

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N° 35
COPY

ORIGINAL: ENGLISH
3rd April, 1969

NATO CONFIDENTIAL
DOCUMENT
AC/89-D/62(Draft)
Limited Distribution

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF RUMANIA

Record of the meeting held on Thursday, 20th March, 1969

Note by the Chairman

In accordance with the decision of the Sub-Committee(1), the Economic Directorate has prepared the attached draft record of the meeting held on 20th March and devoted to the examination of the economic situation in Rumania. It is herewith circulated to the participants of this meeting.

2. Should those who took part in the discussion wish to propose amendments to this draft, they are invited to send them to the International Secretariat before 1st May, 1969.

(Signed) A. VINCENT

OTAN/NATO,
Brussels, 39.

(1) AC/89-R/109, Item I (6)

NATO CONFIDENTIAL

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC DEVELOPMENT IN RUMANIA

Report of the meeting on 20th March, 1969

The CHAIRMAN welcomed the experts present, as follows:

Miss Van Snellenberg, Bureau of Special Studies,
Ministry of Foreign Affairs, Ottawa.

Colonel Hochart, Ministry of Defence, Paris.

Mr. Von Kameke, Commercial Attaché at the German
Embassy, Bucharest.

Mr. D. Chamberlain, Ministry of Defence, London.

Miss A.M. Cary, Ministry of Defence, London.

Mr. Erwin Schiffman, Commercial Councillor at the
American Embassy, Bucharest.

2. He recalled that in the studies of the Communist economies members of the Alliance had always been prompted by special considerations: in the initial phase there had been the question of deciding to what extent they might succeed in loosening the links between the countries of Eastern Europe and the Soviet Union; in the subsequent period, in which there was a degree of détente they tried to follow the economic development of these countries and in particular the meaning of the economic reforms; when, after the events of Czechoslovakia, the political situation had become more uncertain, attention was directed to the vulnerability of certain countries to economic pressures which could be exerted by the Warsaw Pact countries, and to the means available to the West of helping the victims. Measures to counter possible aggression have also been envisaged so that it might be as well to identify the weak points in the economies of East European countries.

3. In this respect, Rumania is a special case, the examination of which presents topical interest. In view of the note submitted by the Canadian Delegation (AC/89-WP/269), the CHAIRMAN invited Miss VAN SNELLENBERG, the expert of the reporting country, to start the discussion by bringing out the most important points of the paper.

4. Miss VAN SNELLENBERG opened by drawing attention to the sharp rise in the birth rate during the last two years following legislation recently adopted to promote demographic expansion, and pointed out that this trend was likely to slow down. The standard of living is very low as a very large share of resources is allocated to the programme of rapid industrialisation. Agriculture employs 60% of the labour force (itself

about 60% of the population) and accounts for about 30% of the national income; Rumania is self-sufficient in agricultural products and even has a surplus for export, which contributes largely to the country's earnings of hard currency. Because of the low priority given to agriculture in national development plans, investment in agriculture is inadequate; the net investment is stationary or is even declining, as a growing share of the new material is devoted to replacement. The serious drought which occurred in 1968 resulted in a fall in production, especially of cereals. Industrial expansion has been very rapid (13.2% in 1967); in fact the rate of growth is among the highest in the world; despite a certain slowing down (11.6% in 1968) it seems likely to continue very high. The transformation of an essentially agricultural economy to an industrial one is not yet complete. Industrial development is based on the chemical and engineering industries and on those which provide the necessary support.

5. Rumania, a small nation commercially and closely tied to the Communist group until 1960, has succeeded up to a point in freeing itself from extreme dependence on its commercial partners in COMECON. It seems likely, however, that the share of Western countries in Rumanian trade will decline over the next few years as the imports from the West envisaged in the five-year plan 1966-70 (one milliard dollars of industrial equipment) have almost entirely been effected (\$900 million in 1966-68), unless indeed Rumania decides to take advantage of the current liberal attitude of the West as regards credits so as to buy equipment now which will be needed in the future. Rumanian indebtedness is very heavy and the balance of payments with hard currency countries will largely depend on her ability to switch from the rôle of purchaser to that of vendor on world markets. Although economic sanctions against Rumania are unlikely, various forms of pressure could be exerted (e.g. delays in deliveries or a tendency to drag out commercial negotiations) which could create problems in certain industrial sectors, especially as regards the hydro-electric Iron Gates scheme or the iron and steel combine at Galati.

