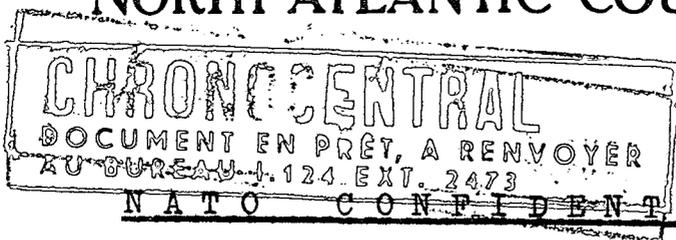


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ECONOMIC COMMITTEE

FILE FOR THE ECONOMIC
COMMITTEE OF THE CSCE

INDUSTRIAL CO-OPERATION

Note by the Economic Directorate(1)

INTRODUCTION

Since the sixties, faced with a slackening of their economic growth, the Eastern countries have been seeking to maintain their rate of expansion by boosting their economic relations with the Western countries mainly with a view to obtaining the sophisticated equipment and technological know-how they lack. However, it quickly became clear to both Eastern and Western trading partners that there was only limited scope for expansion within the traditional commercial patterns. On the one hand, differences between the social and economic systems plus ideological and administrative obstacles proved serious handicaps to the expansion of East-West trade while, concurrently, the increasing needs of the Eastern countries and the scale of their markets quickly outpaced their convertible currency and export possibilities. If the East had been able to overcome its attachment to principle, stemming from a basically different conception of the economy, the Western countries could have made direct investments which would have supplemented the flow of trade and stepped up industrialisation.

2. There are obvious advantages for Western firms in opening up new trade outlets and from specialization allowing economies of scale. They are interested in the raw materials (particularly energy products) which might be obtained from the Soviet Union, and see advantages in the existence of an Eastern labour force which could enable them to obtain at reduced cost a range of jointly produced goods.

This document includes: 1 Annex

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- (1) Prepared at the request of the Economic Committee as background for the discussions scheduled for 10th September, 1973. An Annex giving a list of known industrial co-operation agreements will be added later.

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3. The difficulties hindering an expansion of East-West commerce have led the Eastern countries to seek new forms of trade which, without challenging their economic systems, are designed to overcome or reduce the obstacles to increased trade relations with the West. In recent years, a whole range of bilateral and multilateral governmental agreements have been negotiated in "the field of scientific, technological and industrial co-operation".

4. It is difficult to define "industrial co-operation" since the term can be interpreted differently from one country to another. Moreover it covers an extremely wide spectrum of different economic activities. The mandate adopted for the Economic Commission by the Conference on Security and Co-operation in Europe provides, inter alia, for the study of "forms and modalities of industrial co-operation" and the examination of possibilities for implementing "projects of common interest", without stating clearly the subject of the co-operation envisaged in each case.

A. DESCRIPTION AND DEFINITIONS

5. The types of activity covered by the above mandate may be summarized as follows:

- (a) projects of common interest;
- (b) development of the natural resources of the Eastern countries;
- (c) joint firms;
- (d) other forms of industrial co-operation (co-production, specialization, sub-contracting, joint sales, etc).

(a) PROJECTS OF COMMON INTEREST

6. On several occasions, the Soviet leaders have expressed their intention of seeking co-operation with Western European countries to implement a certain number of projects of common interest designed to promote the economic development of the participating countries. The scale and type of the projects contemplated are extremely varied and some of them could be considered as coming within a wider definition of industrial co-operation, while others obviously do not come under this heading at all.

7. It is clear that the reciprocal exchange of electrical energy and the linking of grid systems, the organization of trans-European container transport, the expansion of transport and communications facilities between East and West and the connection of road, rail, air or inland waterway transport networks all relate to the organization of transport and to exchanges which do not come within the generally accepted meaning of industrial co-operation.

8. On the other hand, co-operation for the development of atomic energy and, for example, in the fields of mechanical engineering and chemistry, the establishment of firms to work and process iron ore deposits, or the improvement of tourist amenities, are more closely related to industrial co-operation.

9. This very mixed bag of proposals reflects the varying degrees of interest shown by some of the Eastern countries in specific projects contained in a joint list where each Communist country is able to include its own favourite projects. The expression "projects of common interest", because of its ambiguity and vagueness, can be made to cover questions relating to trade, industry, the development of natural resources, transport and communications. At one point the Soviet Union actually mooted the idea of a "European programme" covering a wide range of projects and including a time-table for their implementation. Although this move was rejected, it provides some insight into Soviet aims.

10. In the interests of clarity, this paper treats as "projects of common interest" only those proposals made by the East European countries which do not come under one of the other categories listed under paragraph 5 above.

(i) Exchanges of electrical power

11. Progress in the interconnection of European grid systems, especially since 1955, has led to the formation of three major groupings:

- Western Europe (Austria, Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, the Netherlands and Switzerland);
- Scandinavia (Denmark, Finland, Iceland, Norway and Sweden);
- Eastern Europe (Bulgaria, the German Democratic Republic, Hungary, Poland, Roumania, Czechoslovakia and the Soviet Union).

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These networks are now close to one another at certain points (Austria and Czechoslovakia, Austria and Hungary, the Federal Republic of Germany and Czechoslovakia). Some Western countries have already established direct or indirect links (through Czechoslovakia and Hungary) with certain East European countries and since 1967 exchanges of electricity have increased relatively faster than overall trade between these countries. These exchanges are, however, very small compared with electrical power exchanges between Western countries (approximately 3.5% of the total) and infinitesimal compared with consumption (0.15% in 1969). It seems that most of the traffic is from East to West and concerns mainly the FRG, Austria and Yugoslavia (CM(72)68(Revised) Note No.3).

12. The main problem in transporting electrical power is the large distances separating the primary energy sources East of the Urals and the West European consumer centres. The cost of transmitting power increases exponentially and attains the KWH production cost for distances of over 500 or 750 km depending on the voltages used and the output transmitted. Hence the current efforts to increase voltages and the volume of energy moved.

13. International transfers of electrical power can take the form of long-term agreements for the regular export of power or for sharing the output of power stations jointly owned by two or more partners. There are also seasonal, daily, emergency and peak period power exchanges or the local distribution of electricity for border area consumers.

14. Rather than a simple link-up of the networks, one form of co-operation which could contribute to a rapid increase in exchanges can be found at the network level itself (very high tension lines, convertor stations, frequency control, stability of interconnections, operating despatching centres, etc), where research into improved techniques for transporting electrical power might be carried out jointly. Canada and the United States have wide experience in these fields. In all cases, it will be necessary to obtain fuller details on the intentions of the Eastern countries and to refer these technically complex questions to the appropriate international bodies, such as the ECE in Geneva.

