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# East Europe

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16 January 1991

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## POLAND

### Bilateral Relations With Ukraine, Belorussia

#### Polish Minority Statistics

91EP0124A Warsaw ZYCIE WARSZAWY in Polish  
15 Nov 90 p 9

[Box by (k)]

[Text]

[Box p 9]

There are about 1.2 million Poles living in the USSR, which has a population of 287 million. The largest numbers reside in Belorussia and the Ukraine. There are also many Poles living in Lithuania, Kazakhstan, Latvia, and Russia (in Moscow and Leningrad).

The most numerous group consists of Polish emigres in Belorussia. There are more than 403,000 Poles living in Belorussia, mainly in the Grodno District. One person out of every three living in Grodno is a Pole. The compact area of Poles residing in Belorussia begins in the area running along the Polish-Soviet border on the route between Bialystok and Grodno and extends uninterrupted to Lida, Vilnius, Ostrowiec, and the Braslav lakes.

At the same time, as Doc. Nikolai Ivanov notes in the KURIER WILENSKI, it is right in Belorussia that the most explicit, cruel anti-Polish policy was carried out in the postwar period, as the result of the fact that despite the rather large group of residents who declare their Polish origin openly, there is also a rather large Catholic population (about 1.5-2.0 million people) that either has no precise national identity or has "Belorussian" on their identity cards, although these people admit to being Poles. Catholics account for nearly one-quarter of the total population of Belorussia, and their percentage has recently been on the increase.

The year 1949 brought censure, opening a new stage in officials' anti-Polish policy in Belorussia. It was then that all the [Polish Language] schools in existence were closed, and use of the Polish language in any state, social, or party activity was prohibited.

The second largest Polish group is located in the Ukraine and numbers 258,000, but Poles living there are widely dispersed, unlike those in Belorussia and Lithuania. They make up about 0.5 percent of the population of the Ukraine. Nearly 70 of the Polish emigres in the Ukraine live in what was Soviet territory prior to 1939 (82,000 in Zhytomyr District [oblast], 43,800 in Khmelnytsky District), as shown by the fact that part of the Polish population that had been expatriated between 1936-38 returned after the war.

On the other hand, the Polish element was just about entirely purged from what is called the Western Ukraine, the southeastern part of the Second Republic. According to census data, only 75,000 of the 2.3 million Poles

residing in this area prior to 17 September 1939, still remain. This tremendous exodus of the population was caused largely by massive repatriation to the PRL [Polish People's Republic] in the fear of a new outbreak of Polish-Ukrainian conflicts. Lvov, which has 40,000 Polish inhabitants, is the sole haven of Polish identity in the Ukraine.

#### Ukraine: Normalizing Relations

91EP0124B Warsaw ZYCIE WARSZAWY in Polish  
15 Nov 90 p 9

[Article by Jan Pakulski: "Polish-Ukrainian Relations: As One Sovereign State With Another"]

[Text] We are going to have to endure many more myths and stereotypes on both sides of the Polish-Ukrainian border before we manage to establish mutual relations based on normal European principles. Poland's relations with the Ukraine (as with all its other neighbors) have not been the best up until now, but the rapprochement to Europe also involves the need to maintain partnerships with neighbors, according to European principles.

We are accustomed to using Galicia as a prism when we look at relations between Poland and the Ukraine. Along the Dniepr River, relations with the Ukraine have been much better. Official contacts with Kiev in the 20th Century seemed promising, beginning on 21 April 1920, between the Polish Republic and the Ukrainian People's Republic. An agreement was signed pledging far-reaching cooperation. The joint Kiev campaign, which was the fruit of the Bolshevik takeover of that city, soon turned into a joint withdrawal. The signing of the Riga Peace Treaty meant cancelling the agreements made with the Ukraine a year earlier. Today many Ukrainians still believe that when Poland made peace with the Bolsheviks, it betrayed them.

Before the above-mentioned agreement was signed on 21 April 1920, there was a war in Eastern Galicia between the Poles and the Western Ukrainian People's Republic created in this area. As the result of the battles waged in 1918-19, the newly born Polish state annexed all this territory.

This is how we entered the period between the wars. It is true that we had expanded hopes for a post-Jagiellonian confederation, but as an independent state. They were embittered over having lost their independence in Eastern Galicia and over Poland's defaulting on its obligations with the Ukraine along the Dniepr River.

Once mature political movements, Polish and Ukrainian, began to form alongside one another, defining their relations towards one another became a key issue. Back at the end of the 19th Century, there were two opposing views on this subject in the Polish political mind. The first considered Polish culture to be superior to Ukrainian culture or even denied the very existence of the Ukrainian nation and its right to self-determination. The

attempt to Polonize the ethnically diverse areas was a consequence of this way of thinking.

The second view was that a sovereign state should be created east of Poland, one which would remain Poland's ally (the details were never specifically spelled out) and oppose Russia, if need be. Owing to its potential, the Ukraine was to be Poland's most important ally.

The National Democrats and allied parties advocated the first concept. The other view was formed in the PPS [Polish Socialist Party] and was continued by some ranks of Pilsudski's followers. Various periods gave different names for concepts based on this way of thinking: the Jagiellonian idea, the federalist notion, the Promethean concept, and the Isthmus concept.

The first concept won out during the Polish-Ukrainian War in Galicia in the following years of the Second Republic. The National Democrats were not alone in carrying it out. The other concept was defeated when Eastern Galicia became part of Poland. It was defeated again when our country was forced to sign the Treaty of Riga, and it became impossible to normalize relations between Poles and Ukrainians living in the Republic, and it was finally defeated once again when another Polish-Ukrainian war broke out in the 1940's.

The first way of thinking is responsible for the myths and stereotypes which exist on both sides. The second concept gave rise to the attempts to compromise and reach an agreement, despite all the difficulties.

Several times during the 1930's, there was a rapprochement between representatives of the Polish government and the strongest Ukrainian party at that time, the Ukrainian National Democratic Union (UNDO). At a session of the Sejm on 2 September 1939, Deputy Speaker Vasyl Mudry declared on behalf of the UNDO, which he represented, that if faced with war, the Ukrainian nation would do its patriotic duty to the state in terms of blood and property.

Despite the tragic events in Wolyn and Eastern Galicia, at least beginning in 1943, the leadership of the Lvov District of the AK [Home Army] and the government delegation of that day maintained contacts with leaders of the OUN [Organization of Ukrainian Nationalists], resulting in the signing of a joint protocol in March 1944, which states, among other things: "The existence of the independent states, Poland and the Ukraine, is in the interest of both nations, Polish and Ukrainian, and is a historical necessity for the lasting future of both countries." The signing of the protocol did not end the fratricidal battles, however. Efforts were made at local agreements between the [Ukrainian groups] OUN and UPA and the [Polish groups] AK and WiN [Freedom and Independence] after the end of World War II. WiN and UPA detachments [jointly] ruled Hrubieszow as the result of one such agreement in May 1946.

Minister Krzysztof Skubiszewski's visit to Kiev in October undoubtedly signaled a breakthrough in Polish-Ukrainian relations. No such meeting had occurred since 1920.

The current policy towards the Ukraine is rooted in the thinking of the PPS and followers of Pilsudski, but a basic element is missing, one that appeared (and was more or less openly displayed) in all the Polish-Ukrainian agreements since 1920. The present contacts are devoid altogether of any anti-Russian (anti-Soviet) accents. What is more, the simultaneous visit to Moscow and the signing of a declaration similar to the Ukrainian document show the intent to treat both neighbors equally.

Up to this time, Russia (the USSR) was a factor in determining Polish-Ukrainian relations. This meant that having the two sides sign an agreement was treated instrumentally. The agreements were not lasting. They were competitive.

The declaration signed on 13 October of this year is a break with this tradition and creates a whole qualitatively new situation in relations between the two countries. This is a document about the principles for mutual relations between two sovereign states (after the Ukraine declared its sovereignty on 16 July of this year).

The declaration is not directed against any third state and is furthermore the first significant document signed by representatives of Poland and the Ukraine, not forced on them by the situation. It opens up the way for normal relations, the sort that ought to exist between European neighbors.

Polish-Ukrainian relations will of course still depend on what relations are like between Kiev and the Kremlin. The pragmatism of Skubiszewski's policy lies in the fact that the declaration that has been signed will remain in effect, regardless of whether relations between Kiev and the Kremlin are frozen at the present stage (which seems very unlikely) or the Ukraine undergoes a process of emancipation. This team does not lack pragmatists like Foreign Affairs Minister Zlenko. The Communists are also under constant pressure from the opposition and Ukrainian society, as evidenced by the forced departure of the unpopular premier, Masol, and other concessions to college students as a result of hunger strikes.

Next year, as the result of forced elections, it is possible that the opposition will take over the government. A consequence will be a further relaxation of ties between Kiev and the Kremlin.

Concrete agreements should follow in the wake of the declaration. For example, the declaration calls for establishing consular relations, the fostering of direct cooperation between Polish and Ukrainian firms, and the creation of culture and information centers: a Ukrainian center in Warsaw and a Polish center in Kiev. It will

therefore be essential to hold meetings soon and to respond rapidly to the changes taking place beyond the Bug River.

Beyond the natural interest in Poland as a neighbor, the contacts with Poland confirm for the Ukrainians the sovereignty they have just gained. This is why one of the points of the declaration includes a statement of Polish readiness to help the Ukraine in its rapprochement to Europe.

Will the signing of the declaration ultimately mean that the instrumental treatment of mutual Polish-Ukrainian relations will be replaced by viewing these relations in terms of a policy waged by the National Democrats? The answer to this question will depend to a great extent on the two countries' relationships to their minorities, the Polish minority in the Ukraine and the Ukrainian minority in Poland. One of the points of the declaration signed in Kiev talks about defending minority rights.

Owing to the complicated relations between Poland and the Ukraine in the past, Poles and Ukrainians are especially sensitive to the way their fellow countrymen as a minority population are treated by their neighbor. Both societies will view relationships with minorities as a barometer of mutual relations.

#### **Belorussia: Anti-Polish Sentiments**

91EP0124C Warsaw ZYCIE WARSZAWY in Polish  
15 Nov 90 p 9

[Article by Wladyslaw Tybura: "Poland and Belorussia: New Ideas, Old Prejudices"]

[Text] The Polish public showed some consternation over the unexpected obstacles Minister Skubiszewski encountered in Belorussia, during his recent trip to the East to lay the groundwork for new relations between Poland and this region. Why was it Belorussia that proved to be unprepared for such an act of good will on Poland's part? At least these were the sort of immediate comments made concerning the absence of positive results to the Polish-Belorussian talks. We can, of course, talk about Minsk's lack of preparation. Indeed, such a statement would be true, but it would apply to the current situation. History gives fuller meaning to the failure of the Polish expedition to Belorussia. Once we understand the history, we can find the answer to the question of why, despite the historical involvements, it was easier to sign cooperation declarations with Russia and the Ukraine, even though our history with Belorussia has not been encumbered by such severe conflicts.

History has been responsible for the many complexes surrounding Belorussia's policy and way of reacting. The first is the Polish complex. The sources run very deep; they take a moderate course and have a rather soft nature, because they have developed and appeared mainly on the cultural level. It was not until very recently that they unexpectedly took a severe turn, as a feature of the emancipation movements appearing in our part of Europe and the Soviet empire.

Belorussia was the least prepared to avail itself of the unexpected opportunity to develop a more or less sovereign national state for the first time. This applies equally to the authorities connected to central structures, and not adapted at all to independent existence, the opposition, which for the moment was still rather weak in the way it operated in the sphere of national symbolism, and also to society, which was still suffering from the intensive efforts at Russification, from Stalinist repression, and from being forced into the framework of the Soviet system. Nonetheless, this Polish complex, which is elaborately displayed on the surface, played a certain role.

The Belorussia of today is an area which historically has been dominated by three powers: in the earliest days, the Lithuanians; then the Poles; and, after the partitions, the Russians. This outline can be applied to the national and political sphere, but in terms of culture, Belorussia was under Polish influence from the moment it became part of the Polish state up to the Bolshevik revolution and, West of Minsk, up until 17 September 1939. As the result of many centuries of living together, a Polish-Belorussian society was created with no clearly definable boundary between the nationalities. The boundaries were set instead according to the religious affiliation and social situation of the various population groups. The more wealthy strata were absorbed by Polish culture and integrated into the Polish heritage. Even at the beginning of our century, Minsk was a Polish border city, surrounded by a nobleman's settlement, as Mickiewicz portrayed it so beautifully and nostalgically in [the national epic] *Pan Tadeusz*. During this time Russian domination left its imprint of imperial political, police, and administrative subordination, without touching the realm of culture, lifestyle, and customs, which formed a Polish-Belorussian mixture.

The process of removing the Polish mark from these lands and replacing it with cultural Russification began after the January Uprising and declined somewhat after the 1905 revolution, growing stronger again and becoming genuine repression during the period of Communist rule. Its thrust was always directed against Polish culture, which was so strongly rooted here. The expulsion of the Polish presence from this land took the form of bloody repression and incessant banishment to Siberia, entering a stage of mass crimes and deportations between 1937 and 1956. The Polish element, which had been living in these lands for centuries, was literally decimated during this time and reduced to the status of a second-class group. The entire Polish intelligentsia was murdered.

An important thing is the fact that these anti-Polish actions went hand in hand with destruction of the Belorussian element. Belorussian culture, one root of which had grown out of native folk tradition and another out of its Polish heritage, was reduced by Russian culture and later by Soviet culture to a lower position and

treated as a regional additive to all-Russian culture and then socialist culture. As a result of these actions, the Belorussian language perished (except for rural areas in Western Belorussia). All national awareness and sense of identity were eradicated. It was all the easier to divest the Belorussians of their national identity, because they had been subjected to especially bloody Stalinist repression, which weakened their spirit of resistance to mass Russification and Sovietization. The local bureaucratic and party machine actively engaged in this process, perhaps even zealously. This fact is important in considering the behavior of Belorussian officials today.

Another fact important to an understanding of the restrained Belorussian response to Skubiszewski's initiative concerns the link between the process of Russification, or actually Sovietization, and anti-Polish propaganda. A negative stereotype of "Poland of the nobility," the perpetrator of all adversity which Belorussia had suffered in the past, was created. Polish culture was presented as an instrument helping to subordinate the Belorussians and divest them of their national identity. The creation of such a picture of Poland was facilitated by occasional instances of discrimination on the part of the local police and bureaucratic machinery of the Second Republic against those groups of Belorussians that demonstrated opposition to the Polish state. But after all it is not these facts from before the war which bear on relations between Poland and Belorussia; at least they do not predominate, because if one were to measure the harm and repression which Poles suffered in the lands taken over by the USSR after the aggression on 17 September 1939, then the two phenomena would not fit together on any scale of comparison. After all, Stalinist repression affected the Belorussians living in that area too, although to a lesser extent than the Poles.

The coincidence of historic relationships and dramatic fate of the past half century have meant that there are generally no real anti-Polish feelings among the ordinary Belorussian people, but these sentiments are apparent in the circles of officialdom. This situation is understandable, because it was within these circles, after all, that the negative stereotype of the historical Poland was created. Part of the creative intelligentsia also harbor these prejudices against Poland. One can suspect that at work here is the old Polish complex, and surely the effects of later indoctrination as well. All this must be situated against the backdrop of the difficult process of the reawakening of the national awareness of the Belorussians and the very first steps on the road to sovereignty. It is more difficult in that the crime of denationalization was committed in Belorussia, and this fact undoubtedly represents a loss for Poland.

The reason it would be a loss is that although the interests of the two adjacent nations call for establishing long-term neighborly relations, prejudices and complexes are voiced which have been formed consciously, we might even say, with premeditation, on a prepared historical background. But this is merely the fact that there are no currents of emancipation that are strong

enough, and, as a result, there is a lack of political forces, elite groups thinking in a new way, which could have an impact on Belorussian policy. In this case, a more important cause is the fact that Belorussian policy is dominated by those political structures and forces that for decades has created a Belorussia that was not Belorussian, that also demonized Poland's negative impact on the fate of the Belorussians. Representatives of these forces surely had a decisive influence on the concept of talks with the Polish minister in Minsk.

It is regrettable that the young Belorussian opposition, basing its program on national rebirth and striving for public support, allowed itself to be subject to disparaging stereotypes of the Polish threat to the interests of Belorussians, somehow also at risk in Poland. The neighboring republic, after all, is presenting the example that national awareness endured here and developed not in the Soviet Ukraine on the Dniepr and Don, but in territory "seized by Poland of the nobility." History has therefore shown that it was not Polish culture but Soviet rule that was especially detrimental to national identity. It is also worthwhile to recall that up until recently Bialystok Voivodship was the only area in Europe with Belorussian schools, as people in Belorussia told me during the 1970's. At that time the Polish language was held in disdain and persecuted. Actually the authors of Russification and Sovietization in Belorussia could gain no greater satisfaction than to see their anti-Polish efforts bear fruit in the behavior of their opposition.

But this is probably merely the short-lived victory of old worn-out concepts and the still shorter-lived defeat of the new Belorussian forces which undertook the work of Belorussia's national rebirth. Today's sovereign Poland can now only support this idea.

#### **Commission on President's New Constitutional Role**

91EP0128A Wroclaw SLOWO POLSKIE in Polish  
10-11 Nov 90 p 3

[Interview with Professor Janusz Trzcinski, Sejm deputy, chairman of the task force on political systems of the Sejm Constitutional Commission, by Maria Dorywala; place and date not given: "The Constitutional Commission Has Drafted the New Constitution of the Republic of Poland: The President as an Arbiter and a Strong Government"]

[Text] [Dorywala] The task forces of the Constitutional Commission have already ended drafting discrete parts of the new Constitution, and now the Commission is discussing the whole of the new shape of the future Constitution. Could you please describe to me what rights and the role this draft assigns to the President?

[Trzcinski] The institution of the Presidency is to be part of a parliamentary system with a strong government. The President is to be chosen by popular elections once every five or six years—that still has not been decided—and he will rather be in the position of an arbiter vis a vis other

branches of political power in the state; this then will not be a position allowing direct steering of affairs of state.

[Dorywala] Basically does this mean that the President will have greater or smaller powers compared with the existing Constitution?

[Trzcinski] If viewed from the standpoint of the President's influence on other constitutional branches of political power, the proposed powers are smaller. Compared with the existing Constitution, the President will not have the right to convene and chair sessions of the Council of Ministers or to chair the Committee for National Defense, although he will remain the commander in chief of the armed forces.

The President designates the prime minister, who presents to the Sejm the composition of the government, but balancing is to be combined for both the prime minister and the government. The Sejm will be able to recall individual ministers of state. The President is not expected to have the right to initiate legislation, and he will also be deprived of the right to veto legislation, meaning that the President will be unable to refuse to sign legislation. However, the draft Constitution makes mention of Presidential messages, and in that way the President will be able to present his legislative initiatives to the Parliament and define the directions of state policy.

[Dorywala] But if the government is recalled or asks to resign before its term of office expires, who will then designate a new prime minister?

[Trzcinski] Then the President will have to designate the candidate nominated by the Sejm.

[Dorywala] Are there any legal acts that can be proclaimed by the President? Does the draft of the new Constitution mention decrees, for example?

[Trzcinski] The President shall issue decrees only during the periods of time when the Sejm is not in session. The proclamation of emergency decrees, such as those relating to war and extraordinary situations, is not anticipated. In addition to decrees the President may issue executive orders strictly in the capacity of implementing regulations to enforce Sejm legislation. All the legal acts issued by the President, including those having the form of decisions, must be countersigned—meaning acceptance of political responsibility—by discrete ministers of state or by the government (this [issue] has not yet been settled in the draft).

[Dorywala] Will the President be able, according to the draft, to recall parliament, and if so, under what circumstances?

[Trzcinski] He shall have the right to do so if the Sejm fails to pass a budget decree within three months, or if it fails to appoint a government within three months, and also if the Sejm takes a vote of confidence in the government without, at the same time, naming a candidate for the new prime minister. There is also one case in

which it is the duty of the President to dissolve the Sejm; namely, if the Sejm fails to pass the state budget within six months.

### **Liberal-Democratic Congress Party on Agriculture**

91EP0186A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 11 Dec 90 p II

[Article by E. Sz.: "Unsentimentally: Liberal-Democratic Congress Party on Agriculture"]

[Text] Polish agriculture may be viewed either pragmatically or sentimentally. An example of the sentimental view is that presented by nearly all the factions of the peasant movement. A characteristic aspect of that view is the more or less concealed desire to petrify the existing agrarian structure, attributed to, among other things, some mythical superior value of work on land. The pragmatic view is characterized by boldness in offering Polish agriculture both a diagnosis and a therapy.

And the diagnosis is ruthless: Polish agriculture is too fragmented; farm employment is excessive; technically the agriculture is underequipped and backward (like the food industry); and farm-related services are monopolistic and inefficient (processing, services, domestic, and foreign trade). Furthermore, Polish agriculture is undercapitalized and contributes to environmental pollution.

That is how our food industry is viewed by the Liberal-Democratic Congress, a party which will increasingly count in the new configuration of the Polish political scene.

The reasons for such a condition of agriculture are known: subsidies; command allocation of means of production; various forms of economic compulsion; and certainty of demand have caused Polish agriculture to forfeit its market mentality. The marketization of the food industry has thus resulted in a steep deterioration in the ratio between incomes and production cost in agriculture. Nostalgia for the state as a mentor has appeared.

However, agriculture cannot be an enclave governed by separate rules. The principal factor in its development should be the market, along with some state intervention. It should, in the opinion of the Congress, support and monitor structural changes, eliminate formal-law barriers, sponsor the advancement and development of infrastructure, and protect the environment.

