a view shared by everyone and about which there is no need for me to explain in greater detail.

In this sort of situation, the confederalized army was clearly unable to perform its second constitutional role, especially since the actual social order no longer even corresponded to the constitutional order at the moment when the state actually began to disintegrate.

To make matters worse, even under the conditions of state collapse and escalation of the war, political thinking evolved in a controversial manner, while this was the precondition both for transforming the army and for cleaning out its ranks. Even under these extremely unfavorable conditions, the army managed to survive, defend the specified territories, and transform itself at the same time that it was undergoing enormous efforts and sacrifices.

At this time, it is difficult to show with any precision and exactness how much the army contributed to preventing the outbreak of war and to preventing greater destruction and more victims, but that contribution was certainly enormous. Anyway, the JNA was and still is the respectable armed force in this region, and we can only imagine what would have happened if the army had in fact fallen apart in the same way that the state did, and what sort of fate would have been endured by the Serbian people in the borderlands and in Bosnia-Herzegovina in particular.

[Kacarevic] Immediately after the appointment of Tus to the post of the main staff of the Croatian armed forces, you sent an open letter to your former colleague. Can you tell us the reasons for this appeal?

[Stevanovic] Yes, I appealed to Tus in an open letter because I regarded that as my professional, patriotic, and human obligation. Through that letter, I tried to point out to the public, among other things, certain weaknesses in the JNA at that time, about which I am speaking today as well. Most of all, I think that the application of national quotas in selecting personnel, which weakened the JNA, divided it along republican and national lines and created the preconditions for what we have today. I personally do not know what political currents took Tus to the post of commander of the RV and PVO, because aside from politeness and verbal skills, Tus had no other qualifications; moreover, although he is a pilot, it has been 20 years since he sat in an airplane. Thus, aside

from the fact that he knows a great deal about us, I think that there is nothing else about him that will make his new bosses happy.

A bigger problem that we face is the fact that he left behind a sizable number of people in the RV and PVO who are loyal to him, and who cooperated with him even during the course of the war. We are working on resolving this effectively, and in this way there is no further need to mention his name. Our people need not have any reservations concerning the RV and PVO because of him, because he is not a product of our branch of the armed forces, but rather of former politics.

[Kacarevic] How do you view the future of the RV and PVO in light of the possible development of the Yugoslav crisis and the potential formation of a new state, since that process is actually under way?

[Stevanovic] The ill-defined nature of the state borders is a major problem for all of us, including in our branch. In this sense we have certain difficulties with the transformation of the RV and PVO and with setting up a corresponding operative program. But this has clearly not diminished the combat readiness and operative capability of our branch. We are still capable—even more now—of effectively carrying out all our duties, in terms of both our purposes, on the entire theater of operations, in accordance with decisions by the Supreme Command. At the same time, we are conducting an internal reorganization in the direction of cutting back numbers and expenses while increasing effectiveness and deadlines.

[Kacarevic] What is your assessment of the army's conduct in the civil war?

[Stevanovic] At least in the area where I was involved, on the eastern Slavonian front, the army could have cleared up the situation in one day, but politics defined the rules of the game, and we had to play it as the politicians wanted. The situation in the country was not defined. For example, if it had been said that fascist forces were rebelling in Slovenia and Croatia, then it could have been clear what we should do with the rebels. Instead, there was talk of a rebellion by the states of Slovenia and Croatia, and if we wage war against states, then it is clear that the international community has to intervene.

[Kacarevic] Do you also believe that the goals of the war were not defined?

[Stevanovic] What goals? Most of all, the enemy himself was not defined. It was as if you were ordered, “Kill him, but kill him as little as possible.”

[Kacarevic] Who in the armed forces advocated such tactics?

[Stevanovic] The armed forces have always been the exponent of someone's policy.

[Kacarevic] But all at once it seemed to be going off on its own...?

[Stevanovic] Because it was left without a state. We are still without a state right now. We are serving the people; our old Yugoslavia has fallen apart, and there is no new one.

[Kacarevic] What about the armed forces' constitutional obligations?

[Stevanovic] What constitution? The one from back in 1974, which is no longer in force?

[Kacarevic] Under such conditions, what can the armed forces even do?

[Stevanovic] It has functioned as a patriotic and professional nucleus. I live in my Yugoslavia; this is my homeland, and I am fighting for it.

[Kacarevic] If a new state is established for you tomorrow, will you set out certain conditions?

[Stevanovic] We cannot set out any conditions whatsoever.

[Kacarevic] Does that mean that the armed forces are free of ideological prejudices?

[Stevanovic] Not completely, that much is clear. However, I do think that we have taken the first steps.

[Kacarevic] Let us return to the armed forces. Were you surprised when your former commander went over the other side?

[Stevanovic] No. He is only two years older than me. He is a man from our generation who, with the least effort and knowledge, managed to control our former commanders. He charmed them with many pretty and empty words, and they pushed him forward, thinking that he knew a lot. I was amazed at how he managed to present himself as an expert, in terms of how little knowledge he possessed.

Tus moved around from post to post at lightning speed, and he did not stay at any higher post for longer than a year before moving on to the next promotion. I have spent between three and five years at every one. In addition, I have had to prove myself through my work, and he has not.

At every post through which he passed, he managed to push us aside.

On many occasions, I have been placed in a situation where I have been replaced or not appointed to a new post because of Anton Tus and his ilk. I have warned about him continually over the past five years.

[Kacarevic] How was that resolved?

[Stevanovic] It wasn't.... All I could do was sit and shut up. Only after that thing with Tus happened did many people tell me that I was right. I was not surprised by anything.