(ii) Transport of natural gas

15. The Soviet Union and the Eastern countries have a sizeable gas pipeline system. The Russians already provide most of the natural gas used by the COMECON countries. In addition, they make large deliveries of gas to Austria, are

beginning to deliver gas to the Federal Republic of Germany and plan to sell it later to Italy, France and Finland. For this purpose, the Soviet gas pipelines are already linked, at the Austrian and Czechoslovak frontiers, to the pipeline systems used by Western firms, and Austria has been receiving Soviet natural gas since September 1968 through an extension to Vienna of the "Bratstvo" pipeline. The gas for the Federal Republic arrives in Bavaria after passing through Czechoslovakia. Italy will be supplied via a gas pipeline linking the Bratislava area with the Udine area through Austria. The gas purchased in Russia by France will in fact be delivered to Italy, and France will take the equivalent of these Soviet deliveries from the Netherlands gas originally intended for Italy. Deliveries to Finland, which it is planned should begin between 1975 and 1977, will be made via a pipeline linking Leningrad with Southern Finland. Work on this pipeline began in 1973.

16. It is possible that the COMECON gas pipeline systems terminating in East Germany will later be linked to the Federal Republic with a possible extension to Denmark. There is also the possibility that Sweden may get supplies of natural gas from the Soviet Union. A number of connecting points between the different gas pipeline systems are already operational and there are unlikely to be difficulties in this field.

(iii) Movement of oil by pipeline

17. The main pipeline linking the Soviet Union with the COMECON countries is the so-called "Friendship" line, which is 5,000 km long and has a yearly capacity at present of 50 million tons. The laying of a second pipeline is in the process of completion, and it should be operational by the end of 1973. The network, which starts at Almet'yevsk in Western Siberia, has terminals on the Baltic at Ventspils (Soviet Union), Rostock and Leuna (GDR), in Czechoslovakia at Most and Bratislava and in Hungary at Szazhalombatta. This network is not linked up with Western Europe and such a connection would only be justified if the Soviet Union were to boost greatly its oil output by applying Western technology. In such a case, pipeline extensions to the Federal Republic and Italy through Austria are perfectly conceivable. Links to the Western systems should not raise any particular technical problems.

18. The Soviet Union has very large pipe requirements and it could be that the Russians will seek to obtain part of their requirements in the West in exchange for gas and oil subsequently moved through these pipes. Moscow readily considers transactions of this kind as a form of industrial co-operation, whereas in fact they are a type of "hire purchase in kind" designed to overcome the problems arising from a lack of convertible currency.

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(iv) Transport by road, rail, air and inland waterways

19. The growth in East-West trade does not seem to have been hampered so far by inadequate transport facilities. A whole series of multilateral and bilateral international agreements and arrangements have been concluded, with the result that all technical questions relating to air, sea and land transport are under continuous examination. Whilst most of the East European countries are parties to these agreements, the Soviet Union and the GDR appear to be the most reticent. These agreements, although open to improvement, could be adapted to meet any increase in transport requirements resulting from a more rapid expansion of East-West trade (C-M(72)68(Revised) Note No.5).

20. The main hindrances to the movement of goods remain the administrative and technical formalities, especially those enforced by the Eastern countries. There would be little point in linking up the transport systems and developing the necessary infrastructure unless there was some relaxation of these niggling and restrictive regulations. Desirable improvements would be:

- increased road freight quotas;
- greater latitude in choosing the most appropriate form of transport;
- freedom of transit and itinerary;
- ~~opportunities for loading en route and on return;~~
- improvement of the private transport system;
- simplification of the arrangements for issuing authorizations and for checks;
- standardization of road, rail and air security regulations.

21. The organization of trans-European container transport, included by the Eastern countries as "a project of common interest" is only one aspect of these basic problems. It is probably of more interest to the East European countries than to the Soviet Union inasmuch as their foreign trade in certain cases comprises a fairly large proportion of manufactured goods particularly suitable for container transport. Co-operation in this field could be at two levels: firstly, the manufacture of containers with the participation of specialized Western firms, and secondly, the organization of transport movements by specific agreements.

(b) DEVELOPMENT OF NATURAL RESOURCES IN THE EASTERN COUNTRIES

22. The Soviet Union, together with Canada, China and Brazil, is one of the last great areas whose natural resources have still only been partially tapped. This explains the Soviet interest in forms of co-operation designed to step up the development of such resources. The Russians turned first to their COMECON partners, but the financial and technical possibilities of the latter soon proved inadequate.

23. The Soviet Union knew very well that the West would show an interest in gaining access to new sources of raw materials, particularly oil, natural gas, coal, fissile material and various minerals such as nickel, chromium, copper and iron (C-M(72)68(Revised) Notes No. 2, 20 and 28(Revised) and Document AC/127-WP/337).

24. There is no question of the Soviet Union granting concessions on its territory to any Western partners nor, for the time being, of allowing participation even on a minority basis. The Soviet Union's concept of "industrial co-operation" in this field is merely a barter system staggered over a long period, which enables it to obtain Western equipment and patents in exchange for raw materials extracted with such equipment and patents.

25. The chief problem is to know how Western operators will be covered against possible losses resulting from such ventures. Despite efforts by Soviet experts over the last few years, it is not impossible that mineral prospection may prove fruitless or that the working of deposits may prove too expensive. It will, therefore, be necessary to ascertain whether the Russians would accept full liability for any losses, if they would seek to share them or even have them borne entirely by the Western partner.

26. Furthermore, the anticipated method of repayment raises several issues. Payment, in the form of deliveries of raw materials, could be established by a fixed volume (as a percentage of production) or by value as a percentage of estimated production at, or indexed to world market prices. Given the scale of such possible transactions, they could have an effect on the world price of the raw materials involved. This might complicate an assessment of the profitability of these very long-term agreements (20 years and more).

27. Lastly, the financial arrangements may take several forms. In some cases, it will simply be a question of barter between the two parties, while in others, it may be essential to use the services of a credit institution which might obtain the usual governmental guarantees.

28. It is impossible to give even an approximate figure for the investments which would be required for operations of this type but, in view of their scale, it is obvious that milliards of dollars would soon be required. This huge financial effort should be seen in the light of aggregate investments which the Western countries are prepared to make to develop raw materials throughout the world. As an example, it is estimated by experts that, in the oil industry alone, investments may reach \$500 milliard during the present decade.