In a word, the Congress party does support [state] intervention, but only to a limited extent that would not interfere with the operations of the agricultural market. It does not support any price controls, subsidies for semifinished products, or priorities that are not verified by the market. The countries of the European Community already are aware of the flaws in their system of subsidies and, in their GATT negotiations, have declared themselves ready to reduce such subsidies. Poland also is in favor of liberalizing world trade.

But while the state should intervene in the changes occurring within agriculture, it is necessary to avoid waste, the perpetuation of inefficient structures and methods, and the creation of a false boom by subsidizing unprocessed products. At the same time, quality improvements, the development of processing and trade, and the application of new technologies should be promoted.

Unfortunately, in the present situation exports have to be temporarily subsidized, and the development of, e.g., the dairy industry has to be sponsored.

Most farm-policy programs gloss over the problem of the agrarian structure or approach it the way a dog approaches a porcupine. The Liberal-Democratic Congress states plainly that land concentration is inevitable and is not necessarily linked to the pauperization of a segment of the rural population. It can also afford an opportunity for occupational advancement and improvements in material situation. The state should support such processes with low-interest loans for land purchases and for investment in the enlarged farms, as well as by expanding the rural infrastructure, subsidizing mergers of small land holdings, and privatizing the land used by state farms.

The restructuring of agriculture also means adapting the profile of production to the size of the farm, and land concentration can also be achieved by means of land leasing.

The Liberal-Democratic Congress believes that rapid and lasting exports of Polish food should be a goal. For the time being a substantial part of these exports has to be, unfortunately, subsidized, but with time it will begin to pay off by improving the balance of payments in foreign trade, promoting agricultural recovery, and stimulating progress. It is particularly advisable to persevere on the food markets of the postcommunist countries and Russia.

The export weakness of Polish agriculture is due to its having been handled by an incompetent and corrupt exporter, namely, the state. "The remnant of this monopoly, namely, the food export permits, should be abolished as soon as possible," the program of the Congress states. Here one feels automatically like applauding.

The principal barrier to the growth of farming is the lack of capital. That is why credit for farmers, including preferential loans, should be made available.

Autonomy of the cooperative banks should also be promoted. That is because a monopoly on financial services is still held by the BGZ [Food Industry Bank].

A major element of the capital market is the insurance firms. The farmer must have the option of alternative insurance, of insuring not only property but also against disease and accidents as well as for old age pensions.

The Liberal-Democratic Congress is proposing a new approach to agricultural research and services. Such activities should not be restricted to the ivory tower. Research programs should be undertaken only if there is a genuine need for them. Their value should be measured by the price which recipients, that is, producers are willing to pay for them. The services of the agronomist should be ordered and paid for by the farmer. To be sure, state assistance in this field also is advisable.

The agricultural program of the Liberal-Democratic Congress is impressive in that it calls a spade a spade, and advocates cutting red tape and calls for almost totally free market mechanisms. It is precisely such mechanisms that in time will result in the evolution of the most efficient, i.e., cheapest producers, just as has already happened in fruit growing and truck gardening. For it is simply impossible for a situation to continue in which the people of a country with the third largest agricultural potential in Europe spend 60 percent of their incomes on food.



## POLAND

### Volunteer Army Offers Increased Professionalism

91EP0114A Warsaw *POLITYKA* in Polish  
No 47, 24 Nov 90 p 7

[Article by Jozef Jacek Pawelec: "Nondefendable"]

[Excerpt] [passage omitted] What is the Polish military and its relations to the state to be like? To put it as briefly as possible, the correlation should be reversed, i.e., not the state for the military but the military for the state.

The military is to be national. This is tied to the change in the officer cadre as well as a thorough rebuilding of the mentality both among the military and society. If the process of democratization will continue to progress in the country, it is possible to predict two directions of the army's development: One, voluntary career service (small number—between 50,000 and 100,000), and the second, mass armed forces organized similarly to those prior to the war (national defense battalions) and, as is also the case currently in Sweden, Switzerland, and even in the United States (the National Guard). The period of service in territorial units would then be considerably shortened (to several months). However, the efficient functioning of such military forces requires the fulfillment of two conditions: a keen sense of civic duty and a high level of armament.

Both conditions are equally important. However, the issue of armament is more difficult in our circumstances. The reader is undoubtedly surprised that on the one hand we talk about a military state and on the other, we admit that we lack armaments. Thus, the armaments which we do possess are not suited to modern defensive warfare. Other, light, precise means are needed such as guided missiles, electronic reconnaissance, communications systems, etc. The roots for this type of industry and scientific base do exist, however, they must be developed

intensively. The currently existing military industry should try to enter the civilian production market or continue to produce for the military but according to more modern standards. An additional condition for maintaining this industry's exports is to exclude it from the current military structures and give it a strictly commercial character. Therefore, it would be necessary to dissolve CENZIN and especially the nomenclatorial [nomenklaturowe] joint ventures arising around it and allow enterprises to conduct business directly, naturally under state supervision.

Given the examples presented in the press, among others, of corruption in arms development, production, and trade, it would appear necessary, following the example of the prewar military, to appoint a special audit officer corps. It would function within the framework of the MON [Ministry of National Defense] department of finance and would conduct systematic and substantive financial audits of military units and enterprises and would also examine the legality of industry-military contracts as well as export-import agreements in the field of military equipment. It would then be necessary to close down the military NIK [Supreme Chamber of Control] group as inefficient and too far removed from the military.

At the same time, a general "civilianizing" of the scientific base in the arms industry as well as in business, construction, the health services, and military training is necessary. For a country such as Poland, one advanced military school and several good officer training schools are entirely sufficient. They should also assume the training of future students.

In order to rebuild confidence in the military, it would be a good idea to set up something in the line of a National Defense Foundation (not fund) which, in bringing together men of letters and outstanding moral authorities, could help in "socializing" military affairs.

## CZECHOSLOVAKIA

### Fear of Admitting Foreign Capital Discussed

91CH0157D Prague HOSPODARSKE NOVINY  
in Czech 14 Nov 90 p 6

[Article by Eng. Jaroslav Votruba, candidate of sciences:  
"Let Us Not Fear Foreign Capital—Will Our Enterprises  
Open Their Doors to Foreign Firms?"]

[Text] Sooner or later we must begin to realize that foreign financial resources will come to us in the form of recoverable resources and not as gifts. Foreign entrepreneurs will seek a more profitable placement of their funds here than is possible elsewhere or they will find other economic advantages, the most important of which is the expansion of their markets or increases in sales. For us, it can be advantageous if they regard the Czechoslovak partner currently as a bridge to the large Soviet market. We could, thus, create a bridge between East and West in the economic sphere.

Financial resources from the West can assume differing characteristics. They can be loans to our country which would continue to be distributed from the center, and which is the least suitable form, practiced primarily in the former centralistic system. Other possibilities are loans to our banks which then loan the funds to enterprises from abroad in the form of enterprise loans guaranteed by one or another of our banks.

#### The Recoverability of Funds as a Condition

The last form is the entry of a foreign entrepreneur into the basic assets of an enterprise, that means purchasing his ownership entitlements. This latter form can result in the maximum utility for our economy, since it involves the flow of risk financing rather than credit financing and, unlike the above-mentioned credit financing form, does not require guarantees either from the state or from our banks.

A foreign entrepreneur must assure himself of the returnability of the funds deposited and, thus, the success of the financed intention through his presence in the management of the enterprise, through his assistance in the form of the transfer of technology, management, and sales know-how. Foreign financing of our enterprises through the form of capital participation (equity participation) is the most efficient method for the influx of foreign resources because, in addition to mobilizing and committing finances, it also makes use of the knowledge and positions of the foreign partner in the foreign market and, thus, strengthens the gradual connection of our economy to the world market.

The entry of foreign capital into our enterprises requires a maximum degree of specialization and discretion, both in the interest of the foreign partner and also in the interest of the Czechoslovak enterprise. On the one hand, it is not possible to sell off our property abroad, on the other hand, it is not possible to close oneself off against the world trend

of capital interconnection between enterprises on the international level. The following example illustrates the experiences gathered in the international interconnection of capital in France, experiences which can also serve us as a recommendation.

#### French Mistakes—A Lesson

The French Ministry of Industry asked the French-American consulting firm of Bain et Cie. to analyze 300 important French enterprises which, with respect to their size, formed an average between the 20 largest concerns and small enterprises. The analysis, which was completed approximately one year ago, reached several conclusions which are of interest to our economy, in addition to making many other important recommendations.

In the first place, it criticized the small extent of the internationalization of capital and management existing in French enterprises, in comparison with the world level. The analyzed enterprises have only 5 percent of foreigners in their management apparatus. According to the authors of the study and according to the situation as it exists in other industrial countries, participation on the part of foreign capital and by foreign managers in administrative and technical organizations should amount to at least 20 percent.

The same is true of the small presence of French venture capital in foreign countries and an unwillingness to join enterprises abroad as a partner. This status demonstrates the low degree of openness which exists in French enterprises vis-a-vis the world and foreign partners and is also based on the unwillingness to hire foreign specialists for leading functions and management functions in French enterprises and, the other way around, an unwillingness on the part of Frenchmen to work abroad in affiliated enterprises.

Another criticism is levied at the relatively small size of French enterprises, compared to corresponding competitive enterprises in the FRG, in the United States, or in Great Britain. The claim that large French enterprises are small on a world scale is based primarily on the low degree of their internationalization. It is precisely this phenomenon of internationalization—in other words, the growth of enterprise structures in an outward direction—which has hitherto been a wasted opportunity to increase the size of entrepreneurial units and groupings through various forms of fusion, capital participation, partnerships in production and sales, etc.

A criticized shortcoming is the relatively lower capital ratio resulting from the taxation system and from a policy of profit distribution which combines the possibility of investment, development, and research policy and restricts capital expansion into foreign countries. The low degree of self-financing increases costs and is a detriment to the competitive position of enterprises in the market.

Another criticized shortcoming is the relatively lower extent of investments made in research and development which is approximately one-half in comparison with giant enterprises. Only large enterprises which are in a strong capital position are capable of concentrating financial resources to an extent which is commensurate with current requirements of research and development, which can assure the maintenance of the enterprise at a competitive level.

Another criticism states that diversification of markets is not being adequately conducted and that renewal of products and assortments is not taking place with sufficient rapidity. Also, the system of selecting cadres is deficient, as is their inadequate international orientation and low degree of language capability; criteria for promotion and remuneration of cadres are incorrect, there is a preference for technical functions with managerial capabilities being less valued.

The French state is singled out for criticism regarding the education program because, particularly at advanced schools, it does not reflect the requirements of enterprises. Another criticism is levied at the low degree of support for investment policy and the taxation system, and inadequate access to financial resources. The state provides inadequate subsidies for large research tasks which are important for the entire economy.

The criticism does not even shy away from French banks which, in contrast to Anglo-Saxon banks, are not considered to be advisers and partners of enterprises. This inadequate function of the banks, connected with the low capital ratio at enterprises and the inadequately stimulating taxation system, results in a conflict between the ambitions and resources of the enterprises which were examined.

#### Preference Given to Smaller Companies

The above-mentioned French analysis provides a number of lessons even for us. It can even be said that many critical reminders are more or less valid for our situation and its solution.

In considering the influx of foreign capital into our enterprises, we must pay heed to the signals which are heard during negotiations with foreign partners regarding the forms and conditions of joint undertakings. As a result of personal practice during the first half of 1990, we came away with certain experiences and findings. One of these is the necessity to differentiate whether the potential foreign partner is looking at capital participation in our enterprise as a financier or as an industrialist.

For example, in discussing possible capital participation with one large French concern, this question was very clearly put and explained. The French negotiators of this industrial concern clearly proclaimed their lack of interest in capital investment in a holding company or a stock company, including a number of production areas and, on the other hand, expressed specific interest in joining in the stock capitalization of a smaller stock company which was

created out of one factory or one division of a former general directorate and whose production matches the production interests of the foreign partner.

Their argumentation can be paraphrased as follows: We are industrialists and not bankers. We do not seek the opportunity to invest our capital advantageously and to passively wait for it to increase in value or to depart quickly if an increase in value does not occur. We are looking for economic, industrial, and commercial connections with a partner where we could, through our participation in managing the enterprise, through modernizing production, and through cooperation in purchasing and sales, influence the increase in the value of the capital we have invested in a Czechoslovak enterprise and in other enterprises abroad. We expect that by making the connection with a Czechoslovak enterprise we will find it easier to carry out specialization, to increase overall series production, to reduce production costs, to expand existing markets, to accumulate greater resources for research and development which will also be shared in by the Czechoslovak enterprise.

However, realization of this concept requires the further decentralization of legal and financial structures in this country, the transformation of enterprises, the division into joint stock companies within intelligently financially managed holding companies. This approach, which is based on the internal interests of the foreign manufacturer and leads him to effectively participate in the management of our enterprise and results in connecting that enterprise to the context of world competition, is much more advantageous for our industry today than any kind of foreign financial injection and financial manipulations segregated from specific production and sales.

If we then decide to collaborate with a certain foreign firm as an industrial partner (in production and sales), then we must examine how this partner conducted himself in the past or is conducting himself with respect to his foreign capital participation and affiliated enterprises. Frequently, this will involve a large, for the most part internationally connected, concern which can be a suitable partner since only such a concern has the strength in terms of technologies and the market that is required to boost the competitiveness of our enterprises. Information of this type is available and will show us whether this partner has only created production shops out of his foreign branches and suppressed their identities or whether he made it possible for them to undergo further technical expansion and participate in development, research, and design as an equal partner within the overall structure of the concern.

An example of this can be a concern dealing with electrotechnology which is successful in the world. Recently, this concern acquired majority participation in

a European stock company from a state holding company in that country. After three years of "coproduction," it wants to shut down the factory in that country and replace its production by producing in a factory which the concern owns in another country so as to increase series production and optimize its overall world production. Protests by the government are of no avail since the state administration cannot superimpose the views of its national policy on ownership relationships.

We must realize that the transition to a market economy requires the absolute protection of the owner and of ownership. Only owners who are totally independent of government and enjoy the 100-percent protection of the legal code can create an actual market in which these owners contest with their offerings and requirements, including those of foreigners.

Now, at a time of price and value chaos in our economy, during the effort to implement the first steps of privatization and internationalization of our economy at all costs, particularly as it pertains to large enterprises, it is necessary to act objectively and highly professionally. If we make the wrong decision from the long-term viewpoint, then it will not be possible to rectify the negative effects of these decisions in the future through a simple state administrative act.

A foreign partner who owns a decisive share in our enterprise must be protected by our legislature, just as much as a domestic owner. Should he decide to suppress the identity of Czechoslovak production, should he decide to restrict it to being a mere workshop without a technological-intellectual hinterland, or should he decide to simply terminate operations, then no state institution will have the opportunity to prevent him from doing so. In this regard, the present time is very critical and predetermines our standing in the world as well as in the domestic market for decades to come.

That is why the selection of foreign partners at the present time is of immense historical importance for the further development of our economy and must be conducted with the utmost care and with the utmost expertise. It is necessary to resolutely halt the influence of pressure groups, lobby structures, and interestees who are interested on the basis of foreign travel, of promises to obtain employment paid in hard currencies, or who have other interests and who are therefore promoting an orientation toward certain foreign firms on the basis of their own personal interest, no matter how that interest is motivated.

Finally, it is necessary for state economic policy, even in the face of the current weakening position of the Federal Ministry of Foreign Trade, to be able to orient foreign trade activity involved in the selection of foreign partners even from the standpoint of territorial interests. I know from previous experiences how wrong it was to promote a one-sided orientation for our foreign trade relationships exclusively involving the Soviet market.

However, I would like to stress that the Soviet market was, is, and will be one of the most valuable of our markets and most likely will continue to be one of our greatest trading partners (or it should remain so with maximum effort on our part). Learning from experience, our economic policy must not permit this error to be repeated toward the other side so that, for example, we would not become a satellite for the German economy, something which current information so dangerously indicates.

### Privatization Seen by Enterprise Association

91CH0187B Prague SVET HOSPODARSTVI in Czech  
8 Nov 90 pp 1-2

[Interview with Rudolf Baranek, chairman of the Union of Czechoslovak Entrepreneurs, by Libuse Bautzova; place and date not given: "On Small Privatization and Other Things"]

[Text] On page four of today's supplement you will find the law concerning the transfer of ownership of some government property to other legal or physical persons. There was much discussion of this law (and of small privatization generally) before the law was presented to the Federal Assembly for discussion. This talk continues today and will probably be the subject of many debates and conflicts for some time to come. Many people have expressed their opinions concerning this important act for "normalizing" our economy. Some of these expressions have taken unusual forms. One is reminded of the exhibition case covered with requests of store employees.... Entrepreneurs, both current and aspiring, are among the most important people who should be heard on this matter. We therefore interviewed the chairman of the Czech Republic Association of Czechoslovak Entrepreneurs [SCP], Rudolf Baranek, to ascertain "their" view. After all, even though various groups and associations of entrepreneurs are cropping up all across the Republic, the SCP is the strongest and his position allows him to interpret for members of the board the demands of the public, existing and potential entrepreneurs in appropriate positions. So, to the first question:

[Bautzova] The so-called small privatization law has recently been passed. As far as I know you were not only present at all discussions in parliament, but also had the opportunity to participate earlier in the drafting of the document....

[Baranek] Our representatives participated in all committee discussions that had the small privatization law on the agenda. I think this participation was justified, as it was in discussions on the tax law and the reprivatization law. The delegates heard us out, and I would say things look promising for the passage of additional laws. I was pleased that the delegates were interested in our input.

[Bautzova] What importance do you actually attach to this legal document?

[Baranek] For us, the small privatization law is a very important followup document to the reprivatization law, one that will help our economy get back on the right track. It is important that after small privatization entrepreneurs will put 200,000 to 400,000 jobs on the labor market within a year in the Czech Republic. Existing enterprises will expand, and completely new products and services will be offered of which citizens currently have no idea. But I would like to call attention to another important consideration. We, the Association, are to be sure independent and apolitical. However, small privatization is not only an economic, but above all a political matter. I would even say that it is something of political watershed. Once we, figuratively speaking, get the keys to the store and the like, only tanks will be able to drive us out. The creation of businesses and private enterprises will create a new political climate, one like that elsewhere in the world. In this regard I would like to call attention to continuing danger from those people who were in managerial positions and remain there today. These people, even in May, did not expect that things would go quite so far. The period until we get those keys will, therefore, be one of great political danger. These people have realized that they now have their last chance to change something. They are forming various groups who are willing to try anything. And this is dangerous.

[Bautzova] Let's return to the law itself. Are you content with the text of the law, as passed by parliament?

[Baranek] The views of the Association have been well known since the time the law was first drafted. I think that these basic objectives have been met. Generally, then, with a couple of exceptions, we are pleased with the law.

[Bautzova] What did you consider the greatest threat prior to its passage?

[Baranek] The greatest danger was granting of preferences to employees, and holding an initial round for them. The question, actually, was not one of employees, but of those who previously managed, and still today manage those firms. We have proof, for instance, that managerial functions in several hotels and restaurants in the Czech Republic had to be filled by people who collaborated with the police, and even in some cases with State Security. After all, these were strategic positions for obtaining information and influencing the public mood. It is certainly not acceptable now to grant preferences to such people! We are also pleased that the law applies the same conditions to all in the matter of payment. I think the arguments that money changers will come to the auctions and buy everything up are nonsense. Of course, no mechanism could be dreamed up that would eliminate the possibility completely, but this is not that important an issue.

[Bautzova] Opinions have also been expressed that the source of money used in the auctions should be verified. What do you think?

[Baranek] Technically it would be impossible to check the origin of all money. I also think it is a waste of time.

I think this should be handled on tax returns where the source of all income has to be stated. Austria faced the same problem after World War II, and also chose not to check the origin of funds, even though everyone knew that anyone who had money had obtained it by cutting some kind of "deal" with UNRROU [expansion unknown]. I think that our situation cannot be directly compared with this one, though. I am convinced, you see, that no money changer (who was a product of the previous regime) will get involved in these things, because they have a completely different philosophy. They are interested mainly in a quick killing, not in investing in a long term risk. I also think that at this time they are not attempting to "extract" any large amounts of money.

[Bautzova] Do you think there will be great interest in the first round of privatization, or will the auctions fail?

[Baranek] Our people will participate because they are accustomed to improvising from the previous abnormal period. They are willing to take a much greater risk for their ideas than people who have lived for their entire lives in economically mature, democratic societies. This is very important, I think. The auctions will not end in failure. But lots of work still awaits us until the gavel is raised for the first time. I would not use the word failure at all. If there is less interest than necessary, this can also be the fault of the government for not providing future owners with enough credit options.

[Bautzova] What is happening in this area? Specifically, what is the Association doing to facilitate this?

[Baranek] This is one of our top priorities currently. We are talking to all major financial institutions and the people who have the final say about privatization in the CSFR.

[Bautzova] Are you focusing most of your attention on the Czech Government Savings Bank [CSSP]?

[Baranek] The Association has a tentative agreement with the Savings Bank. For about a month the CSSP has been a collective member of the SCP. We are talking with the general director of this institution currently about freeing up a rather large sum of money for entrepreneurs, so they can participate in the auctions. Association members should also have a somewhat lower interest rate than nonmembers. I think that this partnership with the Savings Bank is very mutually beneficial. This is the first and most important problem: obtaining money for an entrepreneur at favorable terms. It is not probable that anyone has this much money under a mattress somewhere. I do think though that people will want to invest and that they will take out loans. If there is enough money made available, most of the businesses will be sold.

[Bautzova] Your view, then, is that the general public will be interested. What do you say about foreign entrepreneurs participating in auctions?

[Baranek] The Association fought hard to exclude foreign entrepreneurs from the first round of auctions. Allowing them to participate would have meant the "liquidation" of our entrepreneurs, who are weaker by comparison. If foreigners have a chance in the second round they will still get in the door, to the advantage of everyone.