6. Rumania has taken up economic reforms late in the day; she was less prompted to do so than the other East European countries, her industrial rate of expansion being consistently rapid over the last decade. Unlike what is happening in Czechoslovakia, the reforms envisaged in Rumania, which will only come into force in 1970, will maintain central management of the economy; the creation of "industrial centrals" which will group the enterprises of a region or several industries, are the most important new element in this programme. Certain changes in prices will be made, which, however, will still be fixed centrally, and also in the wage structure, so as to stimulate labour efficiency.

7. The essential characteristic of growth strategy in Rumania is rapid industrialisation; in the long run this seems a sensible programme in so far as special efforts have been made to develop industries based on national resources and to improve the quality of products so as to make them more competitive on Western markets.

8. Mr. VON KAMEKE, while agreeing on the whole with what the CANADIAN Representative said, pointed out that the whole of the Rumanian economy is dominated by industrialisation. Although the concept is certainly justified, he wondered whether the way in which it was carried out was sensible and it appeared to him that the aims of this programme are ambitious to a degree. If Rumania wishes to improve living standards and to achieve more economic independence, the rate of industrialisation should be less rapid so as to minimise the difficulties and avoid foreign indebtedness. It would perhaps be wiser to delay somewhat the realisation of a certain number of objectives. In particular, considerable investments have been made in mechanical engineering, although the latter presupposes a certain level of industrialisation which in fact has not been attained in Rumania. In this context Mr. VON KAMEKE referred to certain personal experiences illustrating the deficiencies in the training of personnel and the maintenance of equipment; he quoted in particular the case of a very modern artificial fibre factory, where production was stopped because no one had understood that it was necessary to clean the machines. He thought that further facts could be cited as regards the requirements of energy which grow as industrialisation proceeds. In this respect he called attention to a study which appeared in July 1968 in the review "Probleme Economice" from which it appears that the Rumanian economy is already dependent, and will become more and more so, on new sources of energy such as atomic power and imported petroleum; Rumania is currently negotiating with France and Canada for the construction of an atomic power station. It also seemed to him that the Rumanian economy was more vulnerable than a reading of the Canadian note would lead one to believe. In this respect it would be useful to provide some information as regards the transport sector, and to point out that the inadequacy of harbour installations would make it impossible to replace imports arriving by rail from the Soviet Union by items coming by sea (iron ore); the dependence of Rumania on socialist countries for imports of ore and of coal was likely to increase with the development of the iron and steel industry. In this connection it is useful to recall that the Galati complex will be fully working in two years. There is the same sort of dependence in respect of exports; this applies particularly to the output of the metallurgical industry - certain products such as diesel locomotives would not find buyers in the West - but also to consumer goods: 80% of shoes exported, 93% of textiles, 97% of furniture, are sold in Communist countries, especially the Soviet Union.

9. Mr. CHAMBERLAIN, while paying tribute to the Canadian paper, had a certain number of reservations to make. It seemed to him that the views expressed as regards agricultural mechanisation were too pessimistic. As regards industry, the slow-down in the rate of growth over the last three years mentioned in the document could give a wrong impression. In fact, the rate of growth remains extremely fast and the objectives of the current five-year plan have been more than fulfilled. Taking into account the results already obtained, gross industrial output by 1970 will have achieved, or even somewhat exceeded, the figures laid down in the plan, particularly as regards capital goods. Similarly, although the rate of growth in investments declined in 1968, it is still higher than the average annual rate envisaged in the five-year plan, at least in industry. As to the prospects for the different sources of energy, it seems that the consumption of petroleum will remain as it is while that of natural gas is likely to be stabilised by 1970: it is intended to step up the extraction of coal and the production of hydro-electric and atomic power. Mr. CHAMBERLAIN pointed out that the industrialisation programme, which was of the Stalin type and based on ideology, at any rate at the beginning, has since been reinforced by nationalistic considerations. Turning to reforms, he did not think that the rate of growth was very pertinent in this connection. The rate was almost certain to slow down after a certain stage of development had been reached. In his view it was the degree of complexity achieved by the economy which brought out the need for a re-organization in the form of greater flexibility. However, it does not seem that a more flexible system of price fixing had been envisaged in Rumania.