29. The opening up of Siberia is not without risk. The weather conditions (4/5ths of the area is subject to permafrost) call for a very high level of investment and the provision of large scale facilities for the labour force. There is sometimes only scant information on available and workable deposits. These difficulties explain why the Soviet Union has not yet made a major effort in this direction. The 1971-1975 Five-Year Plan allocates a little over 16% of all Soviet investments to the development of Siberia. However, this proportion has hardly varied over the last 20 years. As the natural resources of the rest of the world, on which the Western industrialized countries rely, are running out or becoming scarcer through the actions of the producer countries, the Siberian resources take on greater long-term importance.

(i) Oil

30. Oil is the Soviet Union's main (about $\frac{1}{2}$ of the total) export to the non-communist industrialized countries. It would therefore seem logical for the Soviets to boost their sales to these countries above the level of the last few years (between 40 and 43 million tons), in view of their convertible currency indebtedness and the cost of increasing imports from the West.

31. The Western countries, for their part, have to meet the medium-term problem of increasing consumption of energy, and particularly oil, by modern society. Moreover, relations are not always easy with the Third World oil-exporting countries. In this connection, it should be noted that disputes over taxes or prices can lead to an interruption in oil supplies and that this can also happen for political reasons. The Western countries therefore have good reason for wishing to diversify their sources and reduce their dependence on the hitherto main North African and Gulf suppliers.

32. Based on what is known of Soviet production targets, the amount of petrol that could be exported to the non-Communist countries should be in the region of 75 million tons a year between 1975 and 1980. However, if the Soviet Union wishes to

boost its sales to Japan, Western Europe and the United States, it will have to increase greatly the present rate of extraction, and seek financial and technical assistance from the industrialized West.

33. Industrial co-operation between the West and the other countries of Eastern Europe is unlikely to be concerned with crude oil production since deposits, except for Roumania, are insignificant. Co-operation could, however, materialize in the POL field and take the form of construction of oil refineries (BP in Poland) service stations (BP in Hungary) or petrochemical plants.

(ii) Natural gas

34. The agreements concluded so far would seem to indicate that between now and 1976 the Soviet Union will supply some 16 milliard cu.m to Austria, the Federal Republic of Germany, Finland, France and Italy. Sweden, Denmark and Japan may also buy Soviet gas, and the United States is currently examining the possibility of obtaining very large quantities of natural gas, to be delivered starting at the end of the present decade.

35. Although plans for developing the Soviet natural gas industry have frequently been delayed, with the result that production goals have been lowered, there is little doubt that the Soviet Union possesses large natural gas resources, estimated at a little under 30% of world reserves, i.e. 12,450 milliard cu.m. Consequently, if the Soviet Union can obtain technical and financial assistance from the United States and a number of other industrialized countries, it could quite feasibly reach a production level which would leave a big surplus for export.

(iii) Coal

36. Over eighty-eight percent of the large Soviet coal and lignite reserves are to be found in the Eastern regions (Siberia, Central Asia, Kazakhstan, etc) or the Far North. Already, some 42% of the coal produced comes from East of the Urals. Because of the huge distances between the deposits and the consumer centres, the Soviets are seeking to process the output of the mines on the spot and to transport it in the form of electrical power. The 1971-1975 Five-Year Plan aims to increase coal and lignite production from 624 million tons in 1970 to between 685 and 695 million tons in 1975: this represents a mean annual growth of 2% only.

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37. The volume of exports remains low. In 1970 coal and coke sales were 24.5 million tons and 4.1 million tons respectively. In the immediate future, the USSR is unlikely to increase output beyond the official targets for export purposes. However, trends in the world energy situation may well encourage the Soviets to seek Western help in developing its coal industry during the second half of this decade. Should this be the case, any industrial co-operation agreements will probably provide for long-term deliveries of coal and coke in exchange for Western equipment.

(iv) Fissile material

38. The Soviet Union publishes a wealth of literature on nuclear energy technology but no information on its production of natural or enriched uranium or on available reserves. At present, and at least until 1985, it would not seem desirable to contemplate uranium metal procurement from the Soviet Union, even supposing that the latter is prepared to sell. The only effect of such purchases would be to depress the work market and act as a disincentive to the vigorous prospecting now being carried out just about everywhere in the non-Communist world.

39. In 1971, enriched uranium requirements for civilian purposes were 3,200 tons for the United States, and for the rest of the non-Communist world, 1,900 tons (mostly supplied from North America). The European Economic Community experts estimate that the world shortfall could be between 18,000 tons and 21,000 tons in 1982, and between 38,000 tons and 47,000 tons in 1985 (the lower figure applying if the plutonium is re-used in thermal reactors, the higher figure if not). According to these experts, in 1985 the United States will no longer be able to make surplus capacity available to other countries.

40. As enrichment technology is in a state of flux, construction programmes always take some time to get under way, and it is necessary to maintain some reserve production capacity, Western Europe will probably still continue to purchase some of its enriched uranium abroad in the 1980s. In addition to the United States, the USSR could then become a possible source. Because of its nuclear weapons programme, the Soviet Union has a sizeable uranium enrichment capacity. Since its defence needs have now been largely met, it is likely that plant costs have been substantially written off and that the Soviets will be able to adjust their enrichment charges to be competitive with current world prices. The Soviet Union is, therefore, in a position to undertake orders for other countries and has declared its readiness to do so.

41. Under the terms of a Franco-Soviet service contract, the USSR will enrich a certain quantity of French uranium starting in the second half of 1973, and it appears that a further contract has recently been concluded with West Germany. No further details are available of Soviet efforts to build up a clientele in Western Europe.

(v) Other minerals

42. In the course of bilateral negotiations with Western countries or with groups of firms, the Soviet Union has already raised the question of working certain mineral deposits. Investments amounting to some \$1,200 million have been contemplated for Udokan copper, while between \$200 million and \$220 million are envisaged for Kola Peninsula iron ore and between \$166 million and \$177 million for nickel in the Southern Urals.

43. In addition, Poland is currently considering the possibility of seeking Western financial and technical assistance to develop copper production in Lower Silesia. The cost of this project has been put at between \$300 million and \$1 milliard and its implementation should enable Poland to become a leading copper producer in the eighties.