[Bautzova] What other problems are likely to arise related to implementation of the law?

[Baranek] You know, the wording of the law is one thing. As I have already said, we are on the whole pleased with it, but there remain many matters that will have to be resolved by other regulations. One of the most important aspects of implementation of the law is appointing commissions. The Association considers it a major victory that we will have a representative on each commission in the Czech Republic (I assume that our colleagues in Slovakia will also have this arrangement). It is logical to demand that honest people sit on these commissions. If the commissions function well (and I expect our representatives to facilitate this and serve as a driving force), small privatization will be small in name only, but otherwise can be very, very, broad in scope. This is probably clear by now to our government officials. I think that small privatization should encompass facilities that have not even occurred to current opponents of privatization and a market economy.

[Bautzova] For example?

[Baranek] This phase of privatization could easily encompass firms with up to 500 employees. We have already profiled them. It is also very important to privatize as early as possible wholesalers and shopping centers. In any case, you can be sure that our representatives will be arguing for this in the commissions. I have had several meetings on this matter with Mrs. Stepova, the Minister of Trade. She agrees that if wholesale trade remains in the hands of the government, small businessmen would be threatened with "starvation". It is essential to put at least a portion of wholesale trade in private hands, because otherwise the same mafia will remain in control whose practices we have experienced in the past.

[Bautzova] What if no entrepreneur wants to take a chance on wholesale trade even if these businesses are included?

[Baranek] If no individual summons the courage, then we propose that these wholesalers be taken over by the regional Association of Entrepreneurs. This would give the association an income as well as assisting all other entrepreneurs. I think we can get this provision passed.

[Bautzova] We have spoken about money, about foreign capital, about commissions, about the scope of privatization. The SCP has also succeeded in postponing this privatization until the new year....

[Baranek] We submitted to the public our position on the deadline for starting the auctions. We insist that it would be politically very unwise to begin this activity before Christmas.

[Bautzova] Nevertheless it will.

[Baranek] I think that in this unstable period the political surface would be disturbed still further, because this would begin to manipulate the dissatisfaction of the public. There will be shortages of goods as usual, and even less money because prices have gone up. As a result of privatization, some stores would also be closed. We therefore want food stores, for instance, to be privatized after the new year. There is no reason why in the first phase, i.e. December, workshops and some services could not be transferred to private hands, but everything associated with the increased interest in sales in the pre-Christmas period should be put off. Today, 30 October, I spoke briefly with Minister Jezek, and much longer with deputy minister Muron, and both indicated that what we have proposed seems reasonable. I think that we can reach an agreement, and that the general public will welcome it.

[Bautzova] On the subject of the general public, does it seem to you that people are more fearful than they should be? Many are convinced that after privatization things will be worse than they were under the communists.

[Baranek] Look, I do not consider the future to be 14 days after privatization. We have to forget about the idea that everything needs an implementation regulation. A market economy takes care of everything itself, and assures equilibrium. It is quite possible that there will be housing projects where the single self-service store will disappear for a time. But this will not last long. Someone will decide that it would be very advantageous to set up just such a store. This is the way it will be everywhere. Basically, everything should be better than it has been.

[Bautzova] What do you think of the obligation of an entrepreneur to retain for at least one year the same products in food stores? Is this too little, or do you think it is unnecessary?

[Baranek] I think it is just about right. During that year we will move forward so everything can be resolved in an improved way, through the market.

[Bautzova] How do you feel about Section 16, which give preferences to those who have negotiated the operational form known as economic rent by 1 October of this year?

[Baranek] That is very problematic. Previously it was obviously impossible to reach a business any other way. This implies that these people should receive some preferences for taking the risk. But there are other factors at play as well. We spoke with Minister Jezek and Deputy Minister Muron about this today, as a matter of fact. It has been determined, you see, that even after the designated date contracts have been signed, then back dated. This is a very sensitive point that must be dealt with.

[Bautzova] On to another topic, that of business offices. I understand that you are fighting against having them subordinate to the Ministry of the Interior....

[Baranek] People all over the world would laugh at us if a sector as compromised as the Ministry of the Interior were given supervisory authority over private enterprise! We have been talking to Minister Stepova and are attempting to have business offices subordinate to the Ministry of Trade. This, I think is both traditional, and logical. A proposal along these lines is being drafted for submission to the government. The Ministry of the Interior is reacting by having selected groups speak out with all their strength against the Association and the Ministry of Trade. This has not been confined to the creation of scandal; there have been cases of physical attacks. The battle with the Ministry of the Interior over the business offices is very difficult and, I would say, dangerous.

[Bautzova] Now to something completely new. The efforts of the CSP to create favorable conditions for the development of a private sector are very clear. Still, large numbers of people do not sympathize with your work. Some of them wonder how the Association is supported.

[Baranek] Everyone who works for the Association (except two secretaries) not only have no wages, but pay all their own expenses. Some of us have even gone into debt.

[Bautzova] Members of the CSP are asking what has become of their dues?

[Baranek] The dues are used to pay for telephones, rent, and similar expenses. Anyone who feels that his dues have been poorly handled and that we have not done anything with them is seriously mistaken. If this organization did not exist, it is possible that all these economic laws would have to have been passed by a new 17 November, i.e. a new revolution. We are struggling against 12,000 bureaucrats, we are struggling in many cases against those who we freely elected six months ago. Sometimes I think that we elected the wrong people.

[Bautzova] It is also said that you "rip off" people who turn to you trustingly for assistance in handling requests for return of property. You invoice them for membership in the Association, for consultations, and then again for submission of the application....

[Baranek] We introduced the consulting services because we found out that they are needed. We petitioned the Czech Government for a contribution to help us introduce these services in the regions as well, but we received nothing. We are dispensing accurate information in which there is an interest and which, I think, is useful. In terms of reprivatization many do not know where to start. Some of them are very old and have no interest in running from office to office. Our goal is to handle their application up to the point when the entire matter is before the notary; figuratively speaking to return them

the facility with the key "on a silver platter". It is hard to believe that anyone can object to us receiving payment for these services.

[Bautzova] You have received no money from the government. Have you received support from someone else?

[Baranek] We have received nothing from the government or from anyone else. Promises have been made in several locations abroad; that none of the promises have been honored is clearly indicative of a lack of trust by foreign entrepreneurs not in the Association, but in the political and economic climate here. On the contrary, I would say that the Association has a lot of credibility abroad. We have received gifts: a fax and a computer. But we would be poor entrepreneurs if we were unable to make some money ourselves. I will submit some measures to the general meeting of entrepreneurs in early December. If you are still interested in money, I will not hide that the Czech Republic Union of Industry offered us a loan of 500,000 korunas on very favorable terms, and we accepted it.

[Bautzova] How will you pay it off?

[Baranek] We will find a way.

[Bautzova] I wish you luck and thank you for the interview.

### **Bureaucracy Said Standing in Way of Private Enterprise**

*91CH0157E Prague HOSPODARSKE NOVINY  
in Czech 14 Nov 90 p 6*

[Article by Vladislav Benda: "An Obstacle to Private Entrepreneurship?"]

[Text] The law on private entrepreneurship became effective and "gave private persons the opportunity to manufacture" goods for the market which are in demand, but did not eliminate the bureaucratic processes which are an obstacle for producers and result in the fact that goods arrive on the market late because of the need to take care of various formalities. This lengthy procedure can sometimes lead to cancellation of production.

The public is not aware of what precedes the manufacture of goods. I shall present a simple example from the area of electrotechnology. Every new item must be tested by a state testing facility. You have to send the testing institute a correctly filled out application for testing, in quintuplicate, one sample product, the schematics of internal connections, instructions for use, 10,000 korunas [Kcs] (this is the cost of testing small electrical

products), and if all goes well you will receive an opinion stating that the product meets the requirements of CSN [Czechoslovak National Standards] or not within six months at the latest. In the event that the product "passed," you may begin manufacturing, provided you have not lost your customer by then.

Just like the PZO foreign trade enterprise was a brake on the development of commercial activity by being the only one authorized to engage in it, so the testing institute acts as a brake on the manufacturer in his activities and can lead to his liquidation as a result of its slow work. A new entrepreneur encounters a monopoly which, thanks to the existing law on testing, sets itself deadlines by which it must conduct the tests and establishes prices which are not commensurate with the difficulty of the tests.

I am not urging the elimination of state testing institutes here, but the creation of conditions for competition in this area. Every new product must be tested from the standpoint of operating safety, so as to protect the health and property of our citizens, but it can be anticipated that the manufacturer will, in his own interest, market merchandise which will be safe, which will not threaten the health of the customer nor his property. Under conditions of a market economy, a scrap product is clearly attributed to the firm which produced it. It must pay damages, but a damaged reputation can have catastrophic aftereffects for the firm. The fact that the testing institute has issued a certificate of safety for the product has not resulted in returning a person damaged by a scrap product to health and has not mitigated the damages caused by a low-quality product. The testing institute has merely excluded the possibility of introducing a product into production which does not conform to standards, but, in many cases, a slightly trained individual can accomplish the same thing. A similar task is performed today by technical inspectors and by warranty inspection commissions.

I believe that the state testing institute should have the duty to test new products and that only if the product fails to measure up to the required standards should the manufacturer be required to pay the costs connected with the testing and the sale of this merchandise should be immediately prohibited. The institute must conduct the tests in the presence of the manufacturer and other authorized persons, so as to prevent speculation.

I am aware that in some cases a private testing technician will not be able to conduct the necessary measurements and that then the testing institutes will be the only institutions which will be able to master such tests. I deliberately use the term testing institutes because if only one selected institute exists, then we shall reach a position in which we are today.

In conclusion, I refer to the fact that prolonged testing results in the obsolescence of good ideas which our society could utilize and, in the event of completely new methods of solution, conditions are being created here for their misappropriation. It is very likely that it is

precisely for reasons of misappropriation or a cheap valuation of ideas by our citizens, these ideas never even saw the light of day.

### Problems of Privatization Without Capital Viewed

91CH0157B Prague HOSPODARSKE NOVINY  
in Czech 24 Nov 90 p 3

[Article by Eng. Vaclav Kluson, doctor of sciences:  
"Privatization Without Capital"]

[Text] One of the principal arguments which is being made in favor of the free transfer of ownership rights by the state to private persons is the depressing shortage of domestic capital which would be required if this process were to be realized on the principle of equivalency. Even though this argument is undoubtedly justified, it is, at the same time, necessary to document it with a solid quantitative position. Let us use several items of data to demonstrate what is involved.

In 1988, the total value of basic assets in the production and nonproduction branches amounted to 3.6 trillion korunas [Kcs] ( $3.6 \times 10^{12}$ ). If we subtract the value of the basic assets of some production and nonproduction branches which will evidently be privatized in the immediate future (as, for example, the fuels and energy branches, freight transportation and communications, education, culture, the health industry, social welfare, and administration), we arrive at approximately Kcs2.8 trillion. For purposes of simplification, we shall assume a 50-percent amortization rate so that the residual value of basic assets is reduced to about one-half, that is to say, to a value of Kcs1.4 trillion. However, we must bear in mind that this is a very approximate estimate of the book value of the property which could be subject to privatization, however, minus the value of land. From this figure, it would be purposeful to subtract that portion of the property which will be returned to the original owners within the framework of restitution proceedings. These restitution claims can clearly not be estimated today and that is why I have excluded them from this approximate consideration. I expect that at least part of the deviations from real values, in both directions, will eventually be compensated for by including the value of land in the value of privatized state property.

In agriculture, privatization will take the particular form of denationalizing the existing unified agricultural cooperatives and the creation of true cooperatives with property shares by members and their property guarantees—in addition to transferring ownership to private hands. That is why the principle of a payment-based transfer of ownership rights would require a certain quantity of available capital. I repeat that the residual accounting value of the property which is to be offered for privatization can differ considerably from the real market value which the future owners or entrepreneurs might be willing to offer within the framework of an equivalency transfer. Market value, and, thus, the real value of



property, depends primarily on how efficiently its future owner will be capable of utilizing it, for what purposes, and what entrepreneurial concepts he intends to realize. That is why even expert computations can only play a role which is approximative and results in orientational estimates for both sides, that is to say, both for the side making the offer (the state) and also for the purchaser.

With these reservations, it can be said that with payment-based privatization, the state could acquire approximately Kcs1.4 trillion. However, the corresponding purchase-capable demand for such a robust property offering is missing. On the demand side, the domestic scene only has the deposits and cash in the hands of the citizenry, which, in 1988, totaled some Kcs323.4 billion, which is only 23 percent—in other words, not quite a quarter of the required amount. However, it is highly unlikely that citizens would be willing to invest all of their savings and deposits in this way, not to mention that this would ruin our savings banks and other monetary institutions which manage these deposits and would result in wrecking the interest system which is based on these deposits.

#### Development and Structure of Savings

The question as to the future development of the tendency to save and how citizens will handle these savings is, thus, a basic one. The long-term development of personal consumption and savings points to a relatively high inclination to save which was, however, motivated to a considerable extent by shortages in the domestic market; what was involved here was more likely the result of deferred consumption than of savings of a long-term character which would provide security in old age, sickness, inability to work, or would provide funds for engaging in entrepreneurial activities and for capital investments. The savings trend among the population in this country has shown a very positive development since 1955. The year-to-year growth of passbook savings was particularly high during the second half of the 1950's and continued until the beginning of the 1970's, when it declined somewhat. The share of deposits in the produced gross domestic product rose from a mere 4.8 percent in 1955 to 43.5 percent in 1988 and, if we add cash in the hands of the population, then the total share of disposable funds today exceeds one-half of the national income (53.3 percent in 1988).

It is also worth mentioning that, since 1980, the share of long-term deposits in overall deposits has been constantly increasing; in 1988, this share was 60.2 percent. However, it should be recalled in this connection that, in actual fact, this is not a matter of long-term deposits (perhaps apart from bonuses saved by young people) because the overwhelming part of these savings is tied up in passbooks which are subject to a 12-month withdrawal notice. Moreover, it is possible to liquidate a deposit immediately after deducting the appropriate amount of interest. Nevertheless, the tendency of our population toward long-term savings can be indicated by this development and we expect that, under certain

conditions, it could even increase. This expectation is ultimately confirmed also by the considerable interest shown in obligations of the Commerce Bank.

This brings us back to our question which is as follows: How will the structure of savings on the part of the population develop under conditions of a functioning market economy or how will this structure be influenced by a transition toward such an economy? It is beyond any doubt that citizens will have to care for their own fate more than heretofore, they will have to secure themselves against various unwanted, but at the same time inevitable results of economic competition and, naturally, also against sickness, invalidity, they will wish to improve their old-age pensions, etc. Another portion of the population will save more so as to be able to invest in entrepreneurial activities and to multiply its property. For these purposes, passbook savings are not the most advantageous form of savings, not to mention that deposits would depreciate in the event of inflation.

It can therefore be expected that the structure of the financial activities of our citizens or of our domestic scene will gradually become more colorful and multifarious; in addition to passbook savings at savings institutions, they will include particularly obligations (state, municipal, enterprise, and bank shares) with varying maturities and with fixed or variable interest rates, shares, life insurance policies and other insurance policies, and, in time, totally new forms of capital investment, hitherto unknown in our country, such as, for example, various investment (unit) funds, etc. What is essential is the fact that every single security (of course, to a varying extent) produces both an income (interest, dividends) and also a capital gain or loss (an increase or decrease in its market value) for its owner.

The least risky and, thus, the relatively most reliable capital investments are considered to be state obligations with a fixed interest rate; in contrast, a share of stock is always a risky security. This is why small investors prefer bonds (particularly state or municipal bonds), insurance policies, and passbooks (the latter, however, carry the risk of depreciation during inflationary times). Briefly stated, investments in common stocks are not among the principal forms of savings for the population in market economies, not even in countries where the process of privatization of state enterprises is under way. With respect to financial assets of households, the share of common stocks in France is 29.8 percent, in Great Britain 18 percent, in Italy 9.8 percent, and in the FRG 4.1 percent. Moreover, there is much data to indicate that the initially high interest in the purchase of stocks in privatized state enterprises gradually weakens with time and that the number of small stockholders is sharply declining. It is likely that a similar situation will exist in our country; investments in stock certificates will most likely be made only by the more prosperous strata of the population. Some sources indicate that the total savings of citizens whose deposits total at least Kcs250,000 amount to Kcs100-120 billion today. This stratum will,

thus, undoubtedly represent the potential investors who wish to invest, among others, in stocks.

We reach approximately the same numbers if we anticipate that, much as is the case in France, the share of stock investments in the financial assets of households in our country will amount to a maximum of 30 percent. As has already been stated, the value of deposits and cash owned by the population in 1988 was Kcs323.4 billion, so that 30 percent of that amounts to Kcs97 billion, which, rounded off, amounts to the previously mentioned Kcs100 billion. Thus, the value of privatized property, which amounts to Kcs1,400 billion, is opposed by a purchase-capable demand level of Kcs100 billion, which is a mere 7.1 percent. If we were to adopt the upper limits of the estimate of deposits by our "rich people," that is to say, 120 billion, then this share would amount to 8.6 percent. Let us therefore anticipate that disposable capital which could be applied on the demand side within the framework of privatization would most likely not exceed 10 percent of the volume of the offering. In this situation, the privatization of state ownership to the intended extent and within the foreseeable future would not be possible at all (possible financial resources of enterprises and banks are not considered here because they are again under state ownership). Thus, only two possibilities remain: to carry out the free transfer of ownership rights (so-called coupon-type privatization or invite foreign capital to participate).

#### Coupon Privatization and the Capital Market

Let us consider an extreme case which will probably not be realized in practice, namely that all state property intended for privatization will be distributed to citizens free of charge. The technique and institution of this transaction are worked out and are part of the government scenario for economic reform and there is, therefore, no need to return to them. However, so as to render the entire transaction a success, a capital market must come into being in which the new owners of shares of stock could appear as actual owners. If we create stock companies without, at the same time, assuring the functioning of a capital market, we would be like a man who wishes to raise fish, but is reluctant to release them into the pond.

In practice, we differentiate between a so-called primary and secondary capital market. The primary market is understood to include the issuance of securities—in our case, stock certificates—which occurs, for example, in establishing a new company, in the fusion of two companies, in increasing the basic capital, etc. Newly issued securities are sold through banks or a bank consortium. The secondary market is a designation for trading, that is to say, for the purchase and sale of already issued securities, i.e., those which are in circulation. In practice, great importance of the secondary markets for the primary markets is emphasized; the success of every new issue of stock is dependent upon the existing development of market prices of shares in the secondary markets; these markets, in fact, make decisions regarding the

increasing of basic capital, the amalgamation or extinguishment of enterprises, as well as when and to what extent a specific state enterprise is to be privatized.

In our case, the primary market has been replaced by "coupon privatization" and what is now needed is the rapid creation of a secondary market. From what has been said, however, it follows that right from the start this market will have a great deal more offerings than there is demand. Many owners of securities, acquired free of charge, will clearly strive to transform these securities into cash as soon as possible. The size of the offering will depend on the economic situation at the time. At a time when the cost of living is rising—something which will most likely occur as a result of devaluation and of the introduction of internal currency convertibility and other particularly external circumstances—not only the socially weaker strata (retirees, families with children), but also the majority of citizens who are not members of the strata of the rich will want to improve their situations by acquiring additional funds through the sale of securities. An imbalance will result in the market because the demand side can still only come up with Kcs100-120 billion, which has already been mentioned. The prices of stocks will decline; if the offering is sizable, the decline could be quite strong. The loss of value of these securities will alarm even those who, until now, had decided to keep them and even they will now begin to offer them for sale, which will lead only to a further decline in prices, perhaps all the way to the complete depreciation of these securities. The state can only look on and do nothing because it cannot intervene in this market. Not only because it lacks the funds, but primarily because it would thus start up a process which would be completely opposite to the process of privatization.

I have no desire to repeat arguments here regarding the laundering of dirty money nor to mention that the rich of today will become still richer through this transaction or that, for example, a considerable portion of the savings deposits will become transformed into demand for consumer goods. The fact remains that such a development cannot be avoided unless, for a specific period of time, for example, for the next two years, the sale of securities acquired free of charge were to be prohibited, or even the payment of dividends were to be halted. Such administrative restrictions would, however, eliminate the very basic advantages which ownership form affords a joint stock company: the free transferability of ownership rights. This would simultaneously stifle the capital market, the development and expansion of which must proceed as an absolutely essential component of a market economy, in its embryonic stage. The absence of a primary capital market and the temporary deferral of a secondary capital market would, thus, push the goal of creating a market economy into the background; a market economy cannot function without a capital market. Coupon privatization would also miss the target which is so greatly emphasized: to rapidly create a numerically strong group of owners who are interested in

managing the enterprises in which they are coowners and who are capable of implementing reliable ownership control and supervision over management. The idea of so-called rapid privatization would ultimately become dissolved because even after rescinding administrative restrictions the imbalance in the market would reappear and the situation would only be repeated. The massive and volatile offering of property components acquired free of charge and aimed at the demand side on the consumer market can be confronted only through equally massive demands on the part of serious investors and entrepreneurs—in other words, by the provision of supplemental and adequate amounts of capital. This operation, which can take several forms, will, however, be confronted under conditions of a coupon privatization with a number of serious risks and obstacles, some of which I shall briefly draw attention to.

There appear to be views that supplemental domestic capital for purposes of privatization can also be acquired through credits, particularly through the introduction of mortgage loans. Even though this path is passable at a general level, it would most likely not lead to providing adequate funds under our conditions. It is necessary to consider that deposits at banks will seriously decline as a result of the above-described operations which will essentially also restrict the base for making loans. Moreover, short-term deposits do not make it possible for banks to become overly exposed in terms of granting long-term credits. Even the granting of mortgage loans in any kind of greater volume would be far too risky for banks because in the event of default by the debtor there would most likely be difficulties involving the foreclosure sale of the appropriate piece of property to benefit the bank.