10. Miss CARY added that with regard to foreign economic relations, numerous co-operation agreements might be concluded with the industrialised countries of the West; in this respect Hungary was ahead of Rumania. However, Rumania has already started on this line in scientific and technical research and was going in for common enterprises with France, Germany and the United Kingdom, for the manufacture of chemical and pharmaceutical products. The most important deal was that with Renault, which makes Rumania, as from January 1969, the only supplier of gearboxes destined for the Estafette. She was also concerned to improve her marketing techniques. There seemed, therefore, to be no reason for undue pessimism as regards Rumanian export possibilities towards the West.

11. Mr. SCHIFFMAN expressed his interest in the paper put forward by the Canadian Delegation. He wanted first to reply to some remarks made by Mr. VON KAMEKE as regards the industrialisation programme. Although, from the economic point of view, there were certain weaknesses, one must bear in mind that it was based for the most part on political considerations. Criticism has been voiced especially as regards the pattern of investments, and doubts have been expressed as to the economic justification of the iron and steel industry which depends on imported materials.

He shared the views of Mr. VON KAMEKE about the inadequate training of labour. In his view, the Rumanians are aware of this deficiency which they are trying to remedy. In this respect collaboration offered by the West is greatly appreciated. He called attention to the recent creation of a training centre, under the patronage of the United Nations and the ILO, for enterprise management so as to raise the qualifications of the present enterprise managers. He also hoped that computers, which will shortly be introduced, will improve the methods of management.

12. The share of Rumanian foreign trade with the West dropped slightly in 1968. However, one must not conclude from the fact that the programme of imports from the West has been 90% completed that they will now fall off; after all, the plan is made to be exceeded. Trade with the West should be maintained at a level at least equal to the present one. Mr. SCHIFFMAN went on to mention the existence of reserves and of gold production in Rumania. He pointed out that tourism was not dealt with in the Canadian report although investment effort in this sector is considerable. The Federal Republic provides the largest contingent of visitors followed by Scandinavian countries and France. As regards reserves of energy, certain shortages might emerge in the near future. The Rumanians have increased their imports of crude petroleum, both as fuel and as raw material for the petro-chemical industry. They have approached Iran, Saudi Arabia, Venezuela and even Indonesia which would obtain tractors in exchange for their deliveries.

13. As regards the implementation of economic reforms, the industrial centrals, a characteristic feature of the new system, have now been under study for eighteen months. One or two of them will perhaps be set up in 1969 on an experimental basis. These reforms are meeting opposition on pragmatic as well as on technical grounds. The Rumanians have never envisaged the establishment of a socialist market economy; the control of investments in the key sectors and the fixing of prices at the centre will remain the rule. A few days ago Ceausescu in a speech before the Party Central Committee announced that the National Economic Council created a year ago will pass from the jurisdiction of the Council of Ministers to that of the Council of State; the significance of this change is not very clear. In any case Ceausescu seems to have consolidated his position sufficiently, and the struggle for power in Rumania is over.

14. Colonel HOCHART wanted to make four points. As regards Rumania's economic dependence, he agreed with Mr. VON KAMEKE that it was right to stress the contradiction between the aim of a very ambitious steel production plan and the insufficient resources of the country as regards iron ore and coal which make it very dependent on imports from the Soviet Union.

Moreover, there is difficulty in finding buyers on Western markets for Rumanian machinery and materials which have to be sold in socialist countries (particularly the USSR), which increases Rumania's dependence. He added that the objectives of the five-year plan are always generously achieved, as they were in 1968. As to the reason for the reforms he did not think that the economy is as yet complex enough to justify re-organization, and it would seem that the Rumanians have started very early along this road, with extreme prudence incidentally, so as to avoid difficulties in the functioning of the system. He was of the opinion that the real idea behind the reforms, as in the USSR, was to prepare for the introduction of computers. He added that in his view the influence of the Rumanian Communist Party on the economy remains considerable, greater indeed than in the other countries of Eastern Europe. As to industry, if the rate of growth has tended to fall in the last few years, this was to be expected after a certain level of development had been reached, and the results are better than the objectives planned, especially in steel and aluminium. Nevertheless, the figures published should be viewed with caution as they represent the total rise in output without taking account of waste and unsalable goods. Agriculture, the poor relation of the Rumanian economy, has hitherto presented no problem for the régime. Agricultural production fell by 6.3% in 1968, as in many other socialist countries, but this fall was due to a very severe drought.