(c) JOINT ENTERPRISES

44. To the Western mind, "joint enterprises" mean more than just industrial co-operation; they mean a pooled contribution by two or more firms, which have set no time limits on their association. This results in the creation of a new firm, with jointly owned capital and joint management, within which profits and risks are shared. Such organizations differ from multinational firms in that the assets contributed by the parties are limited by contract and may not be transferred. They are also "mixed companies" in the sense that the partners involved may be firms from the private sector and the public sector.

45. Defined in this way, any joint company formed between East and West conflicts with the basic principles governing fundamentally different systems. Co-property rights regarding the means of production and the ultimate motivation for the venture are two problems which crop up from the start. Therefore, joint enterprises in the main evolve differently inside the two legal systems.

46. Within COMECON several forms of co-operation have gradually been developed since 1957. They relate mainly to joint investments, joint firms and the setting up of banking consortia to finance joint projects.

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47. In the non-Communist world, the question of joint enterprises poses no special problems. Commercial companies completely owned by Eastern countries (e.g. banks, insurance companies, sales offices) may be set up provided they conform to the laws and regulations in force. Joint firms with assets contributed by East and West generally open their Head Offices in Western countries where they are assured of legal protection and where nothing distinguishes them from other share-holding firms.

48. Most firms of this type are created in order to market Eastern goods on the Western market. The first was established in Finland in 1954, where a company whose capital comprised private Finnish funds and an input from Hungary, was given the task of marketing Hungarian electrical and electronic equipment in Finland. Since then, Hungary has increased the number of such firms in other West European countries. Similarly, two firms were set up in Sweden in 1970 with the Czechoslovaks holding 51% of the shares and their Swedish partner the rest; the task of these firms is to boost the sale of Czechoslovak machinery and chemical products in Sweden. However, the number and economic importance of such firms would still seem to be limited.

49. Setting up joint companies in the East raises more complex problems. Such firms are, of course, only possible in countries where the law permits direct participation in joint capital. As things stand, only the Yugoslav, Hungarian and Roumanian legislations allow this type of participation subject to certain limits and conditions. ~~New forms of association enabling direct participation in management and both profit and risk sharing are under consideration in Poland. Except for Yugoslavia, which is not covered by this paper, the new legal arrangements are too recent to allow an accurate assessment of their results.~~

50. Moreover, the first joint enterprises were not concerned with industrial production within an East European country, but rather with service sector activities such as the hotel industry. More recently, Roumania has authorized the establishment of a joint capital firm with the United States "Control Data Corporation". Lastly, a joint capital bank has just been set up in Roumania with United States and British bank participation.

51. The establishment of joint firms in the East seems to be of greatest interest to the smaller East European countries. The Soviet Union has not entered this field, which has so far concerned firms which are relatively small in relation to the overall economies of the countries in question. Apart from

ideological objections to this type of participation, the Soviet projects of prime interest to the leadership are of such a scale and importance that they probably wish to keep them under their complete and direct control: this is true for natural resources development projects as well as for industrial ventures such as the Kama project.

52. On the other hand, there is nothing to hamper the spread of joint firms with headquarters in non-Communist countries, and particularly in developing regions. The purpose of these firms would seem to be the marketing of goods produced through a combination of Western technology plus the manpower and natural resources which the Eastern countries can provide at low cost. However, it is not possible at this stage to judge the results obtained.

(d) INDUSTRIAL CO-OPERATION

53. Much has been published on the question of industrial co-operation, but no fully satisfactory definition has yet been proposed.

54. The difficulty arises chiefly because the East European countries tend to include under industrial co-operation all sorts of activities which would not generally be considered to come under this heading in the West.

55. The Communist countries consider that all operations and transactions which do not come within the normal category of trade are "industrial co-operation" activities. This is particularly true whenever payment for deliveries from the Western countries (e.g. factories, industrial equipment, licences) is made in the form of manufactured goods, whereas, in Western eyes, this is a barter transaction which differs from normal trading operations only as regards the deadlines and conditions governing payment.

56. The ECE (Geneva) has had to suffice with a "working" definition which highlights rather than resolves the problem.

"Industrial co-operation in an East-West context denotes the economic relationships and activities arising from:

- (a) contracts extending over a number of years between partners belonging to different economic systems which go beyond the straightforward sale or purchase of goods and services to include a set of complementary or reciprocally matching operations (in production, in the development and transfer of technology, in marketing, etc.);

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- (b) contracts between such partners which have been identified as industrial co-operation contracts by governments in bilateral or multilateral agreements."

This working definition calls for two observations. Industrial co-operation (thus defined) is considered as part of the broader concept of "East-West economic co-operation". Concurrently, it is part of "East-West trade".

57. This definition encompasses three different types of relationship:

- supply of complete plants, production lines, equipment and licensing which differs from normal trading operations only because payment is made in resultant products;
- joint tendering, joint construction or similar projects;
- various forms of co-production, specialization and sub-contracting.

(a) Payment in products

58. From the Western view point, it is clear that the method of paying for the supply of goods or licensing cannot be used as the sole criteria for judging whether an operation comes under the heading of "industrial co-operation". Only when the agreements concluded provide for "a whole complex of mutually-linked operations and comprise reciprocal commitments spread over a number of years", (1) is it possible to claim that such agreements "extend beyond strictly commercial activities"(1). Payment by means of goods produced in the plants sold or as a result of licensing cannot be regarded as genuine co-operation "unless the supplier of the plant (or licence) has a special interest, over and above his normal interest as the supplier, in receiving these goods"(1). The same applies to the leasing of plant or equipment in exchange for goods. While agreements of this type are often the first stage in an evolution towards more complex relations between the partners, genuine co-operation in the Western sense comes only at the more advanced stage of co-production, specialization or sub-contracting.

(1) C-M(72)68(Revised) Note No.1 - Development of Industrial Co-operation.

59. This is the case, for example, when a licensor takes the whole output and continues to buy the resultant products even after the licence has been fully paid for(1), or when a plant established in an East European country is used primarily to meet the needs of the supplier(2).

(b) Joint operations

60. Joint operations generally comprise co-management and co-ownership of capital and the sharing of profits and risks; and they may lead to the establishment of the joint enterprises described above. They may also be more limited in purpose and duration. Thus, East-West co-operation in the delivery of complete plants or processing lines and in the execution of civil engineering projects has been limited to temporary associations for tendering in respect of projects to be realized for third parties. Generally one of the partners is the main contractor and the other the sub-contractor. Participation may also be limited to profits, as in the case of the co-operative agreements concluded by a US hotel chain with Hungary and Roumania to construct hotels. The United States firm supplies the drawings, special equipment (lifts, air-conditioning system, telephones, kitchen equipment), professional know-how and guarantees a certain volume of Western customers. In exchange, it receives a commission on the turnover in convertible currency, regardless of whether the hotel makes a local currency profit.