A second path, which could lead to providing supplemental capital is property participation by employees, realized on the basis of the well-known ESOP [employee stock option program] systems. These systems, as is known, can be tied in with the system of employee profit-sharing by not paying the amounts to which the employees are entitled on the basis of this scheme in cash, but rather transforming them into property components—in this case, into securities. The original American version of this system makes use of bank credits to purchase a certain package of securities which are then paid off in the above-mentioned method by the employees. Insofar as the above-mentioned loan is concerned, that which has been said regarding the "credits for privatization" is valid. Nevertheless, even the establishment of ESOP's is uncertain in the shadow of coupon privatization. Employees of American enterprises adopted this system primarily because they felt threatened, having been confronted with the very specific and immediate danger of unemployment. The question arises how workers in our enterprises would perceive such a danger at a time when they would simultaneously be acquiring securities as a citizen free of charge.

I, therefore, close with the finding that adequate capital necessary for successful privatization cannot be obtained

by any other means except opening the door to foreign capital. Its advent, however, will radically change our existing view of privatization, particularly the specific procedures which will have to be utilized. I would like to deal with these questions in HOSPODARSKE NOVINY at another time.

#### **Commercial Bank Commits Loans to Privatization Bidder**

*91CH0187C Prague ZEMEDELSKE NOVINY  
in Czech 1 Dec 90 p 9*

[Article by Eng. Karel Bartosek, Commercial Bank:  
"Commercial Bank Offer"]

[Text] In the Friday, 16 November issue, ZEMEDELSKE NOVINY wrote about the objectives of the Savings Bank related to small privatization. These objectives include the bank's policies for granting loans and the procedures applicants should follow. We also wrote that other institutions were working on their own policies. We have just received details from the Commercial Bank.

The Commercial Bank wants its policies to provide maximum possible assistance to the privatization of our economy. We are particularly inclined to support the processes of so-called small privatization. To this end, we have instituted new procedures at all branches and loan processing sites for working with clients interested in participating in the small privatization auctions. This system will make it possible for interested parties who do not have sufficient cash to participate in an auction with a loan commitment. Should the person make a purchase at an auction, the Commercial Bank will honor the commitment with a loan in the specified amount.

Anyone interested in opening a business or participating in an auction need only visit a Commercial Bank branch, where a loan officer will become familiar with the proposed business venture. If the business objective appears feasible, and if the branch has available sufficient resources (note that the Commercial Bank has assigned top priority to loans to entrepreneurs, and especially to purchase businesses under small privatization), and if the applicant provides adequate collateral (this can be the business that the individual wishes to buy), the Commercial Bank will issue a loan commitment in the requested amount.

One advantage is that if the applicant does not have a specific business in mind, or simply wishes to try his luck at multiple auctions, he need not enter a specific business on the application, but simply enter the desired loan amount and the amount earmarked for the purchase of the business, along with overall business objectives.

The entrepreneur can use this loan commitment when participating in auctions. If he succeeds in purchasing a business within the total of his own means plus the loan amount, the issuing branch will sign a loan contract (up to the amount of the commitment) and issue the loan. If

the applicant does not succeed in purchasing a business, the commitment is not exercised and the cost to the applicant is only the 200 koruna fee for issuing the commitment.

If a branch does not have available sufficient loan resources, priority will be given to commitments to those who can cover part of the cost of the business with their own resources, and to those who specify on their application the business they intend to purchase.

If the entrepreneur purchases at auction a business for more than the commitment amount, thereby requiring a larger loan than specified in the loan commitment, the branch can increase the amount of the loan provided the branch has the resources available and provided that applicant has a realistic chance to pay back the amount requested. This is a risky undertaking however, and we encourage applicants to request an amount as close as possible to the estimated auction price of the business they are interested in.

### Erhard Reform Lessons Still Valid

91CH0196D Prague *HOSPODARSKE NOVINY* in Czech 27 Nov 90 p 3

[Article by Otakar Turek: "Can We Learn From the Erhard Reforms Even After 42 Years?"]

[Text] Everyone would no doubt accept the results of the Erhard reforms. I am not only thinking about where the FRG is today, after 42 years (a numerical illustration is quite superfluous; it is enough that our people now know Germany as tourists and to be aware that the West German economy is capable of bearing the burden of uniting the two countries). I have in mind mainly that the jump from a centralized, rationed economy to a market mechanism, begun in June 1948, had shown significant positive results already in 1949 (gross national product index, 1949/1948 = 125).

Clearly there are many differences in starting conditions and in the economic and political measures taken in each case. The German detour from centuries of a market economy lasted 12 years, ours four, perhaps more precisely five decades. Hitler left enterprises in private hands. The initial monetary and therefore market disequilibrium was so high in the Western zones of Germany that Erhard had to start with a monetary reform. The basic German handicap lay in the wartime destruction of production potential, ours is a technology gap between us and the rest of the world. Our economic policy must reckon with the limits of social endurance. Erhard did not have to complicate his policies with such considerations, as hope predominated in his psyche.

Nevertheless, the main point is perhaps a joint one: The experiences combined with the scientifically based faith of the creators of the reform program that an economy is a vital organism capable of generating its own antibodies to treat its own diseases. Economic policy needed to assist it in only two (globally speaking) matters: In

deregulation, ridding it of central bureaucratic management, and in creating aggregate monetary equilibrium, thereby eliminating excess demand.

I do not want to engage in a profound discussion of the theme in the headline. I simply wanted to share with the readers of *HOSPODARSKE NOVINY* certain thoughts evoked in me by a pamphlet by Zdislav Sulc "How The West German Economic Miracle Was Born", published by Prace publishing house, and mainly to suggest that they read it. They will certainly come away convinced that Erhard still has much to teach, even after 42 years. The pamphlet will also enrich the view of our economic policy for the near future, of our jump to a market economy.

### Internal Convertibility Functioning in 1990 Discussed

91CH0196C Prague *HOSPODARSKE NOVINY* in Czech 27 Nov 90 p 3

[Interview with Jaromir Zahradnik, vice chairman of the Czechoslovak State Bank, by Marcela Doleckova; place and date not given: "The Dollar for Korunas, a Crown for a Dollar"]

[Text] As of 1 January next year, in addition to numerous other phenomena, a system will begin of internal convertibility for the Czechoslovak koruna. In principle this means that every legal entity will on the one hand be obligated to offer foreign currency resources to a commercial bank in exchange for korunas. On the other hand, the commercial bank will be obligated to exchange korunas for hard currency on demand. We interviewed Jaromir Zahradnik, vice chairman of the Czechoslovak State Bank [SBCS] about the practical steps connected with this new system.

[Doleckova] How will the internal convertibility system function in practice?

[Zahradnik] It will be much simpler than the current system. Foreign currency demand accounts will be eliminated. Organizations and private entrepreneurs will pay for imported goods or services using a normal koruna account opened at any commercial bank. The decisive limitation, moreover, will no longer be an individually established plan or standard, but simply the availability of enough koruna resources. Likewise, all receipts from abroad will be transferred in the same currency to a normal koruna account for the receiving enterprise or entrepreneur.

[Doleckova] The enterprise will have a direct relationship to a selected commercial bank, and this bank with the state bank. How will the relationship be determined?

[Zahradnik] The choice of an appropriate commercial bank will be entirely up to the business entity, which will have to make a decision based on the quality, comprehensiveness, and price of the services provided.

Every commercial bank will act like an independent entity on the domestic foreign currency market. Within the context of this market, banks will buy and sell amongst themselves foreign currency so as to acquire sufficient foreign currency to meet the demands of their clients. The SBCS will establish the rules necessary to maintain the foreign currency liquidity of banks and for the interbank market. The SBCS will also participate in the market as the overall guarantor of its liquidity. This means that when demand exceeds supply, the central bank can intervene, selling the commercial banks foreign currency from its reserves. We are assuming that resources obtained from the International Monetary Fund and other monetary institutions and banks from developed countries will serve as part of this reserve. In the opposite instance, the central bank will buy up excess foreign currency from commercial banks to strengthen monetary reserves.

All foreign currency deposits and payments to clients will pass through accounts of Czechoslovak commercial banks at foreign correspondent banks. Our banks will buy the deposits from enterprises using the applicable exchange rate for the Czechoslovak koruna, then credit the amount to the proper account at the proper branch bank. Clients will make requests for payments to their commercial bank branch with sufficient notice so that payments can be made in the required time frame.

[Doleckova] How will the individual commercial banks be joined together and how will this integration function on world currency markets?

[Zahradnik] One of the fundamental pillars of the entire system must be the exchange rate of the koruna for four currencies. Exchange rate changes will express, basically, the relationship between demand for foreign currency and its supply. As I have already stated, the SBCS will do its best to affect the exchange rate mainly by intervening to compensate for short term fluctuations between supply and demand, with the objective of stabilizing the exchange rate of the Czechoslovak koruna and defending the economy from undesirable inflationary impulses. The exchange rate will be pegged to a so-called basket of currencies most frequently used in Czechoslovak foreign trade. The exchange rates for individual foreign currencies (cross rates) will be set based on the exchange rates of these currencies taken together on international currency markets. The exchange rate spread, as one of the sources for covering bank costs, will be set at a maximum spread of plus or minus one percent, with the provision that individual banks within this range can charge a lower rate to their clients. The spread will therefore become one of the aspects of market competition for banking services.

Commercial banks will be linked by an interbank foreign currency market system. Under this system every bank, to the extent of its foreign currency license, will be able to acquire foreign currency on foreign financial and capital markets as well, provided of course that it adheres to established criteria for its own liquidity.

On this question I must add, though, that so far the entire range of foreign currency operations with foreigners in the entire banking system has come almost exclusively from the Czechoslovak Trade Bank [Obchodni banka]. This dominant position is due to its previous monopoly on foreign currency trading and foreign trade. The other commercial banks are restricted for now mainly because they are partially or entirely excluded from accepting medium term foreign resources from business activity. Based on the completion of certain technical and professional requirements (opening accounts abroad, setting up trading facilities, etc.) the scope of foreign currency authorization will gradually expand.

[Doleckova] What magnitude of exchange rate fluctuation will the SBCS consider excessive, and therefore grounds for intervention? And how will it intervene?

[Zahradnik] The primary role of the SBCS will be to assure the smooth functioning and relative stability of the domestic foreign currency market, and therefore also the exchange rate for the koruna. This is because a stable exchange rate is one of the preconditions for the broader integration of the Czechoslovak economy into the world economic system, and for the attraction of foreign capital. The SBCS will intervene, therefore both to moderate short term fluctuations in supply and demand and also to prevent possible speculative transfers abroad that can be anticipated especially when the new mechanism is starting up. The SBCS is therefore now accumulating the necessary reserves.

The SBCS, however, has other mechanisms available, in addition to intervention, to combat cases of longer term disequilibrium. These mechanisms include credit restrictions, interest rates, and deposits. In the early stages some restrictions on payments for imports are not out of the question.

The SBCS will have a reliable day to day picture of supply and demand conditions on the domestic market, because the occurrence of an overall lack of equilibrium will force one or more banks to approach the SBCS with requests to buy or sell foreign currency.

In principle, then, the SBCS will change the exchange rates of foreign currencies for korunas on a daily basis based on the mutual evolution of these exchange rates on international currency markets, while retaining the overall exchange rate level of the koruna vis a vis these currencies as a whole. This does not represent much of a departure from current practices. The changes will just be made at shorter, daily intervals. There will, however, be a fundamental change in how exchange rate stability is assured. In a rationally functioning domestic foreign currency market this stability will be assured by classic market approaches: intervention, changes in interest rates, credit restrictions and the like.

[Doleckova] How do enterprises with foreign participation, and foreign investors generally, fall into the overall scheme of the Czechoslovak foreign currency market?

[Zahradnik] Czechoslovakia has a strong interest in attracting foreign capital, as an alternative to obtaining credit resources from foreign lenders. It actually favors attracting capital, and therefore plans to develop favorable conditions for foreign investors.

Likewise we are trying to build a system that will offer the same conditions for all entities and all forms of enterprise. Therefore foreign firms and joint ventures will have basically the same conditions of operation as domestic firms.

The interest in attracting foreign capital will be manifested rather in certain preferences granted to foreign firms. One of the most important is the possibility to deposit basic capital presented in foreign currency in a special foreign currency account. This privilege is based on the draft of the new foreign currency law that has been passed by the Federal Assembly, and which is scheduled to take effect early next year. Another potential advantage are tax breaks offered to firms under specific conditions.

[Doleckova] Why can selected firms retain, and even open a new foreign currency account? If this is a temporary measure, how long do you anticipate it will be in force?

[Zahradnik] The retention of current foreign currency property accounts even after 1 January 1991 is a temporary measure the objective of which is to prevent organizations from spending unnecessarily foreign currency resources this year out of fear. The foreign currency property accounts thus provide a certain guarantee that for a given amount of foreign currency an organization can purchase the same amount of goods in 1991 as in 1990.

This measure assumes, though, that existing foreign currency property accounts will be retained only until the organization can liquidate them through direct payments abroad or by selling them to a commercial bank for korunas. Payments made through foreign trade organizations will be considered direct payments abroad, provided they are negotiated based on a commission or similar contractual arrangement.

New foreign currency property accounts will have no limitations on duration. The SBCS will authorize them in exceptional cases based on a written application by the organization. Applications will be considered from selected production firms with high foreign trade exposure and that make direct payments abroad. Holders of foreign currency property accounts will not, therefore, be organizations engaged exclusively in foreign trade (foreign trade organizations and the like). I wish, though, to emphasize that the system of internal convertibility is based on the principle of excluding foreign currencies from circulation in the economy. This means that the policy of the SBCS regarding authorization of foreign currency accounts will be very conservative.

[Doleckova] How can you prevent Czechoslovak enterprises from depositing their foreign currency revenues abroad?

[Zahradnik] We can prevent organizations from depositing foreign currency revenues abroad using generally accepted laws requiring stiff penalties for overinvoicing and underinvoicing, as well as by using economic mechanisms such as the discount interest rate, which will be different for foreign currency and for korunas. The long term stabilization of the purchasing power of our currency, along with projected interest rate levels in the economy should facilitate supporting the koruna and limit the undesirable outflow of capital.

[Doleckova] What will enterprises use to cover the difference between the buy and sell exchange rates, and which bank will benefit from the difference?

[Zahradnik] The spread between the buy and sell exchange rates will, as before, be part of the operating costs of organizations. In this sense there will be no change from current practices. The differences will be realized by the commercial bank handling deposit and payment operations with foreign firms. The exchange rate spread is one of the sources used by commercial banks to pay their operating costs and generate profits. It is an accustomed banking practice in all countries. Banks can use the magnitude of the spread among other things to compete for new clients and in their mutual foreign currency trading.

### Joint-Venture Statistics Published

91CH0194D Prague HOSPODARSKE NOVINY  
in Czech 28 Nov 90 p 2

[Article by d.o.: "Even a Few Matter—The Number of Joint Ventures Is Rising Rapidly"]

[Text] Between 1 May of this year and 21 December, the Federal Ministry of Finance granted operating permission to 945 enterprises with foreign participation. This means that each month their numbers increased by more than 100. From this, it could be judged that Czechoslovakia is an entrepreneurial paradise for a foreign entrepreneur. However, this is far from being so clear.

The most characteristic feature of the permitted joint ventures happens to be that, in the decisive majority of cases, they are very small enterprises. More than half of them (499) have basic capitalization of up to 200,000 korunas [Kcs]; 160 have capital ranging from Kcs200,000 to Kcs500,000; 125 of them range between Kcs500,000 to Kcs1 million; and 138 of them have capitalization which ranges between Kcs1 and Kcs5 million. Basic capital over Kcs5 million is noted only for 57 of the enterprises with foreign participation.

To supplement this information, the territorial distribution of foreign capital—in other words, the country of its origin—is useful. Approximately the same number of foreign ventures have participants from Austria (279)

and the United Republic of Germany (267). Next comes Switzerland (76), Great Britain (30), the Benelux countries (41), and France (23). Based on these data, it is possible to judge that neighborly ties or even personal ties play their role: friendships in countries to which waves of emigres moved. This picture is augmented by the fact that while, for example, France shares in a smaller number of joint ventures than Switzerland, enterprises with French participation are stronger: Swiss participants account, on average, for around Kcs2 million of basic capital value; joint ventures involving French participation account for basic capital of around Kcs8 million. The tendency toward predominantly personal ties is reflected also in the structure of the legal forms of the enterprises involved with foreign participation: Two-thirds are companies with limited liability, approximately one-third are joint stock companies.

From the standpoint of distribution in Czechoslovakia, the Czech Republic predominates with 734 joint ventures. The Slovak Republic has 211 joint enterprises. Basic capital is distributed at the same ratio.

It is quite difficult to capture the actual area of activities engaged in by enterprises with foreign participation: A number of them apply for a whole scale of activities when applying for permission, activities which are often quite unrelated and range, for example, from large-scale construction activity (hotels) through the loaning of video cassettes. Nevertheless, the Ministry of Finance has identified the following trends: Two-thirds of the investments are aimed at the construction industry, approximately 20 percent are intended for services. Of the industrial sectors, about 25 percent of the joint ventures are in the engineering sphere, around 20 percent are in glass and ceramics, electrotechnology, the leather-working industry, the woodworking industry, and around 10 percent are in the foodstuffs industry.

In other words, it would seem that even though the Czechoslovak scene requires eating all small fish, we obviously need to wait longer for the big ones: Not until the rules of the game are so clear as to entice even the big fish.

### **Banking, Basis of Market Economy Discussed**

*91CH0196A Prague HOSPODARSKE NOVINY  
(supplement) in Czech 28 Nov 90 pp 1, 3*

[Interview with Jiri Kunert, managing director of the Business Bank, by Marta Svecova; place and date not given: "Like the Proverbial Phoenix"]

[Text] Banks serve as more than repositories for financial capital. Their development is closely linked as well with the capital of our reforms, namely their success. With this interview we are therefore beginning a series on Czechoslovak banking, to acquaint our readers with this long forgotten sphere of activity.

"The Business Bank [Zivnostenska banka or Zivnobanka] is the oldest bank in Czechoslovakia, having been founded in 1868. It has of course enjoyed periods of fame as well as

times of strife. Also of note is that between the world wars it was the largest and most powerful bank in this country, and one of the largest in Eastern Europe, with branches in the later years in Britain and the United States. After the Second World War, when the banking system was nationalized, it remained along with the National Bank of Czechoslovakia. Between 1950 and 1956, moreover, the Business Bank ceased to operate altogether. In 1956 it reopened, but performing completely new functions. It became a bank for a private clientele, for handling payments with foreigners. It later assumed management of tuzex accounts, and for some time served as merely a depository for tuzex accounts."

This is how the director of this famous institution, Jiri Kunert, summarized its history in this interview with HOSPODARSKE NOVINY. At this point we interrupted the conversation so we could ask the director right up front what most interests people, namely to what extent the uncertainty that currently reigns amongst holders of tuzex accounts is justified.

[Svecova] Sir, recent information suggests that the outlook for holders of tuzex accounts is bleak. Aren't these accounts going to be terminated at the start of the new year?

[Kunert] To be more precise, tuzex accounts will die off rather quickly, but in the meantime will continue to exist. Beginning on 1 January, no new coupons will be issued, meaning that no tuzex vouchers will now be issued for new savings deposits. The coupons will continue to be accepted, however, at tuzex outlets. In other words, when someone brings us foreign currency, we will no longer exchange it for tuzex coupons. How this will work for people working in third world countries or in Eastern Europe is still unclear. The issue will be resolved by the Ministry of Foreign Trade and Ministry of Finance.

[Svecova] Let's return now to the beginning of the interview. The role of banking is changing. Try to describe or characterize the place of your bank in this new system....

[Kunert] I would add that the Business Bank has gradually been taking on modest activities for industrial clients, and has begun to provide services for the so-called nonbusiness sphere (tourism, cultural and sports agencies, etc.). This was the description of Zivnobanka three or four years ago. Three years ago, Zivnobanka began to search for a new niche. It was completely clear that tuzex accounts would not be enough to keep us afloat, and that if we wanted to become a full service bank we would have to do something different. We therefore had to make decisions from the ground up, develop a new strategy for the bank, reorganize and restructure it, in other words, rethink everything. We discovered, of course, that compared with other banks we had certain strengths and weaknesses. Our chief



disadvantage was that we did not have a network of branches throughout the country. Our major strength was that we were the only bank with a branch abroad, in London. We therefore decided that we would probably would not be able to compete with other, large banks, and that we should therefore specialize. By the way, the bank has capital of 250 million korunas [Kcs], and reserves of roughly Kcs300 million.

[Svecova] What niche did you find in the financial markets? What will be your focus?

[Kunert] We have a competitive advantage in foreign operations. We decided early on that we could not serve a mass market, because we do not have the resources. We therefore decided to serve a selected part of the market, namely corporate clients. We decided that we could do well with small or medium sized companies, joint ventures, and foreign firms that are trying to establish themselves, but not in the traditional way. We want to provide this market with a mixture of commercial and investment banking services. We have to focus on helping businessmen maintain a presence in our market and try to obtain resources for them in new ways, such as bonds, certificates of deposit, and other securities. Because, as you well know, neither a capital market nor a stock exchange exists, we have to function for the time being as a full service commercial bank.

[Svecova] What is your role? You are a famous banking institution that handles foreign currency operations.

[Kunert] I cannot say that we are the most famous bank in this area, because until recently the Czechoslovak Trade Bank [Obchodni banka] had something of a monopoly here. We also have the expertise, though, and intend to use it. We have to expand our knowledge, however, to include documentary payment procedures. We did not perform these services in the past, but our corporate customers are now demanding them.