15. After these preliminary declarations the CHAIRMAN suggested carrying on the discussion according to the plan of the Canadian note.

Population, Labour, Standard of Living

16. Referring to paragraph 15 of the document, Mr. VON KAMEKE argued that the Hungarian and German minorities in Rumania were not less numerous than those in Czechoslovakia and Yugoslavia.

17. The NETHERLANDS REPRESENTATIVE pointed out that in 1966 there were about 376,000 Germans in Rumania as against 134,000 in Czechoslovakia and 20,000 in Yugoslavia. In Rumania there were 1.6 million Hungarians, that is 10% of the population, whereas in Czechoslovakia only 555,000 were counted in 1964 and 500,000 in Yugoslavia in 1961. He added that although among these minorities there had not been any agitation, a report sent to his Authorities by their Bucharest Embassy a year and a half ago referred to the passive resistance by the Hungarian minority to the integration policy pursued by Rumania.

18. Mr. SCHIFFMAN suggested that in paragraph 15 it would be better to say that there was no real evidence of agitation among these minorities but that this did not exclude certain latent discontent.

19. The ITALIAN REPRESENTATIVE wondered whether a standard of living represented by a GNP figure of \$940 per head could be called particularly low. He pointed out that if the vulnerability of a country depends up to a point on its living standard it also depends on the capacity of the population to accept certain sacrifices.

20. Mr. VON KAMEKE pointed out that the important thing is the purchasing power of the lei. This is very low. The average salary has not much real meaning as it only represents a proportion of the family income. In any case the official rate of exchange should not be used as it would give the wrong impression.

21. The CHAIRMAN stated that given the high rate of accumulation in Rumania the share of national income available for consumption is rather low.

22. Mr. SCHIFFMAN thought it would be as well to divide paragraph 17 of the Canadian note into two parts so as to be able to treat separately two problems which should remain distinct in the mind of the reader. He suggested that the footnote should be suppressed.

23. Mr. CHAMBERLAIN did not accept, as was said at the end of paragraph 25, that Rumanian agriculture was less capable than that of the other East European countries of coping with unfavourable climatic conditions. He thought that the evaluation made in paragraph 26 of the stage reached in the mechanisation of agriculture was too pessimistic. As to paragraph 27, he pointed out that the figures of the US Department of Agriculture quoted do not coincide with the official Rumanian figures; according to these, agricultural output had risen 16% in 1967 and had fallen 3.6% in the next year. Referring to paragraph 33, he added that Western aid for the irrigation programme had been offered which envisaged doubling the areas irrigated and that an important deal (for about £50,000) was on the point of being concluded in the United Kingdom, covering not only deliveries of materials but also the services of British experts. Finally he considered that the forecasts made in paragraph 34 were too pessimistic: in his view the progress of agricultural mechanisation will continue, though at a modest pace.

24. Replying to the second remark of Mr. CHAMBERLAIN about paragraph 26, Miss VAN SNELLENBERG called attention to Table II in the Annex which brought out the rise in the share of deliveries earmarked for replacement, which seems to justify a certain pessimism about agricultural investments.

25. Mr. VON KAMEKE admitted that the mechanisation of agriculture in Rumania is lagging both as regards the plan and compared with other socialist countries. On average there is only one tractor to every 102 hectares, i.e. three times less than in the industrialised countries of the West, and in certain sectors (vineyards, vegetables) there are none at all. However, one must not be too pessimistic.

26. Mr. SCHIFFMAN added that in the first instance one must consult official Rumanian sources. These show a constant rise in the tractor park and in agricultural machinery in 1966; the 1969 plan envisages a more modest growth.

27. The BELGIAN REPRESENTATIVE suggested that the evaluation of the effort to mechanise agriculture should be based on the share of investments allocated to this sector. These investments in Rumania in 1968 amounted to 6 milliard lei out of a total of 56. He asked whether this proportion is comparable with that in other countries of Eastern Europe.

28. As regards the figures of agricultural output quoted in paragraph 27 of the Canadian note, Mr. SCHIFFMAN shared the doubts expressed by his UK colleague. In any case the data are preliminary and could be revised.