(c) Co-production, specialization, sub-contracting

61. These forms of co-operation, which are closer to the Western idea of "industrial co-operation" because of their more advanced and complex nature, are becoming one of the most frequent forms of East-West industrial co-operation. Each partner specializes:

- either in the production of certain parts of the final product, assembled by one of the partners or by both, each for the needs of its own market;

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- (1) For example, a Polish electronic plant will produce relay devices for railway signal boxes under licence from a Swedish firm. The production will reach full planned volume by 1974, and deliveries of equipment will pay for 50% of the licence fees.
 - (2) For example, a garment manufacturer in the Federal Republic of Germany has leased machinery necessary for the production of ladies underwear to several Hungarian textile factories. The leasing fees are payable in convertible currency, but the Western partner purchases more than 80% of the total production, the rest being sold on the local market.

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- or in the production of a more limited number of items of the manufacturing programme which are then exchanged to complete each partner's range of products.

For this purpose, each partner uses the technology supplied by one of the partners(1), or its own technology(2), or a technology resulting from joint research and development by the two partners(3).

62. Co-operation and specialization concerned exclusively with research and development relate mainly to the chemical industry (especially in agreements concluded with the Soviet Union) and provide for the exchange of research and development results and on their applications to materials and techniques. The main fields involved are petrochemicals, chemical products, dyes, paints and lacquers, lubricants and pharmaceuticals. The agreement provides for the establishment of joint commissions to examine common problems and the arrangement of inspection and lecture visits.

63. In certain cases, co-operation can take the form of sub-contracting with the East European companies undertaking to deliver an agreed quantity of finished or semi-manufactured

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- (1) For example, joint production and sale of numerically-controlled machine tools under a Franco-Soviet agreement of 1970. The Soviet partner manufactures the machine tools with the assistance of French consultants and the French firm produces the numerically-controlled devices. The models to be manufactured are chosen by common agreement and the French firm handles the after-sales service.
 - (2) For example, joint production of long-distance buses by an Austrian firm and a Hungarian enterprise. The chassis, engine, gearbox and transmission are provided by Austria. The Hungarian partner builds the body, equips and furnishes the interior and completes the assembly. Each partner uses its own technology. The East European markets are reserved for the Hungarian Foreign Trade Association which has its share of the Western markets, and benefits from the use of the Western firm's sales and service networks.
 - (3) For example, research on the bodywork in Hungary and on the chassis in Austria for developing a new small-size bus. This agreement is an extension of the one referred to above. The two partners have agreed to carry out joint research on commonly agreed objectives.

goods, produced on the basis of documentation and know-how provided by the main contractor with a view to supplementing his production capacity. These may be short or longer term agreements(1).

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- (1) For example, a Roumanian naval shipyard is producing twelve 7,300 DWT ships for a Norwegian firm which has specified its own design and will supply drawings, engines, propellers, plus the navigation and communications equipment. To pay for a number of British passenger jet aircraft, a Roumanian firm manufactures, as sub-contractor to the British supplier, a type of small aircraft. The British contractor takes the whole production and sells the aircraft under its own trade-mark in both West and East.

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B. LEGAL AND INSTITUTIONAL FRAMEWORK

64. The framework comprises:

- inter-State relations;
- inter-firm relations.

(i) Industrial co-operation at the national level

65. Over the last few years a large number of industrial co-operation agreements have been concluded, particularly between the Soviet Union and Hungary on one hand and France, Italy, the United Kingdom, Austria, Belgium, Sweden, Denmark, Canada, Finland and the United States on the other. Inter-governmental agreements are normally valid for 5 - 10 years and provide for regular consultations on specific projects.

66. Each of these agreements provides for the establishment of a permanent joint commission which convenes at least once a year to examine the progress made during the previous period, outline plans for future action and identify fields for co-operation. Ad hoc working groups make sectoral surveys of industry. The Soviets are represented on these working groups by officials from the industrial ministries and from the Foreign Trade Organization as well as by representatives of companies and research institutes. The Western side is represented by officials, representatives of trade and industrial confederations and of individual private firms. Although these ad hoc working groups are not the arena where contracts are concluded between firms, they do provide an opportunity for examining not only the fields for possible co-operation, but also the forms it may take.

67. In any event, the inter-governmental agreements lay down the general guidelines which the governments concerned wish to see followed. In this connection, implementation of the agreements has a different impact in East and West. It is likely that an outline agreement in the field of industrial co-operation obliges the Eastern authorities to take account in their planning of the projected co-operation and to encourage their firms to prepare for it. In the West such agreements have a less restrictive effect. They represent a list of possible operations open to private or public enterprises and have a positive impact on sales promotion.

68. Moreover they enable governments to negotiate, on a reciprocal basis, legal or administrative measures designed to assist, at the enterprise level, the application of industrial co-operation agreements and to provide the firms with guidelines based on previous experience.

(ii) Industrial co-operation at the enterprise level

69. In the East, and especially in the Soviet Union, firms seeking co-operation ventures are not allowed to make direct approaches to Western firms. In the Soviet Union, for instance, all contacts must be made through the State Committee, which has sole authority for signing technical co-operation agreements with Western firms.

70. The procedure for reaching an industrial co-operation agreement is generally very time-consuming. For example, the first negotiations with Fiat on constructing the car plants at Togliattigrad started in 1961, whereas the contract was finally signed only in 1966. Western firms complain of Soviet administrative delays and that so far co-operation has not been allowed to take the form of joint enterprises.

71. In the West, the role of the State, although not negligible, is far more discreet, since it is mainly limited to opening up the way for co-operation between private and public firms and the East.

72. In the last analysis, it is for the Western firm to decide, on the basis of cost effectiveness, to what extent it is prepared to join with Communist state companies in joint action in one of the areas discussed in the first part of this note. This co-operation may assume different legal forms depending on where it takes place.

73. In the East, only Roumania and Hungary allow foreign participation in national companies. Poland is apparently about to do the same. For these countries, industrial co-operation may therefore consist in the creation of a new firm, in which one or more Eastern and Western firms may participate. In the other countries, and even in those just referred to, joint action often takes the form of tied sales and purchasing contracts (products, licences, patents, etc.) covering periods of five years or more.