[Svecova] What type of client is most prevalent for you?

[Kunert] Until recently, private individual clients predominated. We cannot expect significant profits from them, however. We will certainly expand the services we offer them, but we cannot do this across the board. We are interested in a wealthier clientele from a Czech perspective. Right now we have many small accounts that are very costly and unprofitable. We also do not have a branch network over which to spread these accounts, so we have gotten clogged up in this building.

[Svecova] You are pursuing a diversification strategy, looking for accounts with large balances. How are you doing this?

[Kunert] To attract new accounts we have to offer something not available at other banks. So, for example, we have instituted a credit card program. This offers people a card that they can use for themselves, for their trips abroad. Secondly, we are trying to some extent to

segment this building, so each floor, from the ground floor to the top floor, represents a certain level for a certain clientele.

[Svecova] Some time ago you introduced preferred foreign currency accounts. Could you describe them, and how they differ from normal accounts? By the way, the two percent interest rate is no great incentive....

[Kunert] After the previous interest rate structure established by the Czechoslovak State Bank was eliminated, we introduced three types of accounts. The first is called the normal account. Money in these accounts can be freely withdrawn, and we cannot work with the deposits for a specified period. For this reason, we also do not offer high interest on these accounts, only two percent, but we offer this in almost all currencies. Someone may object that they can get more for certain currencies; but for still others no interest may be available. Of course we do some research, and are aware of the terms at some Western banks. For example, in the FRG the interest is only 0.5 percent, while in Austria it is somewhat higher (fluctuating in the 3.0-to-3.5-percent range), and in Switzerland and France no interest is paid on this type of account.

[Svecova] What about the preferred accounts?

[Kunert] I also wanted to say that someone can object that by opening a normal account in Austria they can get 3 percent. Bear in mind, though, that they have to take into account travel costs. If that person wants to leave the money in Austria for a longer term, he can, but in that case he can get much better rates here as well.

[Svecova] What of the person has, say, a VISA card or other credit card, he can use it, can't he?

[Kunert] This is of course an advantage, this kind of card can be used anywhere and in many ways.

We have also introduced an account requiring a three<sup>4</sup> month withdrawal notice. For practical purposes, this is a type of normal account in the sense that the user can deposit funds at any time, but must give us three months notice of any withdrawal.

[Svecova] What is the minimum required for this kind of account?

[Kunert] These accounts must have a minimum balance of \$1,000. The interest rate for these accounts is currency specific, meaning that the rate for American dollars is different than that for West German marks or the pound sterling. The rates are derived from the so-called LIBOR rates, the most widely used rate on the London currency and capital market.

[Svecova] Can you describe now, sir, the relationship of your bank with the world, and with foreign banks? How are you utilizing your own experiences, which institutions are you currently working with to bring us up to world standard levels?



[Kunert] Back to the previous question. We have an account called a fixed deposit account, for our private foreign currency clients. This account is for amounts in excess of \$10,000. Again, the higher the balance, the closer the interest rate approaches the LIBOR rate. We are competitive with the rest of the world for these accounts.

[Svecova] These accounts are clearly maintained under the client's name?

[Kunert] Yes. The banking law, of course, contains an article covering account secrecy, which we fought hard for. The only time we provide information about an account is at the request of the attorney general, pursuant to criminal proceedings. We are not permitted by law to provide information to anyone else. Anyone who violates this law would be guilty of a serious breach of conduct and would be fired immediately.

Certain clients might say that Zivnobanka offers very advantageous terms to clients with \$1,000 or more, but only pays two percent to normal people, and charges fees to boot. This is true, because we have to be selective about the clients we attract. Presently we charge a fee for withdrawals, from Kcs20 to Kcs300. This fee becomes smaller and smaller as the currency devalues. Maybe this type of payment does not exist elsewhere in the world, but I must say that this is not our currency, meaning that the work involved in a withdrawal is more difficult for us than abroad. I have always been suspicious of banks that pay high interest. This always means that something is not right.

[Svecova] Are you trying to convince me that you have always had your house in order.

[Kunert] We have tried to have as little as possible to do with the government. Two years ago pressure was put on me to allow account balances to be used to expand the possibilities for our citizens to travel abroad. This would have meant converting these balances to korunas, then waiting for the government to return the foreign currency balance to us at some future date. We categorically refused, because this was at complete variance with our strategic objectives.

[Svecova] So even then you respected the forgotten fact that money is a good, that it must be handled as a specific type of good (capital) and that it is not merely an accounting unit.

[Kunert] Precisely. We have tried to invest these resources as prudently as possible, to protect our clients. People can pressure us to pay them higher interest, but this could easily work out poorly because we would have to make riskier investments.

[Svecova] What about businesses?

[Kunert] Clearly, we try to do as much as we can for businesses. But there is one hitch. In Czechoslovakia there is a large problem with so-called uncollectible receivables. Banks could continue to invest large sums in businesses at this time, but the viability of these loans is questionable.

[Svecova] A capital market should exist within a year, shouldn't it?

[Kunert] I am not sure a capital market would help here. The problem here is that large loans are made for inventories. Additional money is tied up in other loans and I do not think these loans are viable either. Many firms are on the verge of bankruptcy. So what to do? Here Zivnobanka has a large advantage, because it has no such problem loans in Czechoslovakia. Of course, this does not currently mean much domestically, but it is a huge plus in relationships with foreign banks to have a clean balance sheet. We are naturally afraid that we might get into this kind of bad loan situation. Looking at the makeup of our corporate customers, 80 percent are new businesses (joint ventures, corporations, foreign and private firms), while only 20 percent are government enterprises that have been in business for an extended period. Another problem is that we cannot yet obtain balance sheets from corporations, as is common practice in the West, nor can we demand that these balance sheets be audited by independent firms. We therefore have to set up a working relationship with the business, monitor its account activity for a time, and then decide whether or not to make a loan. We are very careful and conservative, but as I have already stated we make very sure that every dollar, every koruna, is solid before we make a loan.

[Svecova] Other than foreign consulting firms, who could help you to make these decisions? Who are you using?

[Kunert] The auditing firms active here include Coopers & Lybrand, and Price Waterhouse. We try to have them audit prospective client firms.

[Svecova] What about Coopers & Lybrand and its cooperation with Zivnobanka?

[Kunert] This is on another plane. Just as they audit other businesses, they also audit this bank. This firm has monitored our accounts for many years already in London. We invited them to this country in conjunction with the privatization program for our bank. This program has been finalized, we are currently trying to implement it cautiously, step by step.

The first step is to conduct an audit of the bank, so we can show the world that our accounts have been audited by a well known accounting firm. The next step is to evaluate the bank and write some marketing information about Zivnobanka: what it is, what it does, what are its strengths and weaknesses. Just what is taken as a matter of course in the West. We are also working closely with the International Finance Corporation [IFC].

[Svecova] What is your target date for implementing privatization?

[Kunert] Privatization in the CSFR is driven by giant steps, so we will probably not be able to choose how long it will take. My guess is that it will take us a year or year and a half.

[Svecova] Will you wait for a stock exchange?

[Kunert] No we will not. We want to begin privatization earlier, but there is one interesting consideration. I don't want to tell you any more, but the Commercial Bank will have a source of foreign capital.

[Svecova] Have you signed a firm contract?

[Kunert] We have been talking to several banks that have expressed an interest, some 16 institutions.

[Svecova] Which ones are offering you the best terms?

[Kunert] I don't want to say that yet. I would only add that before taking this important step we intend to consult with some professionals, with an investment bank or some other institution. We have to be absolutely clear about the strategy and philosophy of a partner bank. I also do not think that Zivnobanka will be a worldwide banking power. We will do business in Europe and mainly Central Europe, in the CSFR, which reduces the list of potential partners somewhat. Privatization is also involved. We would consider up to say a 40 percent foreign share.

[Svecova] That is logical. This philosophy is logical, even necessary, because foreign banking capital has already begun to make inroads in Czechoslovakia. Here are already more than 20 foreign banks here. They are strong competitors. So the rule applies that if you cannot defeat a competitor it is better to join him....

[Kunert] That is exactly our philosophy. There are several reasons we are doing this. First, we need more capital. If we want to keep a presence in international markets, in London, in Frankfurt, where we even hold shares in a bank, and in other countries as well, we have to keep track of developments in Europe. Secondly, we need to attract more management know-how to Zivnobanka. What is called organization and management. A third reason is also obvious; foreign ownership will protect Zivnobanka against foreign competitors. I personally do not think that our banking system is strong enough to successfully fight foreign competition. But I am realistic and do think that foreign banks will be allowed to operate here. Yes, we are inclined to set up a joint venture, but in those areas in which we are not now active. For example, we are currently getting ready to establish a factoring company, and are thinking about a leasing company as well. Plans do not call for founding a commercial bank however. So we are actually turning Zivnobanka into another type of institution, by injecting foreign capital directly into the bank.

[Svecova] Is there a specific foreign institution abroad that you consider a model?

[Kunert] There are of course various banks that have different capital participation. We are pursuing somewhat of a unique path, while drawing on the experiences of other banks. We are not sure yet whether there should be one, or more than one such shareholder. We have to proceed very carefully.

[Svecova] Let's get back to the domestic market....

[Kunert] Zivnobanka wants to operate mainly here, in Czechoslovakia, and we are therefore starting to establish a branch network. We will open a branch in Brno, and have for some time been trying to open one in Bratislava. We would also like to open a branch in South Bohemia, and perhaps in some West Bohemian health resorts. But the basic problem remains the one of where to obtain resources. We could offer, of course, accounting services, but the branch network is not extensive enough for this. We want to work with certain enterprises to issue bonds. To do this, though, we have to take the place of those institutions that do not yet exist here. For example, we have to play the role of business analysts and brokers, as well as a financial publisher (which should exist here), that could provide constant information about all businesses and bonds. We have to subscribe loans, guarantee bonds issued by corporations, build the confidence of small savers and businesses. Of course we are not doing this for free. We would perform these services for a fee. These fees would be our future source of profits.

[Svecova] Haven't you issued some of your own bonds? How are you doing this?

[Kunert] Currently we are investing significant sums in computer systems, training our people, and opening the Brno branch. We also want to begin having an impact on the market sometime next year, once legal issues and other matters are clarified. Currently we are laying the groundwork.

[Svecova] How does society view banks? What role should they play in upcoming months?

[Kunert] By now it should be clear to everyone that banks should play a very important role. First is the issue of access to banks and how they are equipped. We thought for 40 years that money would disappear, so why have banks? Our banks are truly in poor shape. If we want to talk about a giant step and evolution on a worldwide scale, than banking has grown in the past 20 years faster than any other field.

[Svecova] The gap between our banking system and the world is clearly significant. In electronics we are said to be 15 years behind the times. What about banking?

[Kunert] I wouldn't hazard a guess, but the gap is probably the largest of all. Perhaps 25 years. In some basic services we have to overtake the world very quickly, but in others, the more sophisticated ones, this will take a little more time. This is because banking computer systems will be very complicated.

[Svecova] But this is only one aspect of the problem. The general public also has to be taught to use banking services and not just look at the fact that they are costly. It will of course take some time until all this becomes an accepted part of daily existence.

[Kunert] In this country people are completely unfamiliar with banks. They certainly must get used to banks charging fees for their services; nothing is for free. For our part, we have to accustom our employees to a new philosophy. Today this attitude is probably not well developed, but this should not be surprising. Banks are poorly equipped, there is not enough space, and pay scales are very low. The situation is improving somewhat; we just have to start behaving like every other bank in the world.

[Svecova] This is best accomplished by foreign training....

[Kunert] Training is the most important. We try to send our people abroad to study, we cooperate with the College of Economics, and we invite experts here.

[Svecova] To summarize our interview. You have laid out for us several years of work required to build an effective foundation for the Czechoslovak banking system. How many employees do you expect to need to accomplish this?

[Kunert] We currently have 370 employees. We do not want to become a huge bank with thousands of employees. In the near future we should have about 600, and perhaps ultimately twice that number once our branches are in place. But we are more concerned with the quality of our people than with their quantity.

### **Reformed Wholesale Needed for Successful Retail Market**

91CH0196B Prague HOSPODARSKE NOVINY  
in Czech 28 Nov 90 p 4

[Article by Docent Eng. Jiri Jindra, candidate for doctor of science: "Wholesale an Obstacle to Retail?"]

[Text] The privatization of stores, including eating establishments and services, is currently the center of attention. It is expected that privatization will improve their efficiency. But entrepreneurs in small retail businesses will face a wholesaler's monopoly.

Privatization will increase initiative, work intensity, and interest in customers. But the main purpose of every business is profit. For private enterprise not to end up, because of price deregulation, as a customer rip off, competition is needed, and some assistance from the government in the form of temporary price controls will also help. Entrepreneurs, including current government and cooperative businesses, are interested in retaining and, if possible, expanding a monopoly position, which makes the achievement of large profits possible. This is why we are hearing from the enterprise sphere justifications of the economic advantages

of large business organizations, often supported by government representatives. The fundamental goal of the government and its officials, in the meantime, should be the formation of a competitive environment that will facilitate natural evolution in the context of a functioning market.

I consider the fundamentals for the existence of competition to be enough goods on the market, adequate store capacity (measured as floor space), adequate equipment and staff and, finally, choices for customers of where they want to buy a given item and for how much. The first condition must be assumed in all our plans. Conditions two and three must be met by attracting free and foreign capital. Questions related to the free choice of a seller must be dealt with right now with two waves of privatization.

One can assume that the privatization of retail businesses, eating establishments, and services will clarify ownership relations and lead to the formation of clear entrepreneurial interests. Not only a customer, but a businessman as well, must be able to choose a supplier freely. Recently there have been proposals to privatize wholesale warehouses. These are basically positive proposals because they lay the foundation for competition in wholesale trade as well. Current trends towards the formation of new government enterprises have, on the contrary, shown a desire to support large, mostly existing businesses, or at least to maintain wholesale trade at the level of regional enterprises. Frequent requests have been made to merge wholesale enterprises as the foundation for the rational distribution of goods. The formation of a single wholesale food enterprise in Prague (capitalized at a level equal to two or three smaller firms) attests to the fact that government offices do not use demonopolization efforts as a major criterion in their decisions. Other examples include the proposed merger of the Prague Hardware Store (wholesale) with the retail firms Household Goods and Small Goods, attempts to retain concentration and create wholesale food enterprises in certain regions, and the proposal to retain the current enterprise organization of wholesale trade in nonfood items in the larger regions; in other words, where the capitalization of individual firms is significantly dispersed. At the same time it is not clear whether these firms will become corporations or not.

What forms of competition can be expected in the area of supplying retail stores and eating establishments:

- Expanded factory direct deliveries to large retail units on a mutually advantageous scale (for food, there has been almost none of this sort of arrangement).
- In larger urban agglomerations it will be advantageous to divide up wholesale trade into existing facilities, especially for foods. The same is true of large nonfood enterprises with significantly differentiated products originating in multiple factories.

—New wholesale enterprises will be established. Over the next two years or so, however, these firms will not be of great importance for demonopolization, even though in Prague the Univel wholesale enterprise is successfully operating the Drazice cooperative kombinat, which expects to reach Kcs1 billion in revenues next year.

A basic requirement at new businesses will be to improve goods revenues substantially. Estimates are that revenues will have to increase by a factor of at least two under the pressure of high interest rates on inventory loans (bearing in mind the above mentioned criterion of sufficient goods available). Improving revenues will free up a part of available facilities, and wholesale trade will either expand the territorial scope of its operations or expand its product line. Either development will create competitive conditions in supply.

Participation of foreign partners will significantly improve the efficiency of supply networks, by improving information exchange and introducing improved computer systems. This should also promote more rapid inventory revenues, expansion and redefinition of product lines, and new warehouse construction. If, however, these mergers are implemented with monopoly entities covering a specific territory, we will end up here with a number of competing world firms, each active in the initial years in only a limited territory. I therefore think that it would be in the interest of the government to support the establishment of joint ventures with smaller partners in the CSFR, with several such entities desirable in different parts of the country. This objective cannot be carried out literally, because it conflicts with the interests of the entrepreneurial sphere. However, such attempts should be evident in the strategies of government offices.

In all developed countries, wholesalers maintain close ties with their customers. It is estimated that independent retailers account for only about 30 percent of sales. The remainder is fairly evenly divided into the free association of retailers and wholesalers in the form of voluntary chains and franchising agreements, and more formal organizational forms represented by branch offices and cooperative business. Rational supply relationships, economically advantageous for all partners, assume the existence of a system to unite interests despite differences in ownership.

This is the attitude that our wholesale organizations should adopt immediately to stores that are leaving a current enterprise or which are just being started. It involves assuring favorable conditions for selecting goods, for timely deliveries, disseminating information concerning new products, setting up advertising resources and joint ads, finding consulting services for tax, financial, and legal matters and for rebuilding sales outlets, assuring deliveries of equipment and its maintenance, and joint interests in handling returned goods, sales, etc.

Likewise, foreign partners are interested in wholesale warehouses that have ties to larger sales outlets, that can accept an integrated system for managing the circulation of goods. These are the most important aspects of the know-how of leading Western partners. It would therefore be desirable to leave the larger entities (perhaps in the event that no one buys them in the first phase of privatization) under the ownership of newly established corporations with a dominant interest in wholesale trade and foreign capital shares. Another possible solution would be the timely arrangement of franchising relationships between wholesalers and newly privatized retailers. In this scenario, though, we should not expect foreign capital investments in the stores. A more appropriate form would have a new owner of a large retailer buy shares in an appropriate corporation. This should come about as a result of the active commercial policy of new corporations founded with foreign assistance.

An article does not provide enough room to go into the details of this issue. I think that we must develop a concept for the functioning of domestic commerce, which will then allow us to properly direct the individual steps towards achieving the goals. One of the most important goals in my opinion is the formation of competitive conditions by supporting the establishment of smaller corporations, the provision of foreign capital to help these small corporations develop, and the creation of strong operating ties between wholesale and retail entities. Inadequate competition at the wholesale level presents, in my view, a serious threat to future development.

### **Lack of Experience Hampers Contract Writing**

*91CH0145A Prague ZEMEDELSKE NOVINY  
in Czech 10 Nov 90 pp 1-2*

[Article by ZN, Prague: "Experiences With Concluding Commercial Contracts: Much Remains Unknown"]

[Text] Anxiety is growing in agricultural enterprises because, as far as economic conditions for the next year are concerned, much remains unknown. Preliminary commercial contracts have been concluded, at least in respect to quantities, but they have not yet been confirmed, due to the unclarified questions in connection with prices.

Our regional editors did some research on how some purchasing organizations view the situation.

### **Agreement Is Still Necessary**

"In June we concluded contracts with agricultural enterprises on arranging milk deliveries for 1991, now we must start negotiating about specific numbers," we were told by Eng. J. Leseticky, purchasing manager for milk in the state enterprise Mlekarensky prumysl [Dairy industry], and C. Budejovice. "Next year we expect to purchase approximately the same quantity as this year, i.e., 118 million liters of milk. The reduction of three million liters compared to last year is because one

agricultural cooperative transferred to the Czeskokrumlovská Mlékárna [Dairy in Cesky Krumlov]. The Chamber of Agriculture also discussed the provisional volume of deliveries and agreed on the same quantities as we are considering. However, the prices still remain a problem, because they have not been confirmed by the ministry, although they have been published by ZEMEDELSKE NOVINY. However, there is no end to this problem. After dairy products became more expensive, our sales dropped by 10 to 15 percent. No one dares to estimate what will happen after the price regulation in January. We will have to come to an agreement with agricultural enterprises on a certain measure of correction of price provisions through a contract. We would like to clarify the whole situation by the end of this month, but we will be happy if we succeed in doing so by the end of the year. But I expect that we will come to an agreement even this year, as we always have in the past."

#### What Contracts Did Not Include in the Past

"Contracts on deliveries of sugar beet from the 1991 harvest have essentially been drafted, but they have not yet been concluded," we were told by Zdenek Zavadil, economist in the sugar factory in Litovel, which entered this year's sugar beet season as an independent state enterprise.

"There should be no problem in executing them. But we are preparing to include in them a relatively generous offer, which we have previously not been able to make to our suppliers—the agricultural enterprises in the Olomouc and Sumperk Okreses. However, since we have not yet received our foreign partners' final decision, it would be premature to give specific information. Perhaps I can just say that, if things go well, the sugar beet growers will have fewer problems in cultivating their crops, and we will get higher quality raw materials to process," concluded the Litovel sugar beet factory economist, Zdenek Zavadil.

#### Flax Producers Are Waiting

At this time, the Czech-Moravian flax factory, the state enterprise Humpolec, is beginning to conclude contracts for next year's flax production. The situation has changed considerably in comparison to past years. Before concluding contracts, many producers are waiting until more information becomes available about the price of inputs and about the prices of flax, tow, and flax seed. For the time being, purchasers for enterprises are travelling around partners of long standing and proven suppliers with "old forms" and are negotiating preliminary contracts. Some producers are willing to conclude contracts even in the present unclarified situation, others expect to conclude the final contracts just before spring. So far, average prices for flax are not known. The price (originally estimated at 580 korunas per 100 kg of flax stems), is expected to follow the rate of the dollar, and thus it should change. Another problem is the overall unclear concept of the change in the structure of agricultural enterprises. Cooperatives are dividing, breaking up, reuniting, and all this also affects questions of

contractual obligations. Nevertheless, there are enterprises interested in increasing the tracts of flax; a typical example is the Teplice Oblast.

So what really is the present situation? The enterprise has enough flax from stockpiles and from purchases from this year's harvest; according to preliminary balances, there should be enough flax of sufficient quality through to the next harvest. The enterprise, which had 19 factories in all, now operates with fewer, since seven factories broke away. The flax mills in Kacov, Lestin, Stara Libava, and in Stahlava are operating totally independently; three flax mills in the West Bohemian Kraj have combined, and thus, so far, twelve factories and flax mills remain in their "original state."