29. Mr. VON KAMEKE pointed out that in 1968 the grain harvest only reached 6.8 million tons instead of the 8 million envisaged in the plan of which 4.9 million tons was wheat, against 5.4 million originally envisaged. Vegetable production amounted to 2.3 million tons, that of fruit 2.2 million, whereas the plan provided for 3.1 and 2.6 million tons respectively. These figures are lower than in 1967 because of the drought which occurred in the course of the year but also because of insufficient mechanisation and irrigation.

30. There was some discussion on the usefulness of judging future prospects on the basis of results in 1966 and 1967 and Colonel HOCHART proposed the method used in the Rumanian statistics and suggested quoting figures in comparison with the average of the years 1961-65.

31. It was finally decided that the US Delegation would submit a note on agricultural mechanisation and agricultural production, on the basis of data available.

32. Miss VAN SNELLENBERG asked whether the particularly cold winter which the Soviet Union has had would affect the winter wheat harvest in neighbouring countries.

33. Mr. SCHIFFMAN made the point that the winter 1968/69 was especially notable in Rumania for the falls of snow which will have meant extra humidity; this will probably cause less damage than keen frosts. It is still too early to assess the effect on the cereal harvest.

34. The CHAIRMAN enquired whether in the matter of agricultural policy there have been price changes and, generally speaking, whether measures have been taken to increase labour productivity in agriculture.

35. Mr. VON KAMEKE said that the authorities were trying to stimulate the interest of the agricultural population in work and to encourage it to play a more active part in production. To this end general councils have been set up in the co-operative enterprises endowed with certain powers such as being able to reprimand a director or even to dismiss him.

36. Miss VAN SNELLENBERG enquired whether the fiscal reform in agriculture was not intended, as far as the Government was concerned, to favour private farms and plots.

37. Mr. SCHIFFMAN pointed out that this legislation, as indeed Ceausescu had expressly indicated in his speeches, was intended to restore a balance between the tax burdens of the urban and rural populations and between farms at different levels of profitability. The decision in question is one of a social character, rather than a measure intended to affect fiscal revenue. One cannot see in this a deliberate intention to favour the private sector of agriculture; it is rather a new sharing of the tax load.

38. Mr. VON KAMEKE drew attention in this context to the quite considerable incomes earned by farmers from the sale of their products on the free market.

Industry

39. Mr. VON KAMEKE pointed to the difficulties which were raised by the pursuit of the too ambitious plan objectives: a foreign trade deficit made worse by not very competitive production on the international market and a somewhat backward agriculture. The Rumanians do not hesitate to order foreign factories, the output capacity of which exceeds the needs of the country, without having previously studied foreign outlets. But this is a matter of impressions, and it is very difficult to make a really objective judgement on the industrialisation programme.

40. The CHAIRMAN thought that there were two decisive criteria in this respect. Are any industries in Rumania working part-time because demand is insufficient? And how large are stocks?

41. Mr. VON KAMEKE pointed out that the stocks of consumer goods are considerable: as regards capital goods he did not think that unsold stocks were very large, but Rumanian goods are rarely exportable to Western markets.

42. Mr. SCHIFFMAN pointed to a certain tendency to buy installations of a theoretically optimal size, without worrying too much about the ability of the domestic market to absorb the output. The problem is essentially one of management and distribution and there does not seem to be any solution except

in the framework of economic reforms; here the computers could no doubt be very useful. In foreign trade, compensation arrangements account for 80% or even 100% of some transactions, which reduces the payments to be made in hard currency. Investment policy is inspired both by economic and political considerations. Just before the last election Prime Minister Maurer quoted among the achievements of the régime success obtained in making tractors; in fact these are very difficult to dispose of on Western markets although they could well serve as a means of exchange with the less developed countries.

43. Mr. VON KEMEKE added that one should, however, bear in mind the real cost of this achievement; in fact it is the population which pays the bill in the form of a reduced standard of living. He pointed out that the element of compensation is very strong in trade between the Federal Republic and Rumania which is very disadvantageous to the latter's economy: German exporters adjust their prices to take into account this arrangement, to the detriment of their Rumanian clients.

44. The FRENCH REPRESENTATIVE had the impression that this practice of compensation trade had been particularly developed in Rumania. He also asked whether it was more difficult in Rumania to make a specialised worker out of a peasant than in the other countries of Eastern Europe.