74. In the non-Communist countries, industrial co-operation between Western firms and Eastern enterprises is simpler because property rights and the setting-up of firms are generally recognized. In these countries, the two partners may establish a firm in accordance with mutually-agreed conditions.

75. In the industrial co-operation sector, i.e. in the strict sense of the term, several solutions have been considered to overcome difficulties arising because the Communist countries do not recognize property rights over the means of production. Among these solutions, the leasing of equipment represents a comparatively new form of transaction. This offers the possibility of establishing in a Western country the Head Offices of a joint firm which could then lease the necessary equipment and material to the East European company.

C. PROBLEMS AND DIFFICULTIES

(a) At the micro-economic level

76. The various forms of co-operation described above are all of comparatively recent date and have only expanded noticeably over the last few years. Almost a third of the "industrial co-operation" agreements were signed as little as two or three years ago. On the basis of these agreements, it appears that the Soviet Union has so far concluded 50% of the accords in the field of research and development (especially for the chemical industry), with co-production and specialization agreements representing only 20% of all the contracts signed. Czechoslovakia, Hungary, Poland and Roumania, on the other hand, have mainly concluded co-production, specialization, sub-contracting and licensing agreements.

77. The proportion of East/West trade resulting from this co-operation remains small, although in certain branches, such as the mechanical engineering industries, it already represents between 10% and 15% of exports to the West from certain East European countries, particularly Roumania, Hungary and Czechoslovakia. In the light of recent experience, it may be considered that four types of problem exist:

- (i) implementation of the agreements;
 - (ii) production;
 - (iii) co-management;
 - (iv) guarantees for the repayment of funds advanced.
- (i) Implementation of the agreements

78. The Eastern countries are slow to conclude co-operative agreements and do so only after having made a thorough survey. Consequently, many years may elapse before a project is concluded. At the negotiating stage, the Western partner with power to take a decision finds himself up against an entire bureaucratic hierarchy cutting him off from the State company concerned. A problem of communication and information arises here. There is no guarantee that the Western partner will be able to obtain full documentation on the industrial sector in which he is being asked to co-operate.

79. Moreover, for small Western firms, there is the problem of imbalance between the parties concerned. Such firms have to contend with a monolithic state apparatus and this gives them little latitude in discussions. They have scant means of obtaining

depth information and, for financial reasons, they cannot keep staff on the spot in an Eastern country during what are sometimes very lengthy preliminary talks.

(ii) Production

80. The time-lag between the decision to invest and the start of actual production can be very long in the Eastern countries. Under these circumstances, the Western partner who is banking on fresh production to supply a market or recover his funds, may not be able to keep to his timetable. Furthermore, in the case of patents and licensing, quality control becomes an all-important factor. The product manufactured in the East and which may be sold on the Western markets must be standardized and meet Western requirements. As industrial co-operation is confined to tied contracts (under which the manufacturers, however, retain their independence), it is very difficult for the Western partner to provide for adequate controls.

(iii) Co-management

81. In the Soviet Union it is obviously virtually impossible for the Western partner to have any say in the management of the Soviet company which is a party to the agreement. Neither does the Western partner have any way of knowing how the operation of the company may be affected by outside planning decisions.

(iv) Guarantees for the repayment of funds advanced

82. Repayments in kind, a normal feature of industrial co-operation agreements in the Eastern countries, raise some tricky problems:

- the Western partner who has advanced funds may have to accept goods for which he has no adequate sales network;
- since the repayments are made over a very long-term, the question arises of fluctuations in world prices over an extended period;
- when the repayment is in kind and on a long-term basis, the greatest risk lies in the difficulties which the Eastern partner may encounter in reaching the production levels necessary to meet its commitments; regular deliveries are also very important.

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(b) At the macro-economic level

83. All the Communist countries are in the position of demanders as regards industrial co-operation. However, during negotiations, the attitude they adopt depends on their economic importance and resources and the importance of foreign trade in their economies.

84. The Eastern countries, other than the Soviet Union, except in very special cases, are mainly interested in acquiring plant which will enable them to increase the proportion of manufactured goods in their exports. They can offer manpower with varying levels of skills and labour costs which are lower than those in the Western industrialized countries. Interested Western firms are often able to negotiate with these countries on an equal footing.

85. Conditions are different for the Soviet Union because of the country's intrinsic importance, its world political rôle and its wealth of natural resources. Political considerations exert a far greater influence on the attitude of the Soviet authorities towards industrial co-operation than they do in the case of the other East European countries. Most industrial co-operation agreements concern deliveries of goods. It should be noted that the range of manufactured products available in the USSR of interest to the West is limited, and that the country has little surplus agricultural produce suitable for export.

86. Co-operation in the raw materials field will only make headway if the Soviet Union is prepared to supply all the necessary information and control facilities which will enable Western firms to make a realistic assessment of the risks involved in such commitments.

87. The development of natural resources in the other East European countries (e.g. Polish coal, copper in the South West and Roumanian oil) raise fewer problems. The reserves available are less diversified and abundant, the risks are better defined and the necessary investment, although large, is not comparable with that required for the opening up of Siberia.

D. THE PROBLEM OF INTERDEPENDENCE

88. All types of industrial co-operation suggest that some degree of dependence will be created between the partners. There is no guarantee, however, that in all cases the degree of dependence will be mutually balanced. This imbalance gives rise to situations which may enable one partner, for political or even economic reasons, to change its attitude towards the other.

89. However, it is important to avoid generalizations in this field. A distinction must be made between co-production agreements relating to a single product, sub-contracting agreements, joint firms and finally contracts tying the sale of products to the purchase of equipment. The link-up of transport systems raises problems of a different sort.

(a) Industrial co-operation based on co-production or sub-contracting

90. In these cases, the Eastern countries are generally demanders since the manufacture of goods is based on the use of a Western patent. Any attempt by Eastern countries to upset the balance of co-operative agreements would be even more detrimental to the Eastern partner - whose output could not be used elsewhere - than to the Western country which, by readjusting its production programmes, could quite rapidly overcome the inconvenience caused by a break.

(b) Joint enterprises

91. In the case of joint enterprises, the degree of interdependence may be considered mutual. Under normal conditions, it is difficult to see why such a partnership, if it is running smoothly, should disappear for political reasons. If, however, a set-up of this type were to disappear, the only problem would be the Western partner's right to retrieve his capital and possibly compensation due to him for breach of contract.