#### Sales Tax Reforms Examined

91CH0157C Prague HOSPODARSKE NOVINY  
in Czech 14 Nov 90 p 5

[Article by Eng. Jan Klak, Federal Ministry of Finance:  
"The Sales Tax Reform"]

[Text] With a little exaggeration, it is possible to designate 1 January 1991 as a historic moment: After more than 40 years of economic voluntarism, the full ideological rehabilitation of the market is occurring, connected with a number of fundamental systemic decisions aimed at making room for the effective functioning of the market mechanism. The dominant features of market value relationships include the consistent interconnection between the economic results achieved by producers with the parameters of the market realization of the production they produce. This contact was disrupted by the introduction of the differential sales tax following the monetary reforms of 1953.

The interconnection between the hitherto separated circuits of wholesale and retail prices will be assured by the introduction, effective 1 January 1991, of a rate-structured sales tax which will be unified into four tax brackets (with the exception of consumer taxes). In theory, it is possible to achieve the unification of today's more than 1,000 sales tax rates, which vary from - 291 to 83 percent of the commercial price in an infinite number of variations. The final selection of the number and level of tax brackets, therefore, took account of the following viewpoints in particular:

- the future transition to a uniform rate for the value-added tax requires the reduction of the sales tax today to a minimum number of rates. In addition to the virtually insurmountable administrative difficulties in the collection and payment of the tax, retention of the major number of significantly differentiated rates would lead to the actual duplication of today's deformation in retail prices;
- the effort to achieve revenue neutrality of the entire operation vis-a-vis the state budget and, thus, also with respect to the level of retail prices through the consistent annulment of the negative sales tax and

- reciprocal price movements;
- efforts to establish a differentiation in tax rates in such a way as to make it possible to classify the majority of projects into individual tax brackets without large price leaps. If the adaptability of the system were limited, massive changes in prices could result in disproportionate adaption reactions on the part of production and disruptions in the consumer market;
- efforts to limit the highest tax bracket, taking into account the current level of sales taxes in those developed industrial countries of Western Europe where we can anticipate a broader connection of our economy (the FRG, Austria).

#### The Fundamental Step: Unification of Tax Rates

For the sake of completeness, it is necessary to state that the unification of tax rates follows upon the results of the centralized reform of retail food prices, which was carried out on 9 July of this year. The problem of eliminating the negative sales tax for solid and gaseous fuels where the population will be partially compensated for the social consequences of increased price levels is solved completely separately and outside of the balance of unified tax rates.

For purposes of setting the individual tax brackets and for purposes of working up the balances of sales tax yields, use was made of the sales tax statistics based on retail sales for 1989 and of computer equipment and the programming capacity of the Federal Ministry of Finance. Following the elimination of unsuitable variations, the final version created for nationwide unified tax brackets of 0 percent, 12 percent, 22 percent, and 32 percent of commercial prices, to which areas or groups of foodstuffs and industrial products were added according to the uniform key for classifying industrial disciplines and products. The results of all these operations were published in the specialized and daily press as part of the preliminary information regarding economic conditions in 1991.

In this connection, the fact that the balance of sales tax revenues resulting from unified tax rates represents a loss of around Kcs4 billion in the database for 1989 in comparison with the original revenue anticipated from the sales tax is an extremely important fact. In view of the fact that virtually the entire tax shortfall is concentrated on industrial products, a price reduction for industrial products would exceed the limit of 1 percent if the administrative design of retail prices were to be preserved. The relationship between unified sales tax rates and the state budget, in other words, is not completely revenue-neutral in the statistics for 1989 and the approved tax rates should be a factor to dampen inflationary pressures in the domestic consumer goods market.

The process of unifying sales tax rates excluded a small group of products for which the absolute majority of

countries socially deliberately regulates the level of consumption through prohibitive tax rates. Under our conditions and for 1991, this group of products was expanded by several items where the lowering of the existing tax burden would most likely intensify the existing deep disproportion between supply and demand. The group of products which was excluded from the unified tax rates regulation includes:

- alcoholic beverages;
- coffee and tea;
- cigarettes and tobacco products;
- motor fuels;
- automobiles;
- gold and jewelry products.

For purposes of thorough orientation, it can be stated that the present-day level of taxation will be preserved for hard liquor, for natural wines and tea; a certain increase in introducing taxation per unit of quantity occurs with respect to motor fuels, beer, and cigarettes, and a decrease in applicable tax rates can be recorded with respect to automobiles and coffee. Over the next two years, in the course of preparations for the value-added tax and in conjunction with the stabilization of the market situation, efforts will be made to limit the group of products subject to extraordinary taxation in such a way as to make the product structure of the group come close to the assortment of goods which are currently taxed with a consumer tax in other market economies.

In addition to changes in the sales tax rate, the present tax regulation is also being changed in a number of cases. A fact of fundamental importance in this direction is the consistent elimination of the differential sales tax. In specific form, this means, for example, a change in the price regulation covering glass bottles, since the new tax rate table will not be defining any price level for bottles on which a deposit has been paid.

Express changes in taxation will take place in Branch XIX—Work of a Productive Nature and Services (Repair and Maintenance) Performed by the Supplier Method. The present ununified and rate-scattered taxing regulation for this branch will pass into the 12-percent tax bracket effective 1 January 1991, with minor exceptions, and a nonpayer of the tax (physical persons not recorded in the enterprise register) will be rendered repair services basically at prices including taxes. This approach will make it possible to favor the suppliers of services who are not recorded in the register of enterprises and who, although they purchase material inputs, complete with sales tax, do not pay tax on their outputs.

The tax regulation will also be changed in the area of motor fuels where—in addition to a specific unit tax—the only location at which the tax is collected and paid without regard to the form of delivery, is the sales organization (Benzina, Benzinol). Together with these measures, all exceptions and deviations in procedures, which have hitherto been utilized by Mototechna-type

enterprises, by health providers, or by the Tuzex organization will be rescinded. The selective rationalization function of the market mechanism is based on the fact, among others, that the market uses the same yardstick for everyone.

#### **A New Concept: The Sales Price**

Within the context of price liberalization, connected with the elimination of certain categories of wholesale, commercial, and retail prices, it was necessary to find and define a new value base for the quantification of taxable revenue. After 1 January, this base will be formed by the category of the sales price which includes the tax, all surcharges and reductions corresponding to qualitative and delivery conditions (including the marketing surtax), and, in the case of imports, the customs duty. The location at which the tax is paid continues to be primarily the production sphere. Tax payments will be realized in all cases where the taxpayer (the state enterprise, the marketing organization, a private entrepreneur entered into the register of enterprises) incurs the obligation, in accordance with data contained in Col 4 of the new sales tax table, to invoice shipments at a price, including the tax.

In other words, the sales price is that price which will appear on the invoice for taxable deliveries. In selling goods produced by the producer himself or in making purchases in his own sales outlets, the sales price is considered to be that price at which the product is transferred to the sales outlet. In the event of the direct sale of products in the market (or for purchases made directly from the manufacturer), the sales price is considered to be the realizational market price. In the case of imports, customs duties and any possible agent or brokerage surcharges will be an inseparable portion of the sales price.

From the above facts, it is clear that not even a new system of sales taxes expects to tax sales made by commercial organizations. The original intent to transfer the collection of the sales tax from the production sphere to the commercial sphere for the next two years encountered hard resistance from the Ministry of Commerce and Tourism of the Czech Republic and from commercial organizations, arguing the technical impossibility and organizational unsuitability to assure the correct collection of the tax in the event that there would be more than two tax rates (one for foodstuffs and another for industrial products). However, for objective reasons, it is not possible for the time being to permit such a globalization of tax rates, and so the possibly extraordinary revenues resulting from the future contractual character of commercial tax collection are attainable, from the taxing standpoint, only by taxing profits.

A hitherto unique type of taxable sales will come into being in conjunction with realization of the law on so-called small privatization. It can be justifiably anticipated that the decisive portion of new acquirers of these properties will be physical persons who, according to the law on the sales tax,

have the opportunity to purchase the means for entrepreneurial activity only at a price which includes the sales tax. In this regard, the final option prices payable for these ownership transfers should be further burdened by a tax which amounts to more than 30 percent of the wholesale price today. For purposes of orientation, the sums involved would total in the billions of korunas. Such supplemental increases in the auction prices could, in the final analysis, slow down the privatization process considerably.

In principle, the necessity to stimulate the development of private entrepreneurship and of speeding up the process of privatization therefore leads to a situation in which, by way of exception, sales resulting from implementing the law on transfer of ownership of some items by the state to other legal or physical persons will be basically exempted from the sales tax as of 1 December 1990. Certain obscurities still remain with regard to the approach to tax exemption for inventories purchased at wholesale prices, but even here it can be anticipated that a positive solution will be reached. Of course, to the extent to which inventories or the means of production purchased by the original user at prices which include a sales tax are part of the auctioned property, the return of the tax cannot be demanded within the framework of the change of ownership.

#### **Private Individuals: No Supplemental Tax**

Rescission of the so-called supplemental sales tax falls into the circuit of significant systems measures serving to support development of private entrepreneurship and the transition of the economy to a market mechanism. Under conditions of the central command economy, this tax simulated a commercial discount and its mission was to preserve the unity of prices without regard to the method of delivery or the deliverer. In economic practice, it is applicable in all cases where the customer is obligated to purchase a product whose price includes the sales tax and, at the same time, does not have the right to a commercial discount. The supplemental tax, together with the basic sales tax is channeled to the state budget and in 1989 the cumulative value of the supplemental tax was approximately Kcs4.5 billion.

Rescission of the supplemental tax as of 1 January 1991 should work to the advantage of the price level for direct deliveries for which purchases at prices including the sales tax are mandated as a result of liberalized prices. These deliveries may be material or product inputs for entrepreneurs, as well as direct deliveries to market funds. Commercial organizations will thus, finally, acquire a real competitive environment and, in the entrepreneurial sphere, it is possible to anticipate new economic effects which directly stimulate its further development. The category of the so-called price differences will be rescinded at the same time as the supplemental sales tax.



In conclusion, I would like to state that by initiating the processes of liberalization we are entering an extraordinarily complicated and not clearly defined period. The complexity lies in the need—although it is time-limited—for the coexistence of the dying elements of the administratively directive method of management with the elements of an already functioning market mechanism. A market-conforming complex system of taxes should begin functioning on 1 January 1993. By that time, it will be necessary to flexibly solve thousands of specific tax problems and blind alleys of economic practice. At the very least, it would be somewhat exaggerated to claim that all decisions which will be adopted in this connection will be correct, farsighted, and realizable. We are moving along a path which no one before us has yet trodden. It is necessary to expect that there will be a certain risk of errors and promote the full renewal of a market in the Czechoslovak economy tolerantly through joint effort.

### **Kovosrot To Incorporate, Keep Most Employees**

*91CH0187D Prague HOSPODARSKE NOVINY  
in Czech 14 Nov 90 p 7*

[Article by Pavla Cisarova and Zuzana Knezu: "Kovosrot Problems"]

[Text] Prague Kovosrot is located on a 16 hectare site that looks, in the early morning light of autumn, more like a lunar landscape. Kovosrot is near other industrial firms, including Ball Bearing Plants [ZVL], Perovna, Kablo, Paints and Lacquers, on the outskirts of Prague in Dolni Mecholupy. It is an enterprise surrounded recently by a number of ecological question marks, not all of them unjustified. On the other hand, its business, the processing of ferrous scrap and nonferrous metals into valuable secondary raw materials, is an ecologically viable one. Let's look, therefore in more detail at the output and management of the firm, and how it is preparing for operations in a market environment.

Processing scrap metal into a form that allows it to be used again cannot be very clean work. This is true all over the world. Indeed, the area occupied by the firm doesn't remind you of a well swept courtyard.

### **Facilities Tour**

Material to be processed is brought to the firm by external carriers (about 10 percent of the total), with the remainder transported by Kovosrot. The percentage hauled by Kovosrot is increasing. The scrap is then treated by breaking, cutting, crushing, baling, or manual brazing, then sorted into prepared groups for use in metallurgical plants.

Kovosrot serves Prague, the Central and South Bohemian regions, processing about 650,000 tons of metal scrap annually. Three months ago 16 tanks were "packaged" here.

It is sometimes necessary to process ferrous scrap that has been contaminated by crude oil products (oils and emulsions).

When the weather is dry it is dusty here, and when it rains there is mud and puddles. With a few exceptions however (cutting torch operators, granulation workers) none of the employees receive salary supplements for work in dangerous conditions. Decisions in this area come under the authority of the Federal Ministry of Labor and Social Affairs [FMPSV]. Currently the supplementary payment levels are only being discussed. Employee qualifications vary, from skilled workers to purely manual laborers. One of the factors in large work force fluctuations in some jobs is certainly the quality of the working environment. This also includes dangerous work, as shown by the numerous explosions that have occurred when scrapping the waste left by Soviet soldiers.

The nonferrous metal processing facility is an independent operation at Prague Kovosrot. The facility processes several types of waste cables on a granulation line. The firm cannot keep up with the demand for the resultant granulate. Annually, Prague Kovosrot processes 5,000 tons of nonferrous metals. The firm is currently beginning to extract precious metals from electrical scrap.

### **Enterprise Situation**

After touring the facilities it is pleasant to sit down with the firm's deputy economist, Eng. Jan Zelezny, in his office. He belongs to this firm for which he has worked ten years not only by virtue of his last name, but also by virtue of an active relationship. He told us many interesting things about the firm's current position, its problems, and its plans for the future. As of 1 April 1990, Prague Kovosrot became a government enterprise that currently owns basic assets valued at Kcs 1.3 billion. Of this total, 700 million korunas [kcs] represents the capital assets of the firm, 60 percent of which is Western technology. The firm currently employs 1,200 people, 25 percent of which are white collar. The large number of administrative employees, a sore point at many of our firms, is also felt here. New management, working since January of this year, has managed chiefly by attrition to reduce the number of white collar employees by 15 percent. Company pride does not permit the management to simply part ways with excess employees. Management estimates that employment will stabilize at 80-85 percent of the current level.

The basic activities of the firm can be handled by about 700 employees, with the remainder employed in new ventures. The firm wants to retrain existing employees for these new activities. Prague Kovosrot management is proceeding this way in an attempt to reduce social tensions among employees. The creation of external, previously unavailable services (for example maintenance and repair services, scrap collection, financial



services) will help in the future to cut down on the number of ancillary administrative personnel.

Eng. Zelezny considers the current processing equipment at Prague Kovosrot to be comparable to that of Western firms. One handicap is the significant volume of bales processed in large presses. This technology has been largely replaced in the West with other technologies (crushing, smaller, mobile presses). The developmental plans for the enterprise call for the gradual replacement of the large presses with more modern equipment. This year, Kovosrot made a profit of Kcs60,019,000 with an additional almost Kcs15 million banked from foreign trade activities. Fortunately, Kovosrot did not follow in the footsteps of Calx, which is not meeting domestic demand for its licensed products.

#### Future Plans and Comparison With Foreign Firms

Recently management has completed a "Proposal for the Future Organization of Scrap Management". The proposal is based on an analysis of experiences gained in scrap metal management in the FRG, Switzerland, and other countries in Western Europe. These analyses show that the scrap metals market has its own peculiarities related to its importance as a raw material and an ecologically important product. In addition to a large number of smaller companies there is a limited number of larger firms engaged in the sophisticated machine processing of scrap metal.

The scrap metal market is further divided into a market for ferrous, unalloyed waste and cast iron, and another market for nonferrous metals and alloys. The market for ferrous, unalloyed waste and cast iron is subject to much more legislative and government price intervention, while the market for nonferrous metals and alloys is free, regulated by supply and demand.

Between the sources of scrap metals and their users exists a space within which small, medium sized, and large firms operate, buying, gathering, categorizing and processing scrap metal. The first step in creating such a market in the CSFR was the repeal of the laws that monopolized the operations of the Scrap Metal Industry in the area of industrial scrap, and Raw Materials Collection for collecting scrap metal from the general public. This law resulted in the creation of seven Kovosrot government enterprises and opportunities for other firms in the field. Private entrepreneurs are gradually getting involved. This is a qualitative step forward in the activation of scrap metal resources.

The existing seven Kovosrot firms, in the meantime, to a large extent perform the activities of both scrap metal retailers and the functions performed by large wholesalers in other countries. It is therefore desirable to support as much as possible the creation of scrap metal retailers. This will require the support of both government agencies, for instance in tax policy, and the accelerated privatization of the Raw Materials Collection enterprise. It would also facilitate the creation small and medium sized private firms to spin off certain activities, such as the collection of scrap,

that are currently handled by Kovosrot itself. Small and medium sized firms can clearly handle the area of direct procurement and the initial sorting of the scrap. They cannot, however, fully assure consumers, foundries and steel mills, of even quality, steady supplies of these raw materials. This is where wholesalers step in, because they are capable of concentrating large quantities of scrap metal and supporting state of the art processing equipment to refine the scrap to a state suitable for charges. This organizational structure will better resolve the ecological problems connected with the processing of scrap metal.

Metallurgical enterprises are interested in steady supplies, guaranteed amounts and quality, which in Western Europe is provided not only by bilateral and even multilateral contracts, but also is supported by laws. In Austria, for instance, a government office directly designates who can become a supplier to metallurgical firms. This supplier must meet basic conditions of financial solvency, delivery consistency, and quality.

The competitive environment should make it possible for any small or medium sized enterprise to become a large enterprise. A system of small, medium sized, and large firms has been shown to function optimally, as long as there is a difference in the markets for ferrous, unalloyed scrap, and nonferrous scrap and alloyed materials.

This organization of scrap metal management requires, particularly for ferrous metals, the creation of a scrap metals buyers and sellers union. This union can establish delivery terms, define the basic categories of ferrous scrap metals and cast iron, and establish prices. Similar scrap metal unions operate in developed European countries.

As of 1 January 1990, Kovosrot will become a corporation. The stock is structured to take account of:

- The interest of the government in this area of the economy, because it covers one of the few domestic raw materials.
- The need to eliminate conflicts that arise when employees are alienated from the enterprise.
- The need to facilitate capital mergers with domestic as well as foreign partners, access to international markets, to capital and new technologies needed for the full restructuring of metallurgical output.

The basic capital, and therefore the stocks of the corporation should be finalized as follows: government 33 percent; employees 35 percent; foreign and domestic capital 32 percent.

#### Ecology

This brings us to a hot topic. The processing of ferrous and nonferrous scrap has serious ecological consequences. This is another reason for concentrating processing facilities in one location.

The state of our environment is now well known. Still, it is not realistic to expect firms to take environmental protection measures without significant pressure from the center. Enterprises must be more or less forced to do this by the center, which can set strict standards, monitor them, and levy harsh penalties for noncompliance. The quality of the actual working environment is a matter for the employees themselves and their unions, and should be negotiated at this level.

Kovosrot has constructed impermeable areas at its facility, and at Dolni Mecholupy is completing a waste water treatment plant costing Kcs72 million.

Beginning in 1980, Kovosrot worked on a solution to a serious problem, the processing of storage batteries. It proposed and designed a wasteless technology to accomplish this (the firm TONOLLI), which was supposed to be introduced in 1988. However, in 1984 implementation was postponed in favor of a proposal by the general directorate of Kovohut to process batteries in shaft furnaces. This project, unfortunately was never implemented. Kovosrot today can only collect batteries, which it does, and bears the consequences every time it rains in the forms of fines for poor hygiene.

In the past six months negotiations have been under way with Mlada Boleslav Akuma and a foreign firm regarding a waste free technology that would handle the processing of all used batteries in Bohemia.

### Conclusion

The elimination of balancing deliveries has increased the competition between the seven Kovosrot firms (in Prague, Plzen, Decin, Hradec Kralove, Ostrava, Brno, and Bratislava), above all in the quality of the final, processed product. On the other hand, even in a competitive environment transportation costs need to be watched. It does not make sense to transport raw materials across the entire Republic.

Hopefully we will learn in the near future what types of ventures and cooperative agreements are planned, and with which firms.

The Kovosrot managers do not intend to become a guest worker in their own country, or to allow their operating conditions to be dictated to them. They intend to be aware of their strengths and market capabilities, and to force potential partners to perform adequately while refining mutual relations. Therefore, management prefers a cautious approach when dealing with Western firms and considering various forms of cooperation, including the rental of new foreign technology, leasing, etc...

The question is the extent to which this approach is consistent with the desire to hook up with a truly strong and profitable partner with a first class organizational structure and state of the art technology.

The appearance of a number of previously unavailable activities (such as financial services) will help in the

future to reduce the number of ancillary administrative employees. The enterprise plans to utilize services such as, for instance, turn key construction firms, allowing it to cut back on its internal construction activities.

Looking to the future, Kovosrot has a short term (one year) and longer term strategic plan. This plan calls for a transition in 1994 to operations based on world standard small bales (also necessitated by restrictions on the operation of the Siemens-kartouz furnaces), dismantling on site, the introduction of metals analyzers, etc.

Even though steel production is projected to decrease from 15 million tons to about 8 million tons annually, the share represented by scrap will continue to increase.

### Possible Agricultural Bankruptcies Viewed *91CH0194A Prague ZEMEDELSKE NOVINY in Czech 6 Dec 90 p 5*

[Article by Ludek Motejlek: "That Ugly Word Bankruptcies—What Chance Do Farms in the Border Areas Have?"]

[Text] Now that it is the feast of Saint Nicholas I have no desire to draw the devil on the wall and I would much rather be a bad prophet; nevertheless, I note that we are going to have the largest problems in agriculture in the border areas. That these fears are not unfounded is proven by the visit of representatives from the Union of Farmers (Svaz statku) to the negotiations being conducted by the Agricultural Commission of the Czech National Council. The delegates were able to familiarize themselves with the specifics of the problems afflicting our border regions, where agriculture predominates. We shall review several items or less-known facts.