45. In reply, Mr. VON KEMEKE said that changes of this kind require a certain time.

46. Mr. CHAMBERLAIN pointed out that British firms which exported equipment to Rumania realised that one day they might have to cope with competition from Rumanian products.

47. Miss CARY made the point that, generally speaking, the Rumanian development programme gave an impression of industrialisation for its own sake. As a matter of fact all Communist régimes tend to adopt this attitude for reasons of prestige.

48. Turning again to the chapter "Industry" of the Canadian note, and examining it in greater detail, Mr. SCHIFFMAN said that as regards paragraph 38, investments represented 30% of national income in 1967. He corrected the first sentence of paragraph 42 to the effect that Rumania has one of the most important deposits of natural gas in Europe, not the most important.

49. Mr. CHAMBERLAIN, referring to paragraph 38, said that Rumania was the country in Eastern Europe where the investment share of national income is the highest. He thought that further details might well be given. He feared that paragraph 39 might give a slightly false impression of industrial expansion.

If there has been a tendency to slow down in recent years the output of the sector has nonetheless constantly exceeded the plan especially as regards capital goods. He intends to submit a note comparing the objectives of the present five-year plan with the results obtained.

50. Mr. VON KAMEKE pointed out that, judging by statistics, the plan for most consumer goods had also been achieved. At the end of last year Ceausescu had declared that in 1969 the rate of growth of consumer goods output (Category B) would be as great as that of other goods, so as better to meet the needs of the population. Mr. VON KAMEKE proposed to send in a study published by the Rumanians in "Probleme Economice" in July 1968 on the future demand for fuel and power, a problem likely to come up in the seventies.

51. Mr. CHAMBERLAIN added that the share of investments devoted to the consumer sector is rising. The volume of savings shows, however, that the purchasing power of the population is not entirely absorbed by the larger supply of goods.

Defence Expenditure

52. Replying to a question from the TURKISH REPRESENTATIVE about armament production, Mr. SCHIFFMAN said that Rumania produces various light arms of Soviet design but is heavily dependent on imports from the Soviet Union of heavy materials (aircraft, tanks, etc.). It would seem that the Rumanian leaders have lately shown more interest in the manufacture of arms at home. They are reported to have expressed their intention to take up the production of certain heavy items but it is unlikely that anything definite will be achieved before the seventies. As regards lorries, jeeps and personnel carriers, Rumania is more or less self-sufficient. She is also interested in producing duralumin. This material is probably intended for aircraft construction. The Rumanians have shown an interest in a civil aircraft, of which they might be tempted to make a military version. However, it would seem that dependence on socialist countries will increase as a result of the recent added effort in armaments.

53. The CHAIRMAN asked whether this effort was not linked to a recent rise in the Rumanian defence budget in 1969.

54. Miss VAN SNELLENBERG asked whether Rumania would not try to obtain light arms on Western markets. She also wanted to know whether increased military expenditure would have repercussions on investments.

55. Mr. CHAMBERLAIN pointed out that the increase in the defence budget was less spectacular if seen in relation to the rise in the budget generally. The percentage of military expenditure compared with total outlay had constantly declined since 1950. This trend was halted in 1969.

56. Colonel HOCHART thought one could explain the 23.3% rise in the defence budget by the increase in Rumanian military effort following events in Czechoslovakia and also as a result of a purely book-keeping change made necessary by the reforms which meant transferring to the official defence budget outlay previously hidden under other headings. He stressed, however, that one should be very careful in assessing the real military expenditure of East European countries.

Foreign Trade

57. Mr. VON KAMEKE pointed out that Rumanian imports of raw material from COMECON countries were not mentioned in paragraph 69 of the Canadian note although in fact there were more important than the purchases of machinery and equipment. At the end of paragraph 71 he read that Rumania depended only marginally on external sources for solid fuel; in fact 50% of coke is imported (nine-tenths from Communist countries). He would like to see mentioned in paragraph 73 Rumanian dependence on Communist countries for outlets for consumer goods (furniture, shoes, textiles). Referring to paragraph 84, he added that Western commercial banks have granted short-term credits (90 days) to Rumania. The latter had asked for longer credits (up to three years). He called attention to certain statistics on trade between East European countries in 1964/65, published by the German Bureau of Statistics at Wiesbaden.