[Kacarevic] Have you also experienced a turning point in this war?

[Stevanovic] For me there have not been any such moments, because I knew from the outset what I had to do. I knew that once the air force becomes involved, then that is the final phase of the war, when it is necessary to wage serious war. The only question here was how to carry out everything as reasonably as possible. On the whole, the air force contribution was major, more psychologically speaking than in terms of effective operations.

[Kacarevic] How did it happen that the test range in Cakovac was bombed?

[Stevanovic] That happened in one instant. It was probably a counteroffensive, a reaction to all the senseless tasks around Vukovar. There we began to act like an air force should act. We penetrated communication links from Vinkovci, Djakovo, and Nasic towards Osijek and were active for five days. During that time, we destroyed 15 trains, around 20 columns of transport trucks, 23 of their airplanes, and around 15 ammunition depots.

[Kacarevic] What did you hit in Cakovac?

[Stevanovic] Probably missile systems. After our strikes, there were several sudden explosions caused by what was located there. There is various information about who died there. In my estimation, there were around 500 soldiers and around 37 German instructors who were assembling the systems and training on them.

[Kacarevic] Are there still any officers in the air force who are wavering about which side to fight on?

[Stevanovic] There probably are, but we are beyond the situation where people must choose. I think that there is still a very small number of people who have not cleared up their motives or who have not been uncovered.

[Kacarevic] Were there many mistakes made in terms of air force support during this war?

[Stevanovic] An investigation is under way into the incident that happened at Sid. That was a mistake by the land forces, not the air force, but the military court is working on this, and will determine exactly who was responsible.

[Kacarevic] What is the truth about the so-called Opera group? Theories have appeared in the press to the effect that this is incredibly arrogant and open espionage.

[Stevanovic] I do not wish to say anything or to prejudice the outcome of the investigation that is under way. That group was formed here at the command, but there are no orders whatsoever concerning it. When we came here and took over the command, those people fled. I still do not know their names, nor who paid them, but they have all vanished.

[Kacarevic] Last year, you were allegedly accused of a putsch attempt. Where does the idea that you are a putschist come from?

[Stevanovic] I know nothing about that. I found out about these things from the press.

[Kacarevic] How did this conflict seem when it was possible that you could be arrested?

[Stevanovic] I told Gen. Jurjevic, the commander of the RV and PVO at the time, that I could not face my units with the positions that had been communicated to me. These are not arguments for people. He started to yell at me. At the time, I had already sent 10 or so memorandums to both the Air Force command and the federal secretary, in which I put forth the reasons for my objections. When this was happening, the primary objections from my units concerned the Air Force command and the Federal Secretariat.

That is why I proposed to Gen. Jurjevic that he personally speak with the unit commanders in my corps, and he accepted that suggestion.

When my officers came, I explained to them that, acting as commander, I had written the federal secretary three times and the Air Force command 10 times concerning all their objections. I read them everything that I had written and asked them whether they had anything to ask me, and said that I had not requested a response from the competent authorities. They answered that they had no questions.

We held that meeting in Banjica, and then we set out for here, the RV and PVO command. All the people were carrying pistols, which is completely normal, since they flew in straight from the front, but people at the command grew frightened and, as I later learned, prepared to arrest us.

When we arrived, I said that we, the unit commanders and the corp commander, wanted to speak only with the commander of the air force and the chief, and that we did not want to see aides here. Jurjevic responded that that was out of the question. I asked him once again to allow this to be a meeting between commanders, and thus that no politicians and security be present. Jurjevic responded once again that he would not even consider doing that. Then I said that I was sorry, but that I had no business here, and I went outside. The unit commanders went with me; there was shouting, but I went away.

[Kacarevic] You never returned to command until 26 February, when you assumed the post of commander?

[Stevanovic] No, I did not. Anyway, after that incident a joke began to circulate among pilots, about the RV and PVO command and the first independent corps...

[Kacarevic] What was the attitude of the higher commands to you?

[Stevanovic] It was normal, soldierly. Many of them thought that I was maybe carrying out a putsch in order to clear up things with Jurjevic, that this was a conflict between a Serb and a Croat. All sorts of things got mixed up in these people's heads concerning my intentions.

[Kacarevic] And what were the objections that led you to the meeting with Jurjevic?

[Stevanovic] They primarily concerned actions during the predislocation of the units, specific issues concerning the deployment site for the air force. For example, units going from Pula to Tuzla, then from Tuzla to Sarajevo, and then from Sarajevo to Titograd.... Those are moves based on ignorance.

[Kacarevic] Would you have become RV commander if Veljko Kadijevic had remained federal secretary? Did Gen. Blagoje Adzic give his consent to your appointment?

[Stevanovic] No.

[Kacarevic] Who did, then?

[Stevanovic] Probably some new state.

[Kacarevic] Finally, what will the armed forces do in Bosnia?

[Stevanovic] We have begun the dislocation of air force schools, but the units will remain to the end, as long as the political factor requires. I recently asked that we be relieved of the duty that is still in effect for us, namely, "the control and defense of the air space of the SFRY." What kind of control do we have over Croatia and Slovenia?

[Kacarevic] What about the airport in Bihac?

[Stevanovic] Once, when Tito arrived there in 1976, a delegation from Bosnia and Croatia arrived at the airport and quarreled in my presence about who should greet him and on whose territory the airport is located. Then they went to the land records, and I went too, and they established that the border passes in the vicinity of the airport. I have taken another look now, and I see that they have placed the border in such a way that the whole thing is in Croatia. The airport in Bihac will not belong to anyone. It can only be blown up; we will not leave it behind for anyone.

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