Following the expatriations which took place in the border areas, many landless peasants came here who were longing for the opportunity to cultivate their own fields. Their wishes were fulfilled for the most part for a brief period of time and gradually, in many cases, they were forced to join unified agricultural cooperatives. Under the extreme conditions which prevailed, these cooperatives vegetated so most of them changed into state farms which also tended to operate more in the red. The wave of gigantomania tended to bring them together and change them into enterprises which were at least of okres size—such as Sumava, Sokolov, Cheb, but also Bruntal. Some enterprises of these establishments prospered better than others. As of 1 January, they are to disintegrate into completely independent entities. However, they will have a difficult time because they will be leaping directly into new economic conditions, while the natural conditions remain the same.

No wonder then that one of the most frequently used words in the negotiations within the commission of the Czech National Council was the word bankrupt and how bankruptcies are to be prevented on a massive and

areawide scale. After the dismantling of differential allowances and other subsidies, enterprises in the higher production economic groupings (more than 22) do not have much of a chance, even if a portion of the surcharges end up being reflected in bulk-buying prices. Consequently, one of the considerations was based on the hypothesis that the reform should be so prepared from the systemic standpoint that only 10 or a maximum of 30 percent of the entities should face bankruptcy, without regard as to whether the entity is a farm, a joint stock company, or a private individual. One way could be a tax policy which is sensitive with respect to specific conditions existing in the border regions, not only those which exist in agriculture.

The bankruptcy of agricultural enterprises in the entire region would not only retard the economic reforms, but the social consequences would be very critical; after all, the absolute majority of the population is employed in agriculture. Moreover, the farms here fulfill a number of other functions. They are the operators of nursery schools, they maintain roads, the national committees were totally dependent upon their contributions. Not even the demographic and ecologic viewpoints are negligible. The failure of agricultural enterprises would essentially result in unemployment and the departure of people from this thinly populated region because, among other reasons, they do not have family roots here. The decline of agriculture or even its total disappearance does not, however, mean a calamity for the cultural landscape, which has been the subject of the creative efforts of man for centuries.

That is why they all agreed that assistance for border region agriculture is unavoidable, even though it is not possible on a wide scale in view of the economic situation of the entire nation. While long-range plans are nice, it is essential to prevent the worst from developing in the immediate future because later it would cost us a whole lot more. What is not good is the fact that, for the time being, no one knows precisely how to provide assistance.

Much hope is placed on privatization. However, it also has and will have problems. Mainly, it is not possible to expect that everything will be returned to private ownership in 2 or 3 years; it is more likely to take 10 to 15 years. The first hitch is purely legislative in character, since a transformation law is lacking and the farms cannot be transformed into cooperatives of owners, for example. Turning the property over to the original owners in these regions is also difficult. The missing and constantly debated law on land is also a hindrance. And the signaled interest in private management? In the Cheb region, there are about five interestees who are after some 5 hectares of fields. While they would solve the self-supply problem this way, it is meaningless in the macroeconomic sense. For that, what is needed is, say, a 50-hectare farmer who has succeeded, otherwise, privatization would be hampered more than helped. In other words, the new private owner would have a difficult time getting by without a financial injection. Local agriculture will most likely resurrect owner cooperatives which are

much more capable than the existing state enterprises. The heads of farms are aware of this and would like to promote these cooperatives. However, they need a law to back them up.

Existing estimates indicate that next year, interest in agricultural production will be valued at approximately Kcs 11 billion. This is about the total value of what is produced in the border region. The simplest thing would be to anticipate this fact and to write off agriculture in this area. It would be the simplest, but also the worst solution, even if the other solutions require much inventiveness. In our considerations, we shall not, however, overlook the fact that people on the other side of the border region mountains are diligently monitoring the way we handle things in this territory.

## HUNGARY

### Linking Debt Repayment to Privatization Suggested

91CH0097B Budapest HETI VILAGGAZDASAG  
in Hungarian 25 Aug 90 pp 4-5

[Article by Laszlo Antal, adviser to the president of the Hungarian National Bank: "State Indebtedness and Privatization: Selling Debts"—first paragraph is HETI VILAGGAZDASAG introduction]

[Text] Who should, and to what extent, bear the burden of the national debt accumulated during the recent past? The author of this article, who is adviser to the president of the Hungarian National Bank, feels that debts should be distributed among the potential actors in the country's economic and social life, similar to the manner in which the structure of property changes during the rapid privatization process promised by the government.

When it comes to the national debt that exceeds 1.3 trillion forints, that is, over 60 percent of our GDP [gross domestic product], there are sharp debates in interpreting it, evaluating its consequences, as well as its connection to external indebtedness and inflation, or accounting for the burdens created by it. There are those who consider it nothing more than a fictional bookkeeping item to which we may add any losses and unpayable accounts, while others claim that the alarmingly large size of the national debt should be viewed as a mortgage against the nation's wealth. Its consequences will be borne in part by today's generation, and even more by future ones. These two sharply conflicting views are manifested in their clear or compromised forms, whenever the national debt is discussed. There are many who would like to consider the inevitable settlement of the debt as the bookkeeping closure of uncollectable obligations accrued in the past. They feel that a few more intolerable items could be added to the account of the past forty years, so that we could start anew with a clean slate.

The major components of the national debt (HETI VILAGGASZDASAG, 4 August 1990) are the annual budgetary deficits, the state's assumption of guarantee for large extrabudgetary investment projects, and recurring devaluations of the forint vis-a-vis convertible currencies. This is to say, the forint amount of our external national debt will grow or shrink in proportion to changes in exchange rates.

The bulk of the previously accumulated national debt is financed by long-dated mortgage credit, but in recent years it became popular, in fact almost exclusively used, to cover budgetary deficits through open marketing maneuvers or the issuance of short-dated securities. Average interest rates on long-dated mortgage loans are presently under 7 percent, while interest rates on government securities are controlled by the market and may be as high as 23-26 percent. Until now, it was the national budget and the National Institute for Development [AFI] that were the primary (and also, in themselves, the biggest) users of credit issued by the national bank, with about 75 percent of such investments used by the budget. Thus, enterprises were more likely to obtain additional resources through budgetary allocations and, largely, in the form of centrally financed investment projects, than through negotiating loans.

For a long time, no substantial problems arose from the distortions of the complex and, at times, confusing, accountability system prevailing between the national budget and the national bank. In recent years, however, monetary regulations, domestic credit, and pricing policies achieved greater importance. With privatization and the appearance of sovereign local governing units controlling their own properties, we can no longer consider the national debt as merely a technical issue.

Thus, the nation's accumulated indebtedness is a reality, even if there is an external debt behind it (loans obtained by the national bank were used for years to finance the budgetary deficit), and even if it is countered by residential and enterprise savings. This burden should be institutionally distributed, in accordance with rules that would remain consistent in the future, among enterprises, entrepreneurs, local governing agencies, other so-called capital owners, and the population at large. Of course, the distribution of the burden would take place even if the national debt were written off, and we would pretend that the budgetary process could start with a clean slate; but in such a case we could not determine who are the debtors. Similarly, the losses of coalmines, or the obligations of agricultural loans do not disappear by attaching them to the national debt. This simply makes the entire procedure less personal. There are no exact rules on how to handle the loan monies pumped into the economy through the national debt accumulated in the past, or its consequences. However, it is useful to set down a few fundamental principles derived primarily from practical experience.

For example: The interests on the national debt should be adjusted to the whole of the interest system. To put it

in more practical terms, the rate of interest cannot be lower than that charged by the national bank, the so-called refinancing interest rate.

The only account-settling scheme that makes sense is one that "disciplines" the national budget. If, under the burden of high market-dictated interest rates, budgetary outlay is growing, while this money trickles back to the budget in the form of excess profits earned by the national bank, then the state will remain insensitive to market processes.

Losses resulting from fluctuating exchange rates and the devaluation of the forint could be borne by the national bank as well, if, in order to cover these, it creates a risk fund from a portion of the earnings which it would otherwise have to pay to the budget.

It appears rational to establish a connection between privatizing state property and distributing the burden of national debt, because any other course of action could create injustices, in that they may enable individuals to obtain valuable state properties without incurring any liabilities.

In view of the above, it is evident that, in addition to mobilizing foreign resources and existing savings, loans should also be used to aid the privatization of state properties. A form well suited for this purpose would be one in which loans could be used only for privatization, that is, the purchase of properties or portions thereof, and such loans could be obtained only by Hungarian citizens, possibly cooperatives, and specifically defined enterprises. Thus, loans used should not be calculated into the spendable earnings of the national budget; rather, they should immediately be used to reduce interests on the national debt. In this manner, we could keep excess money from turning inflation loose, since immediately after the purchase, these amounts would disappear from the scene, and instead of the state, we would face new (and we hope better) debtors, the entrepreneurs. What is more, the purchased properties would represent mortgage coverage for the loans obtained. With this, the process of privatization would be completed much more rapidly than by relying merely on domestic savings.

Of course, the proposed course is still not free of contradictions. For one thing, privatization based primarily on loans would probably escalate demand, and may even distort and increase the price of properties to be privatized, while at the same time the personal risk of new proprietors would be reduced as their share of loans would increase. Therefore, it appears rational to restrict the proportion of these special loans; moreover, above a certain threshold level we could even state that the special credit scheme could increase its share only if commercial banks and financial institutions were also seeing merit in assuming shared risks in the spheres of interest and capital.

Obviously, the early phases will see numerous unsuccessful undertakings, which would lead to bankruptcy or

the resale of privatized properties at a loss. At the same time, there will be those who will acquire significant capital profits. However, losses will (at least in part) affect the state directly, while gains would contribute to it only later and indirectly, in the form of increased tax revenues. This is why it is advisable to set aside a portion of privatization earnings in the form of a risk fund, which the budget would dedicate to banks that put privatization into practice. However, this proposal can be realized only if all properties are handled in a uniform manner; that is, if wealth owned by local government bodies would also bear a proportional share of the national debt.

This approach would not accommodate the principle of compensation-free reprivatization, that is, a return to the prenationalization status quo. After all, that would not only mean that greater burdens would have to be shifted to the remaining properties; it would also imply sharply differing chances and conditions for obtaining property, and even credit conditions would become uncertain. Aside from the fact that the concepts of property reform, now in the process of hesitant clarification, have other problems (in the legal and taxation spheres), one can sense that political, and at times tactical, considerations take precedence over solutions that are socially as well as economically rational. This has a crippling effect that could hinder the influx of foreign operative capital, and at the same time, it not only endangers the equilibrium of state management, but it also endangers the closely connected issue of improving our external payment position.

#### **Land Ownership: September Public Opinion Poll**

91CH0206A Budapest FIGYELO in Hungarian  
22 Nov 90 p 10

[Article by Gabor Polonyi: "Land Ownership: Few Candidates To Become Small Landholders"]

[Text] The Hungarian Public Opinion Research Institute has dealt with the issues of land property, land ownership, and the transformation of the land ownership system four times already. Surveys were conducted in March and June 1989, and in the summer and early fall of 1990. The last detailed survey was prepared by the Institute in mid September, 1990.

In earlier days, plans to settle the land ownership issue, to partially liquidate agricultural producer cooperatives, and to develop small farming units appeared primarily as an issue of economic rationale waiting to be resolved. In the people's minds, economic rationale served as the basis for the primary approach to this problem. For example, three-fourths of those who last year agreed with the idea that land contributed to, or taken into agricultural producer cooperatives, should be distributed to those who wish to pursue farming, now believe that anyone who wants to receive some of these lands should be able to do so.

#### **Intertwining**

Regarding common land in producer cooperatives, a few believed that only the old owners (or their family members) should receive such property. In this regard, the emphasis shifted in favor of the official recognition of (former) ownership rights. This was accomplished as a result of political factors, primarily the agricultural program of the Independent Smallholders Party [FKgP], and within that, the FKgP's unwavering insistence on restoring 1947 ownership conditions. In the public mind, the land issue became intertwined with the FKgP's name because legal rehabilitation and indemnification of former land owners was at the center of that party's election strategy.

#### **The Majority**

An overwhelming majority of the survey population recognized that the old owners had a just claim. These respondents considered the reclaiming of formerly privately owned land to be well founded. Sixty-one percent of the survey population supported the idea that land owned or used by producer cooperatives should be returned to the former owners, if they wanted their land returned. Twenty-three percent of the persons asked took the opposite view, while 15 percent were unable to respond to this question.

While a majority accepted the idea that former owners (and their heirs) must be provided with opportunities to make decisions as to whether they wish to establish claims for property taken away from them illegally or by force, respondents also felt a need to incorporate certain restrictive elements into the pending legislation. We offered three alternative solutions. As long as real property is returned, most people chose the solution of returning the land only to those who commit themselves to cultivate the land. Seventy-two percent of the respondents answered in this sense.

Accordingly, the requirement to have an obligation to manage and to cultivate is rather strong, and if the decision was to be made by the respondents, they would primarily fulfill claims established by those who would indeed engage in farming. Only 9 percent of the respondents believed that no barrier whatsoever should be established, and that former owners (claimants) should have their land property returned automatically. Fourteen percent of the respondents chose the alternative of indemnifying and compensating former owners, while 5 percent were unable to decide or to respond to the question.

#### **Division**

Many respondents did not support the idea of returning land because they felt that the planned work performed by producer cooperatives would be rendered impossible as a result of dividing large plant operations. By no coincidence, the public draws a line between profitable producer cooperatives and cooperatives which constitute loss operations. In June, sixty-three percent, and in

September, fifty-six percent of the respondents said that well managed cooperatives should not have to return land property. Only thirty-one percent and thirty-seven percent of the respondents within the respective surveys stated that even in cases of well-managed cooperatives, ownership rights should receive consideration, and that cooperatives should be obligated to return land.

The public is highly divided on the extent to which the intent to improve the standards of agricultural production play a role in proclaiming the restoration of 1947 land ownership conditions. In September, forty-nine percent of the survey population felt that improving agricultural production efficiency is part of the declared purposes of land settlement, while forty-four percent denied this assertion.

### The Threat

In this instance, the manner in which views are formed is influenced by several factors. On the one hand, the question of whether the people are dealing with an actually existing endeavor is being raised, because undeniably, this argument is frequently raised in debates. On the other hand, the various respondents attribute a varying extent of realism to this issue. Most certainly, these two elements are strongly mixed in the answers.

In any event, small changes may be detected during the past few months. Today, fewer people believe that the intent of restoring the 1947 conditions is to boost the operations of the agricultural sector.

There is no general agreement as to the consequences of adopting the land law, as was proposed by the FKGP. In our latest survey, fifty-three percent of the respondents believed that appropriate food supplies for the populace would be endangered as a result of reprivatizing land, while somewhat fewer individuals, forty percent, held the opposite view. Also, in this respect one may sense a small shift in opinion. The ratio of those concerned increased somewhat during the past three months.

What would the restoration of 1947 land ownership conditions mean, in your view?

Answer	(Percentage of Respondents)	
	Jun 1990	Sep 1990
The attitude of agricultural workers is improving	48	42
Food supplies will be endangered shortly	43	53
The Independent Smallholders Party wanted to win as many votes as possible	65	69
They want to improve the standard of performance in agricultural production	57	49
They want to do justice to the peasants	53	48

Many people are directly affected by the reprivatization of land. This group consists of people who presently

work in the agricultural field, in cooperatives on the one hand, and previous owners and their descendants, on the other. It is difficult to accurately determine the overlap between these two groups, and by the same token, the extent to which these two groups are separate. In June many—but not a majority—felt that changing ownership conditions would also sound the death knell for the cooperative movement. On the other hand, a substantially larger number of respondents were certain that a significant part of producer cooperative employees would be left without work as a result of changing ownership conditions.

### The One Who Cultivates the Land

It is worthwhile to examine the other group composed of former owners and their heirs. A relatively large number of those asked (fifty-eight percent) count on the fact that the old owners will acquire an unfair advantage if their land is returned, and if subsequently, they lease or sell that land. Most likely one cannot rule out the possibility that many would try to secure income this way, but our data shows that a substantial majority (sixty-eight percent) of those who lay claim for their previous property agree with the idea that only those who are willing to cultivate that land should have their land returned. True, within this group a stronger than average of twenty-four percent holds the view that no restriction of any kind is needed.

Sixty-two percent of the survey population said that they, or to their knowledge, their families, owned land in 1947, after the war. This relatively high ratio indicates that in theory, following a full-scale land settlement, very many people could establish claims for indemnification and restitution, or could demand the return of their illegally expropriated estates. Only thirty-five percent of the survey population said that their families owned no land after the war. Lacking appropriate information, three percent were unable to respond to this question.

Understandably, the largest number of those able to "show" land ownership consisted of villagers, and persons with low levels of education. But considering the social and economic changes that took place during the past 40 years, it is not surprising that roughly every second city resident and member of the educated strata is able to present a report concerning personally owned estate.

### Those Who Return

We also inquired of persons claiming to own land as to what they intend to do with their real property. The survey shows that twenty-eight percent of persons entitled to file claims have not made up their minds, while a majority (seventy-two percent) apparently had something definite in mind. Accordingly, at present, only

fifteen percent of the respondent (nine percent of all respondents) land owners would seek the return of the family estate. As compared to the average, a larger ratio of members of the younger age group—the potential heirs—would like to have their land returned, and even within this group the largest group is undecided.

Among the owners (family members) who have already made a decision as to what to do, a substantial majority (fifty-seven percent) decided not to reclaim the land. The ratio of persons wanting to surrender their property is high among members of the older generation. Almost three-fourths of people 60 years or older, in the retirement age, do not wish to reclaim their estates which were made part of state farms or cooperatives.

## POLAND

### Gas: Reduced Soviet Supplies, Potential Suppliers

91EP0129A Szczecin GLOS SZCZECINSKI in Polish  
12 Nov 90 p 3

[Interview with Mieczyslaw Kaczmarczyk, director general of Polish Oil and Gas Board, by Anna Wawrzycka; place and date not given]

[Text] [Wawrzycka] Reports on the markedly deteriorating situation in the fuel industry of the Soviet Union, with the attendant tightening of oil and gas allocations to Poland, among others, have come to sound ominous. It is customary in the case of oil, it has always been in short supply, but a shortage of gas is new.

[Kaczmarczyk] Difficulties with gas have been occurring for some time. After all, as early as June of last year, I imposed a ban on the addition of new gas consumers and a ban on issuing more permits because negotiations with the Soviet Union, conducted still by the previous government, suggested a drop in deliveries.

At the time, our decision makers determined that the people over there cannot or do not want to give us [the amount of gas required], and...this was the end of it. At the time, a very serious situation developed because gas is not like oil which can always be purchased somewhere as long as you have money. As we say, when it comes to gas you "hang on the pipeline," and switching to different sources of import requires at least a couple of years.

The only thing that saved us was the fact that industry reduced gas consumption due to a recession and a drop in production.

[Wawrzycka] Individual consumers were not affected by the shortage. Is this going to be the case in the future as well?

[Kaczmarczyk] The populace will definitely not suffer due to various restrictions. [The gas supply] to households and municipal facilities will not be turned off, even if we have to deprive a segment of industry of its

deliveries. Our self-sufficiency in this sphere provides a guarantee. Our domestic production will suffice to meet the needs of the people.

[Wawrzycka] We produce 5.5 billion cubic meters....

[Kaczmarczyk] No, at present it is less than 5 billion cubic meters, but the needs of the populace are still 1 billion cubic meters less than that.

However, we should also keep industry in mind, the production of fertilizer, the chemical industry, green-houses....

We assumed that next year we should import 8 billion cubic meters of gas from the Soviet Union in order to meet demand, given no increase in domestic production (because realistically it cannot be increased overnight). However, it turns out now that even after the latest negotiations with Minister Skubiszewski, the Russians will give us 5.2 billion cubic meters. The Yugoslavs will give us somewhere around 1 billion cubic meters, and...we will be "just" 2 billion short. However, this "just" means that we will have to discontinue deliveries to one industry or another.

[Wawrzycka] How is this possible? After all, we sign agreements for the delivery of strategic raw materials, such as oil and gas, well in advance. We have signed bilateral contracts with the Soviet side on trade in fuels and raw materials. We built our strategy and based our plans on this. Could it be that all of these settlements were not binding?

[Kaczmarczyk] These have always been merely cooperation negotiations and contracts, so-called statements of intent [agreement-porozumienie]. These have never been commercial contracts of the type the Soviet Union has signed with Western countries.

[Wawrzycka] In order to make it easier to withdraw from them?

[Kaczmarczyk] Indeed. There is no contract, there are no consequences. We must admit that when the Russians sign a contract they always comply with it. This is shown by our annual contracts which have always been fulfilled, as well as contracts with the West which they do not question.

[Wawrzycka] In other words, it is our own fault. What do you mean by saying that Yugoslavia will help us out; after all, we do not have a gas pipeline connecting us with that country?

[Kaczmarczyk] This has to do with reexporting gas, which is to say that gas will come to us from the Soviet Union through the same pipeline as the gas earmarked for us, the difference being that deliveries will be made for the account of contracts which the Russians have with Yugoslavia. However, the point is that the supplier must consent to reexports.



[Wawrzycka] I understand that the supplier has consented, right?

[Kaczmarczyk] This is not entirely clear at this point, but negotiations with Yugoslavia suggest that the supplier has.

[Wawrzycka] Since we cannot be self-sufficient, and the recent dislocations have shown everyone what dangers the dependence on just one importer is fraught with, at the very least are we doing anything in order to change this situation in the future?