(c) Raw materials

92. The type of co-operation which raises the most sensitive problems is that entailing the long-term exchange of equipment for raw materials. With this form of co-operation, the two transactions, although linked, are completely distinct. The delivery of equipment by the Western countries starts long before raw material deliveries from the East. Such deliveries are subject to all the vicissitudes of interstate political relations, to changes in the decisions of the planners regarding the domestic requirements of the Communist economies and also to world price fluctuations.

93. The Western partner runs a risk of being rapidly deprived of part or all of the goods to which he is entitled. Moreover, bearing in mind the repayment deadlines, some deliveries of goods may arrive at a bad time for the Western economic situation. This could not be held against the Communist partner, who was keeping to the terms of the Agreement, but it would make it necessary to consider ways of staggering the untimely deliveries.

(d) Balanced interdependence

94. To avoid an imbalance in co-operation detrimental to the West, consideration could be given to creating balanced interdependence particularly in terms of raw materials and foodstuffs. Deliveries of Soviet oil could, for instance, be tied to deliveries of United States or Canadian wheat, with an interruption in one entailing cut-off in the other. This basically attractive arrangement would, in fact have to be limited to cases where a given country imported and exported products between which an interdependence could be established. This would be the case for the United States if it sold grain to and purchased natural gas from the Soviet Union.

95. On the other hand, it is more difficult to establish this type of balanced interdependence for many Western European countries. Nevertheless, an interruption in certain deliveries by the Eastern countries could entail a break in deliveries of equipment and machinery intended for other sectors of the Eastern economy deriving from the mood of no-confidence which would be created in the economic relationship.

96. As industrialization progresses, both East and West tend to produce increasingly similar ranges of goods in each of the major economic sectors and the international division of labour is becoming more effectively based on specialization within the major industrial branches rather than between them. The result is a trend towards specialization in the manufacture of certain types of products, or even components thereof, with special characteristics and specific quality standards.

97. In the long run, industrial co-operation agreements produce mutually complementary situations which themselves call for a degree of specialization in the production of goods intended for specific customers. This, of course, leads to certain risks because of the comparatively narrow basis of all these accords. In any event, the development of industrial co-operation with the Eastern countries should not take place to the detriment of similar agreements which could be concluded with other Alliance countries or with traditional Third World partners, whose economic development depends precisely on increased co-operation with the West.

(e) Interconnection of transport systems

98. The risks involved here are essentially political and may even have military aspects. Ultimately, the question of transport can logically only be considered as a culmination of the development of commercial and industrial co-operation. This is because it depends on the quantity and type of goods to be transported.

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E. WESTERN AIMS

99. It will be noted that in the sector which may suitably be termed industrial co-operation, the West is seeking a certain number of economic advantages: Access to sources of raw materials, a diversification of its energy sources, on-the-spot use of low cost labour and fresh market outlets.

100. Whatever form industrial co-operation takes, it entails a certain number of risks stemming either from the normal vicissitudes of economic competition or - in the case of the Communist countries or enterprises in these countries - from political positions or arbitrary decisions by the planners. In these circumstances, it is necessary for the Western countries to set themselves certain goals at the level of the enterprise, the industrial branch, the State or even the European continent itself.

101. At the enterprise level it is essential that the links established between the two sides should not place one of the partners at a disadvantage. At industrial branch level, prudence demands that an assessment be made of how far the development of foreign competition may affect national production, thus creating an imbalance which cannot be offset and which may constitute a threat to employment stability. At the State level, industrial co-operation should obviously not create a state of dependency allowing the Communist countries to exert pressures on the policies of the Western countries. Finally, at West European level, industrial co-operation must not provide the COMECON countries with an instrument for hampering European unification by involving Western businessmen in longer or shorter term projects. Industrial co-operation should not give the COMECON countries a pretext for attempting to influence the trends of European economic policy.

102. The differences in the Eastern and Western socio-legal systems and their effects on the concept of ownership rights make it difficult to establish the controls which are indispensable if co-operation is to take place in a climate of mutual confidence.

103. On the Western side, a certain number of requirements must be met. These concern data availability, production and management controls, contacts with on-the-spot managerial staff and access to the places of work. The scale of these requirements varies according to the type of industrial co-operation concerned.

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104. Data availability: As already stated in C-M(72)68(Revised), the Western countries should seek to obtain the implementation of measures designed to boost and extend the circulation of information likely to facilitate the conclusion of industrial co-operation agreements. In particular, the Western firms should have a clear idea of prospects in terms of investment projects provided for in Eastern economic planning: This is primarily necessary for the medium-size firms. Conversely, the Eastern planners should be kept fully informed of production opportunities and conditions in the Western countries. The Eastern countries need to take this information into account when drawing up their plans.

105. Production control: The quality of the goods produced is an essential factor in any co-operative agreement. Normally, the product has to integrate with others made elsewhere or correspond to a model already available on several markets. If the Western partners wish to maintain a consistently satisfactory standard of quality it is in their interest to obtain some say in the manufacturing processes. This quality control is also beneficial to the Eastern countries since it removes the risk of products being rejected because of defects.

106. Management control: This is difficult to implement except in joint enterprises. It would, however, be desirable to seek solutions allowing participation in management even where no ownership rights exist. The operation of an enterprise directly affects the success of production and the cost effectiveness of the goods produced. Since the Western partner is directly interested in this production, he should be able to ensure that the enterprise is being properly managed.

107. Contacts with managerial staff and access to places of work: Western experts must be able to meet their Eastern opposite numbers in the firms participating in industrial co-operation agreements. Such contacts represent the practical application of production and management control.

108. Financial risks: The Western partner runs certain financial and political risks. For example, in the case of tied contracts, he makes a credit sale of a large amount of equipment against future repayment in the form of products. This, of course, is where the export credit guarantees generally granted by Western governments are involved; but a further aspect of the problem is the very scale of the credit to be guaranteed. According to current information, operations for developing natural resources will account for several milliard dollars. This raises the question of the extent to which the export credit guarantee bodies in the Western countries can bear the risks. Moreover, in the case of conventional industrial

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co-operation, the creation, for instance, of joint enterprises entails the tie-up of what are sometimes large amounts of capital. It will have to be ascertained whether the Western countries are prepared to cover investors against the risk of capital losses, as is already done in certain cases for investors in the Third World. Last but not least, the Western financiers must receive guarantees from the Eastern countries on transfers of funds to reimburse the sums they have advanced in order to participate in co-operative industrial ventures.