58. Mr. SCHIFFMAN thought it would be a good thing to give some details about deals concluded by Rumania for the import of crude petroleum. In particular Iran is supposed to deliver 3½ million tons of crude between 1968 and 1970 and to receive in return tractors as well as various types of equipment for agriculture and forestry. An agreement in principle had been made with Kuwait, on which there is no further information, also with Saudi Arabia and Libya. Negotiations with Venezuela are being carried on; a triangular deal is envisaged between the Lebanon, Saudi Arabia and Rumania for the construction of a refinery with the aid of Rumanian technology.

59. Miss CARY made the point that the re-orientation of Rumanian commercial policies over the last few years is due much more to the realisation of the advantages of Western technology than to any desire for independence of the Soviet Union. She added, moreover, referring to paragraph 75, that Sino-Rumanian trade increased especially in 1966.

60. The CHAIRMAN asked whether the experts thought that economic pressure is at present being exerted on Rumania by the USSR.

61. Mr. SCHIFFMAN and Mr. VON KAMEKE were agreed in saying that there was no real evidence of pressure. Mr. VON KAMEKE added that the Iron Gates project might have been especially liable to Soviet economic pressure, but nothing of this kind appears to have happened. Certain difficulties had indeed risen in the Galati steelworks but it turned out that they were not due to the Russians. However, the Soviet Union has reduced imports of timber and drilling equipment but there is nothing to suggest that this development is due to anything other than a normal fall-off in the Soviet demand for these products. There is, therefore, no proof of a deliberate intention on the part of the Russians to exert pressure.

62. As regards the last sentence in paragraph 94, it is difficult for experts to foresee the future attitude of the Soviet Union in respect of Rumania's foreign trade, and the word "liberal" seems inappropriate. Mr. CHAMBERLAIN thought that if the Russians see no disadvantage in the Rumanians getting Western credits it is because control by the Communist Party inside the country remains very rigid.

63. Mr. SCHIFFMAN thought that if the hypothesis of military intervention were excluded a complete embargo would be rather unrealistic, but one should not rule out the possibility of delaying measures. In such a case Rumania would probably try to adjust to the circumstances by making sacrifices which the population would be ready to accept on patriotic grounds. Rumania, moreover, has the means of control necessary to bring this about. It would be difficult to foresee the repercussions such a situation would have on the standard of living or how long it would last. As regards the help which Rumania might get from the West, he recalled the precedent of Yugoslavia in 1948 whose situation was much more serious in view of the blockade, and also the case of Poland in 1956. A wave of sympathy might also cause a change in the United States commercial policy towards Rumania. However, it would be for the Rumanians themselves to decide whether they wished to have Western aid, bearing in mind the risks they might run in their relations with the Soviet Union.

64. As regards the document of the Committee of Economic Advisers on Rumanian vulnerability (LC/127-WP/235(Revised)), the experts generally speaking had no objections to raise.

65. Nevertheless, Mr. VON KAMEKE thought that the difficulties which the Rumanians might have to face should not be underestimated. As regards imports, alternative sources of supply of iron ore from, say, Third World countries could pose serious transport problems. Moreover, difficulties in finding new outlets in the West for certain Rumanian products might be pretty serious too. In fact, Rumania would be less in need of credits than of markets for her output. He added, however, that the Federal Republic has liberalised trade with Rumania up to 80% and that this policy continues.

66. The CHAIRMAN pointed out that, paradoxically, Poland, which took part in the invasion of Czechoslovakia, has for many years enjoyed most-favoured-nation treatment by the United States, whereas neither Rumania, which did not take part in the invasion, nor Czechoslovakia, which was the victim, benefit from this clause.

67. Mr. SCHIFFMAN thought that a wave of sympathy towards Rumania could arise within Congress. He added that most-favoured-nation treatment had been granted by Australia and New Zealand and no doubt would be granted shortly by Japan. As regards Rumania's application for membership of GATT, no problem of principle seems to be involved. The question is to be examined in the course of a meeting in April.

68. The NETHERLANDS REPRESENTATIVE thought that Rumania, in view of the heavy indebtedness towards Western countries, might refrain from asking for new credits.

69. Miss CARY pointed out that most Western industrialised countries are competing to export to Eastern Europe, and are ready to grant the necessary credits, except perhaps in the case of Bulgaria. In 1966/67 Rumania managed to increase sales on Western markets by 23%.