[Kaczmarczyk] We are. I would say we finally are. We have been talking for years about the need to ensure gas supplies for the country from a couple of directions; now they are beginning to listen to us. It has been definitively resolved that we are going to look for other sources of gas imports. This is not to say that we can afford to let go of Soviet deliveries. The USSR is the largest producer; almost 40 percent of world reserves are located in its territory; on top of this, it is a neighbor with whom we are already connected by pipeline. Therefore, it is beside the point to ponder whether we like it or not. Besides, diversification in imports is not based on switching from one supplier to another but on adding still other partners in case of need.

[Wawrzycka] Specifically, to whom are we talking?

[Kaczmarczyk] We have negotiated with Norway concerning our purchases. However, it is not simple. The Norwegians do not treat Poland as the only buyer. We have also talked to Germany, which is a major buyer and transporter of gas, and is also interested in deliveries from Norway. We have tried negotiating with Algeria. However, we would have to transport gas from there in liquefied form, by tanker. In this case, terminals for liquefaction and decompression would have to be built. The construction of such terminals or gas pipelines is not an investment project that lasts a year or two....

[Wawrzycka] So much for imports. What about domestic production? After all, it is possible to increase it.

[Kaczmarczyk] At present, we primarily bank on increasing production at existing fields. This is the fastest way to secure additional quantities of gas. We have completed the process of negotiating loans. We have been granted loans. We are now beginning to purchase equipment and take bids for performing work.

[Wawrzycka] Have you stepped up prospecting for deposits in the long run?

[Kaczmarczyk] No, at present we are doing the amount of prospecting we did before, despite the fact that there are many foreign companies which would like to take part in it. We are awaiting geological legislation which is being written now. It will determine who can be granted concessions. Only after that will it become possible to conduct more extensive and significant negotiations with foreign partners.

[Wawrzycka] In light of this, by how much can domestic production increase in the immediate future?

[Kaczmarczyk] If we succeeded in tapping all reserves we could increase gas production by about 0.5 billion cubic meters, which would be a perceptible [addition] to the balance nonetheless.

### **Draft of Privatization Program Presented**

*91EP0146A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 21 Nov 90 p 1*

[Article by K. B.: "The Program for Accelerating Privatization: Different Roads, Common Goal"]

[Text] The Ministry of Ownership Transformations has drafted a government program for privatizing the Polish economy. The program concerns next year and the subsequent years. It discusses proposed approaches to the privatization of enterprises and defines the rules for stock purchases and the role of the related financial institutions. It presents deadlines and figures. Below follows a discussion of this draft program.

**Assumptions of Government Policy.** An effective restructuring of the Polish economy requires a rapid rate of privatization. To this end, both conventional (worldwide) selling techniques and new methods for privatization, partially based on gratis distribution of stock, will be employed. Adapting the Polish ownership structure to that existing in West Europe should be accomplished within five years. One-half of the value of state property should be transferred to private ownership as soon as within the next three years.

The privatization strategy consists in diversifying the approaches to the privatization of different kinds of enterprises. The basic dividing line is between the approximately 500 largest enterprises (in terms of volume of sales), which require a differentiated ownership structure, and the medium and small enterprises (2,500 industrial enterprises and about 3,000 others), which could be sold intact or in separate parts to individual buyers.

**Mass Privatization of (4,500) Large Enterprises.** The shortage of capital requires applying various methods ranging from stock sales to making stock available on convenient terms. The initial step would be commercialization in several stages, namely: filing an application with the Ministry of Ownership Transformations; capitalization according to the book value specified in the closing balance; designation of members of the supervising council (with two-thirds representing the State Treasury and one-third the employees); and registering the company with the Commercial Registry.

The government proposes that, once the new company is registered with the Commercial Registry, its employees receive gratis from the State Treasury 10 percent of stock in that company. Pursuant to law, employees are entitled to 20 percent of stock at one-half of its par value (or not



more than the equivalent of a year's wages paid in the state sector). The problem is that during mass privatization the par value of stock may be fixed tardily. A gratis allocation of 10 percent of stock corresponds to the purchase of 20 percent of stock at half price, as envisaged in the privatization law. An advantage of gratis allocation of stock is that it immediately transfers to employee shareholders in their enterprises without having to wait until the par value of the stock is determined. In the presence of mass privatization there will be a delay in determining that par value. Once stock is issued and made available to individual investors, employees will be able to buy additional stock at the price offered to other buyers. In the opinion of the Ministry of Ownership Transformations, this approach makes possible a rapid commercialization of enterprises combined with the distribution of their stock to employees.

The next step would be the issuance of coupons for the purchase of Treasury-owned stock. Thirty percent of stock in large enterprises privatized by the mass method in 1991 will be transferred to public ownership in the form of such privatization coupons. The draft program proposes that in 1991 every citizen be given a privatization coupon with a nominal value of 1,000,000 zlotys. The owners will be able to utilize such coupons to purchase stock in a desired mutual fund (with such institutional middlemen yet to be formed). Owing to the attendant differentiation of the stock portfolio, the risk to the private buyer will be minimized. Mutual funds are to purchase stock at auctions, which will safeguard their mutual competition. As stock purchasers, mutual funds will influence the management of enterprises.

According to the proposals of the Ministry of Ownership Transformations, such mutual funds are at first to be closed-end, and the citizens who will be their stockholders would receive dividends as well as income from stock sales in proportion to the shares they own in the mutual fund. Individual mutual-fund shareholders would be able to sell their shares in consonance with the provisions of the Securities Law.

It is proposed that 20 percent of stock in enterprises be transferred to the ZUS [Social Security Agency] in the form of privatization coupons. The ZUS will entrust them to financial middlemen or to the private pension funds which also are yet to be established. The income from these investments would serve to reduce pension payments directly from the State Budget.

Ten percent of stock, also in the form of privatization coupons, is to be transferred to the ownership of commercial banks, which also could purchase stock through investment funds.

As envisaged in the draft program, the enterprises concerned will be commercialized and hence prepared for sale of stock in exchange for the privatization coupons during the first half of 1991. The distribution of the coupons and their exchange for stock is scheduled for the second half of 1991. In this way it is expected that, in the

course of 1991, 70 percent of stock in about 150-200 state enterprises would cease to be owned by the State Treasury, without resorting to traditional methods and without using cash. The remaining 30 percent of stock in privatized enterprises would be administered by active mutual funds (incentive for forming them, participation of State Treasury representatives in governing boards [of enterprises] [as published]).

The timetable for the mass privatization of (those 500) large enterprises in 1991 would thus altogether look as follows: commercialization of about 300 enterprises (and in 1992 of the remainder), along with privatization of 150-200 enterprises. By the end of 1993, more than one-half of state-owned assets of 450 largest enterprises would be in private hands, and all the enterprises in that group would by then have a corporate structure.

**Individual Privatization of Large Enterprises.** The mass privatization plan outlined above does not preclude employing traditional methods with respect to large enterprises, that is, selling them at the value appraised by domestic and foreign experts. This group will include enterprises with their own privatization programs as well as enterprises whose survival hinges on a substantial influx of foreign technologies. Loans will be granted to investors.

**Small and Medium Enterprises.** [These comprise] altogether about 5,500. The scale of the task requires decentralization. The privatization of these enterprises is to take place through the mediation of their parent agencies as well as of regional agencies authorized by the Ministry of Ownership Transformations. Two possible approaches are: conversion to a one-person company of the State Treasury or liquidation.

The first, the conversion to a private company is to occur in accordance with law. The stock or shares may be owned by physical persons (or their groups) or by discrete private domestic and foreign companies. Employees will be entitled to buy stock on preferential principles. Stock or shares will be made available either through publicly announced bids, offers, or as through negotiations undertaken on the basis of a public invitation. Special loan programs are to be of assistance in buying stock.

The other approach is [privatization through] liquidation. The draft program provides for three admissible forms of selling an entire industry or its organized parts: sale; contribution of shares to a company; or leasing of rights or property (with transfer of ownership) to a company formed by physical persons who include employees. The buyers may be both domestic and foreign private investors as well as companies formed by physical persons who include employees.

Here it should be added that privatization by means of liquidation is, pursuant to the privatization law, admissible only in cases where the economic performance of enterprises is good. The liquidation of poorly managed

and financially underperforming—e.g., not paying dividends—enterprises must be accomplished pursuant to the Law on State Enterprises. The premises and procedure for liquidation are similar in both cases, but in the case of poorly performing enterprises there is no mention of making their assets available for paid utilization.

**Cooperatives.** The current legal status of cooperatives is such that the initiation and implementation of ownership transformations is almost impossible. Changes in legislation are needed. The Ministry of Ownership Transformations will attempt to bring about revisions in the related laws so as to make it possible to transform cooperatives into companies governed by the commercial law code.

**Municipal Property.** This is a separate category of ownership. Hence, also, all that is possible is to provide consultation and implement objectives recommended by local governments. This can be accomplished, however, only by means of individual agreements between the Ministry of Ownership Transformations and local governments. It is expected that the Ministry will develop jointly with the government representative for local government affairs a common policy to counteract unjustified transfers of state enterprises to ownership by local governments.

**Mutual Funds.** The rise and growth of these financial mediating institutions are to be, according to the draft program, a crucial element of the institutional infrastructure for the privatization of the Polish economy. Mutual associations and mutual funds will reduce investment risks and assure professional management of stock portfolios. But their establishment requires a prior laying of legal foundations.

Mutual funds will have the form of either joint-stock companies or trust funds. Their shareholders will include capital, both domestic—private or that of banking and insurance institutions and pension funds—and foreign. The draft program envisages energetic measures by the government to promote the formation of private mutual funds. Preliminary talks with foreign financial institutions indicate their interest in forming such mutual funds in Poland. Support by international financial institutions can be expected.

**The Stock Exchange.** We have already written a great deal on this subject. As already known, for example, the future Warsaw stock exchange will model itself on the Lyons bourse. It is expected that a joint-stock company of the State Treasury bearing the name of Warsaw (Polish) Stock Exchange will be formally registered by April 1991, a building to house it will be obtained, and personnel training will be initiated. Toward the end of 1990 and beginning of 1991, a provisional system for recording transactions in the stock of the first privatized enterprises and clearing the related accounts is scheduled to start operating.

### Sociologist on Exploitation, Subjugation of Silesia

91EP0130A Katowice TRYBUNA SLASKA in Polish  
23 Nov 90 p 3

[Interview with Wladyslaw Jacher, director, Institute of Sociology, Silesian University in Katowice, by Anna Wozniak; place and date not given: "If They Live, It Is Not That Bad"]

[Text] [Wozniak] The expression "internal colonization" is found in a study commissioned by the Katowice voivode and prepared by a group of sociologists from the Silesian University. This sounds threatening; what does it mean?

[Jacher] We used this expression in an official document for the first time. Dr. Wojciech Blasiak invented the notion of "internal colonization." It appeared some time ago. However, as an apparently bad-sounding and unprintable expression, it could not find its way into the official language. What does it mean? It is basically an analog of the word "colonization," which, as is known, means subjugation and political, economic, cultural, and social exploitation of one state or people by others. In our specific case, at issue is a similar dependence of one region on external conditions, on the decisions of the center. This notion describes the actual state of affairs whereby Silesia is relegated to the role of a raw-material appendage of the economy of our country.

[Wozniak] Older Silesians maintain that this began in the year 1945 when trains with coal for the capital city left from here, as well as other trains with equipment from factories carried off by the liberating army.

[Jacher] These were outward signs. The issue needs to be looked at in more depth. This is the result of an erroneous concept of industrialization in our country. Relegating Silesia to the position on the relative economic periphery was the outcome of this policy because considerable wealth was found here which they drew on without giving anything in return. In the 1970's, this assumed an altogether alarming proportion and forms which later changed into precisely this stage of internal colonization. This included Silesia being degraded from the economic, ecological, social, and cultural points of view, and even from the political point of view if we recall the bringing of [the names of new leaders of] the authorities in briefcases [from Warsaw] and the removal of the local people from power. In this manner, the strategy of development of the Polish People's Republic and political factors reduced the region to the role of a fuel and raw-material appendage of our country's extensive economy.

[Wozniak] Can we consider this degradation intentional?

[Jacher] It undoubtedly resulted from the fact that the decision makers of this time had only one vision of Poland, an economic-technical one. In keeping with this concept, the region was increasingly exploited while less

and less was done for it in human dimensions. From 1970 on, new industrial investment projects were sited here, which brought about the superconcentration on a "single-crop" industrial economy serving primarily mining, the iron and steel industry, and power generation. For their part, the people were forgotten. One of the ministers of mining at the time said: The greatest wealth of this land is what is under the surface, not on it. Coal has gotten an upper hand over people. This point of view also brought about the four-brigade system of work in mining based on exploiting, as much as possible, the people who were treated as mere instruments. It also brought about mining being treated as the only economic valve for rescuing the decaying economy. The region was and still is economically drained in this manner in three spheres: structural, distributive, and social.

A structural drain means that a centrally managed economic surplus generated in the region did not and does not return to the region in the form of investment which would upgrade technical standards, change life, and so on. A rich region became a poor one. This is where outlays for education, health care, and municipal facilities are the lowest. Out of Katowice Voivodship's 29.5 trillion zlotys revenue, 25 trillion end up in the Central Budget. Let me recall that in 1937, 46 percent of the generated funds was retained in Silesia!

In addition to this, we see a distributive drain. In essence, the fuel and energy complex shifts the cost of operation to the local environment, sometimes in an open and sometimes in a hidden manner. For example, the infrastructure of the cities services the giants of mining, and gets only one benefit in return...mining damage, that is. This has caused a self-induced blockage of development in the region.

A social drain is the third misfortune. There is no compensation for the difficult conditions of work and life; the greatest price to pay for this is the fact that, on the average, we live three years less.

[Wozniak] Is money an issue?

[Jacher] Yes, it is also an issue. I offer a comparison. Last year, expenditures of the Central Budget per capita amounted to 105,000 zlotys; in Katowice Voivodship, 95,000 zlotys; in Warsaw Voivodship, 166,000; and in Krakow, 114,000. The average outlay in the country, for example, for road and communications maintenance is 407,000 zlotys per capita, and here [Katowice] it is 332,000 zlotys, whereas in Warsaw 997,000 zlotys and in Krakow 1,930,000 zlotys. As a matter of fact, this is exactly how it is in all fields. Social and cultural marginalization is the outcome of it.

[Wozniak] Therefore, the still lingering myth of a "Silesian Eldorado" has come to an end?

[Jacher] This myth was eagerly promoted by Warsaw and other regions. It was never given credence here because the people knew how they lived. The truth is that this opinion prevails in our country: "If they live, it is not all that bad."

However, here, on site, it is difficult to pretend that there is no frustration. If this is not enough, we are even registering a certain ethnic erosion. Minority groups are mushrooming that are looking for their reference points beyond the borders of our country. A certain Germanization element has sprung up. Do not get me wrong. I have nothing against German, Czech, or Belorussian minority groups; however, certain chauvinism against the background of Germanization is disturbing. Others also see it. The relegation of Silesia to the status of periphery also feeds emigration, especially of young people. Unfortunately, topflight specialists also leave, and not necessarily for foreign countries but for locations where the sky is clear and one breathes easily. There is also the other side of this coin: Fewer and fewer highly skilled individuals come to Silesia. Therefore, this is a process of negative selection which has caused us to face not only an ecological catastrophe but also a social one. This process may bring about the biological and cultural extinction of the region if it is not slowed down. In order to diagnose the situation, an industrial restructuring project was established, which includes the voivodship scientific centers of the Silesian University, the Economic Academy, and the Technical University of Silesia.

[Wozniak] Restructuring is virtually a catchall word. Specifically, what does it stand for?

[Jacher] In the most general terms, it is to be based on changing the existing mode of production and behavior of leading industries and introducing economically and humanly efficient technologies which will make it possible to live and be happy with life. After all, the "single-crop" nature of industry in this region has caused a certain flattening of aspirations in life and the educational level. This is shown by the fact that only 5.5 percent of the residents of Katowice Voivodship have a higher education, 38 percent have an elementary education, and 7.1 percent have an incomplete elementary education. In addition, even these skimpily trained cadres are distributed badly. Forty-one percent of our research cadres service mining, 23 percent service the machine-building industry, and 17 percent service the iron and steel industry. That is to say, 81 percent of the intellectual potential support raw-material industries, and only 19 percent serve the sphere of life. At the same time, the so-called tertiary sector—services which are an indicator of the standard of civilization—employs about [30?—passage illegible] percent of the people whereas nationwide this statistic exceeds [54?—passage illegible] percent. Therefore, we may confidently mention a lower level of aspirations. Due to all of this, the prospects for restructuring are not clear. It may proceed efficiently provided that we accomplish the restructuring of the mind before we do that of industry. Mentality must change, and therefore, the fuel and industrial lobby must yield. The mode of making decisions should also change, precisely to this end. They should not be made in ministries and central offices but rather in the midst of local, regional communities, because these are creative

forces. Major industries which claim 80 percent of the means and resources will themselves impede progress until they begin to think in terms of a market economy.

[Wozniak] However, it is not just the bureaucracy of major industries that the lobby is comprised of. After all, it also includes an army of thousands of workers who are accustomed to a particular conduct.

[Jacher] This is what the situation is. We have a top layer of industrial bureaucracy and at the opposite pole, workers from the same industrial arrangement. However, there is no middle class, a stratum which is supposed to be a horse in the team. We also lack experienced self-government and regional functionaries. In view of this, we should bank on social motivation. The awareness of degradation may become a mobilizing force and an engine of change. This is why we need to talk aloud and plainly about issues which oppress the region. We should be aware of dangers here, at the grassroots if I may say so, because then we will have the energy to make changes, hopefully, with the understanding of the entire Poland.

[Wozniak] One final question: Are you a Silesian?

[Jacher] No, I come from another area. However, for many years now, I have felt bound to Silesia forever. I look at the issues of Silesia soberly, but not indifferently. My bitter and sad observations and remarks are a result of understanding the problem rather than chauvinism.

[Wozniak] Thank you for the interview.

## YUGOSLAVIA

### Hard Currency Deficit Hinders Electronics Imports

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[Unattributed article: "Yugoslavia: Hard Currency Deficit Hinders Electronics Imports"]

[Text] Slovenia's Electronics Fair, the 37th "Sodobna elektronika" in Ljubljana (1-5 October 1990), took place in the shadow of growing uncertainty over the future of the Yugoslavian federation. It once again found increased international encouragement and was able to further develop in the direction of a trade fair for professional electronics.

The fair sections are concentrated on component vendors (37 percent), professional electronics (25 percent) and telecommunications (12 percent). Along with voice communications, the computer branch is broken out separately this year. The latter will be offered a new forum with the second part of the "Alps-Adriatic Regional Association" Spring Fair (from 9 to 11 April 1991), which will also be held in Ljubljana.

A change in thinking here is recognizable which could also color the character of the electronics fair if the

Yugoslavian federation does not, in the midterm, have the same form as it does now. Already by 1990, the southern portion of Yugoslavia had a smaller presence than usual.

A few exhibitors are preparing to appear also at the Machinery Exhibition in Belgrade in mid-May. In the meantime, large Yugoslavian firms are expanding their exhibits with their own "presentation conferences" at important domestic locations.

Actual events did not justify the media's focus on the conflict over Slovenia's drive towards independence at precisely the time of the Exhibition. The normal passivity prevailed at the scene. The work on the "Slovenian Way" is proceeding uninterrupted, whereby in the meantime the Slovenian economics chamber is no longer ruling out the introduction of its own currency "as a last resort."

Of the 424 foreign exhibitors, once again the greatest number came from Germany (137, in 1989 it was 136). The presence by firms from the neighboring country of Austria has increased significantly (from 48 to 82 participants). The USA has moved forward to number three, because less participation was reported from Switzerland. The fact that only 26 exhibitors were represented from Italy also serves to underscore the trend here that German producers of capital goods are in demand, while the Italians are leading above all in consumer goods.

### Great Imports Backlog

The liberalization in imports has not rejuvenated the introduction of professional electronics. It is currently standing still, after having been characterized for years by the fight over import rights, in the shadow of widespread dinar illiquidity and the absence of economically feasible investment programs.

No balance in the import backlog for passive and active components can be expected in the short term. This backlog had piled up after the drop in the mid-1980's. In the midterm, viable projects in the field of automated printed circuitry board production are foreseen. The vendors of transmission tubes (10 to 500 kW [kilowatt] power) report a sustained constant demand. Consignment trade still has major significance here, even with 90 percent decontrol of all imported goods.

In the telecommunications sector, foreign joint ventures were also worthy of notice this year. After the start-up difficulties at IskraTel in Kranj (Slovenia) could be overcome with German assistance, the competitive project, Alcatel's entry into the market via EI [Electronic Equipment Factory]-Nis (Serbia), continued to be delayed.

Yugoslavia is planned in both joint ventures as the production site for supplying the Soviet market. Initially, EI is not following the related foreign recommendations

regarding programs to build up domestic relay production based on Alcatel know-how. EI did sign a joint venture contract in the Summer of 1990 with a German company for the production of digital multiplexers and line systems as well as microwave technology.

EI has 62 percent participation (the German participation is 33 percent). As could be learned at the exhibition, import liberalization has equally well dampened general interest in joint ventures. And so Hewlett Packard is initially "letting rest" an agreement introduced before the beginning of 1990.

The use of electronic measuring and monitoring equipment is stagnant in Yugoslavia. Midterm growing

demand for improvements in telecommunications is expected. Not only carrier frequency measuring equipment, but also modulation equipment is in demand. Foreign sales are being prepared for remote action facilities (for monitoring the natural gas network under construction).

The Yugoslav electronics sector reports a wave of "setting up new businesses." In any case, the chamber of commerce indicates that there has not yet been any effect on the labor market. In the production sector, there are almost never any truly new businesses founded. Questions connected with this are at the center of a proposal for the updating of the law on enterprises.