70. Mr. SCHIFFMAN agreed with this view. The trade deficit with the industrialised countries of the West reached \$700 million by the end of 1968. The annual trade deficit in his view was \$200 million in 1967 and no doubt about the same in 1968, although the geographical break-down of indebtedness altered. To this trade deficit should no doubt be added the deficit on invisible account. Up to now it would not seem that this indebtedness represents too heavy a charge on the Rumanian economy. Gold reserves are thought to be \$140 million and annual output \$25 million. As there are no sales of gold, output may be considered as an addition to reserves. Rumania has always met her financial obligations regularly.

71. As regards paragraph 93 of the Canadian note, Mr. SCHIFFMAN said that Rumania is far from having established an advanced technological base for her industry and that imports of machinery and equipment from the West are likely to go on for a long time.

72. Miss CARY said that apparently the record for orders of complete installations was in 1966, when 20 important factories were ordered; since then the figure fell to 12 in 1967 and to 2 in 1968. It is likely, therefore, that the amount of credits requested will fall off during the period when credits already granted are being drawn on.

73. The CHAIRMAN asked whether the question of rescheduling the repayment of foreign debt had been brought up by Rumania.

74. Mr. VON KAMEKE replied that Rumania has not made any request to this effect; such a procedure would imply bilateral negotiations at government level, and no longer between government and firms, as at present.

75. In reply to a question from the TURKISH REPRESENTATIVE, Mr. SCHIFFMAN stated that Rumania does grant import credits to Third World countries, in particular to the UAR and Syria. A few years ago she accorded some to Indonesia. Some projects have been started in developing countries, in co-operation with Western firms; the latter supply technology and the services of their experts while the Rumanians deliver some of the materials.

76. Mr. SCHIFFMAN said that 100,000 tourists from the Federal Republic had been registered last year; each visitor is assumed to have spent at least DM. 500. Although no precise information is available, it appears that on the whole the Rumanians earn from the tourist trade \$25-\$30 million in hard currency. Against this one must set invisible imports: payment for licences, services, insurance and transport.

78. Mr. SCHIFFMAN considered that tourism was an important asset for Rumania. The Director of Tourism has ministerial rank.

79. Miss VAN SNELLENBERG said she would like to have information on other sources of income, especially freight. She would also like to know whether any resentment had been shown by the population or the leaders against orders given by the Soviet Union with regard to economic aid granted by Rumania.

80. Mr. SCHIFFMAN did not have any precise information as regards freight. As to economic aid to developing countries, this certainly was not granted as the result of Soviet pressure, as was the case of Czechoslovakia; in this respect the Rumanians appear to have acted independently. It is certain, however, that the means they dispose of for aid to developing countries are limited.

81. Miss VAN SNELLENBERG asked why Rumania should import petroleum from Venezuela despite the heavy transport costs.

82. Mr. VON KAMEKE explained that Venezuela was ready to accept Rumanian goods. In an effort to promote sales the Rumanians had asked Israel to act as intermediary in the sale of some drilling equipment.

Economic Reforms

83. In reply to a question from the ITALIAN REPRESENTATIVE, Mr. SCHIFFMAN reported on an interview he had recently had with the Vice-Chairman of the State Committee on Prices. Prices of industrial products are still fixed centrally and remain unchanged for long periods. A readjustment of the prices of certain key products is envisaged and will take place periodically; means to avoid repercussions on retail prices will have to be worked out later.

84. Mr. CHAMBERLAIN added that since last year new measures are being tried in 71 pilot firms. As the results achieved have not been decisive the trial period has been prolonged and no final decision will be taken before 1970. It is intended to introduce concepts of profitability and enterprise production cost. According to Mr. CHAMBERLAIN, the method of fixing prices is the crucial question. He drew attention, too, to the concept of competition which in socialist countries is regarded in a special way. As regards retail prices, any change would raise a basic political problem, and no decision therefore is likely to be taken in the near future.

85. The CHAIRMAN thanked those who took part in this session, in particular the Canadian Delegation for the note which had been presented. As in the case of earlier meetings, it was decided that the Economic Directorate should prepare a report of the session. He invited the experts present, as well as the delegations, to send to the International Secretariat, before 1st May, comments which they would wish to make and also any supplementary information which they might have. A revised version of Note AC/89-WP/269 could then be prepared by the Economic Directorate or by the Canadian Authorities according as the Committee would later decide.