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F. CONCLUSIONS

109. Industrial co-operation between East and West is of comparatively recent date. The forms it may take are based on Western methods and on the need to respect certain ideological and social imperatives in the Eastern countries. As stated earlier, the very expression "industrial co-operation" is ambiguous. It is frequently employed by the Eastern countries to avoid talking of Western technical and financial assistance or admitting the extent to which certain Western equipment and technology may play in their economic development. In some cases, and particularly where the smaller East European countries are concerned, industrial co-operation is seen as a substitute by the conventional type enterprise which, under the market economy system, would be allowed to launch out and develop certain products. It must be noted that economic relations of this type are still in the formative stage and that negotiations at governmental level and practical attempts by firms to implement co-operation projects could have the combined effect of establishing legal precedents from which a normative international framework could be derived.

110. In this respect, recent statements by Soviet leaders on relations between COMECON and the Common Market could imply that in certain fields economic regrouping might be considered for the two parts of Europe on the one hand and the Soviet Union and the United States on the other.

111. All these developments can only take place gradually, in step with improvements in the international climate, and above all provided that there is a multilateral intergovernmental framework suitable for making the different juridicial systems more compatible.

NATO,
1110 Brussels

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FORMS AND EXAMPLES OF INDUSTRIAL CO-OPERATION

The classification adopted here is based on information supplied by the British Authorities and on ECE (Geneva) document E/ECE/844. The examples given came from the press and radio. They serve to illustrate the situation but are not exhaustive.

A. Licensing

One partner puts his superior technical knowledge at the disposal of the other:

- (i) the process alone is sold,
- (ii) to enable the plant to get going, some components and/or technical assistance are supplied, short-term.

This arrangement which frequently covers the sale of a process implies that the partner buying the licence is himself knowledgeable in the technology. In the context of "industrial co-operation" payment is made wholly or partly in the form of commodities produced. Licensing is the most usual form of industrial co-operation so far.

Examples of payment arrangement in return for knowledge (and equipment) provided by Western firms:

Poland/Sweden

Polish partner supplies relay devices for railway signal boxes.

Poland/Italy

Poland supplies (Fiat) parts and components for use in Italian models.

USSR/Austria

USSR supplies parts of agricultural machinery.

Poland/US

Poland supplies caterpillar tractors axles, excavators.

Hungary/Canada

Hungary supplies mini-computers.

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B. Leasing of Equipment

This arrangement is an alternative both to outright sale of equipment on the one hand and on the other to active participation by the Western partner in the Eastern country (joint venture). Numerically there are relatively few examples of this kind of co-operation. One quoted in E/ECE/844 is the contract between a West German firm and a Hungarian enterprise covering the leasing of equipment to manufacture ladies' underwear. There is also a growing trade in the leasing of containers to the East by Western countries.

C. Sale of Equipment

One partner supplies, in addition to knowledge, the plant and equipment which normally implies supervising installation and the running-in process. This arrangement is used where the partner acquiring the plant requires the equipment as well as the knowledge of the processes concerned. In these circumstances the outright purchase of the plant or the equipment is the simplest procedure and in fact in the past a great number of plants (over 200 chemical plants for instance) have been bought on credit from the West. In the context of industrial co-operation, however, repayment in the form of commodities produced is an essential part of the arrangement.

Examples of equipment exchanged for products

The most striking examples of this type of co-operation are the various big deals made by the USSR with German, Japanese, American and other firms to supply equipment for the development of raw materials such as petroleum, natural gas, timber, ore, against later repayment in kind.

Thus, the German firm Mannesmann supplies steel pipes (to transport gas) while equipment for the proposed new steel plant in Central Russia will probably be paid for by the export to the FGR of sponge iron pellets.

The Soviets have concluded a series of agreements with the US firm Occidental covering this type of transaction in oil, gas, fertiliser chemicals, metal processing.

An Italian firm (Montecatini Edison) will supply equipment for 7 chemical factors and the Russians will pay back in ammonia, etc.

The Finns as well as the Japanese are supplying forestry equipment and will receive payment in timber.

The East European countries too sometimes pay for equipment bought from the West in commodities produced but these are normally manufactured items. An example of this is the arrangement whereby a West German firm has sold to Roumania plant for casting iron pipes. The Roumanians will pay partly in pipe produced.

D. Co-production is, like licensing, a common form of industrial co-operation(1). It implies a certain equality between the partners and the existence of different cost positions which favour specialization of product or process. The contract between the two partners tends to be ad hoc covering a specific product or process. Although the contract may last some time it is not generally very flexible.

- The technology can be provided by one partner, or each may provide relevant technology. In some cases joint technical R/D is undertaken.
- Each partner manufactures certain components for the final product or a certain range of products.
- The assembly of components may take place in one or both countries.
- There are a variety of marketing arrangements, but the Eastern partner nearly always retains his own market.

Examples of Co-production

In a French-Soviet arrangement, machine tools embodying French technology are produced by a Soviet enterprise, while a French firm supplies the control devices.

There are many examples of co-production agreements between the East European countries and Western firms. In one case an Austrian firm co-operates with a Hungarian enterprise to produce buses. The Austrians supply the chassis, the engine, gearbox etc. while the Hungarians, who have experience in the field, assemble the buses. The French firm Berliet co-operates with a Polish enterprise in the production of buses and coaches. Under arrangements of this kind Renault (France) gets gearboxes from Roumania, the Swedish firm Mechan gets hydraulic controls from Hungary. Similarly Skoda machine tools go to the US and Hungary assembles mining equipment in co-operation with UK and West German firms.

(1) Hungary, Poland and Roumania are the Eastern countries most interested in this form of co-operation

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E. Sub-contracting

In the West a big firm often finds it useful to entrust the manufacture of particular components to small highly specialized firms. It also arises where one firm wishes to use temporarily the spare capacity of another. In the East-West context Western firms suffering from manpower shortage are ready to use Eastern capacity to fulfil the production programme.

From the East point of view the arrangement is an extension of the licensing system or the leasing of plant.

On the basis of documents and/or equipment received one partner manufactures components for the other on an ad hoc short term basis or on a longer term basis.

Examples of Sub-contracting

Hungarian firms have many contracts of this sort often with Austria and Switzerland. Two interesting examples of Roumanian sub-contracting are mentioned in E/ECE/844. In one case the Roumanians are building 12 roll-off, roll-on ferries for a Norwegian firm which supplies the designs and some special equipment. In the other case, in order to pay for passenger jets the Roumanians are building to British specification small aircraft - the whole output of which will go to the UK.

F. Joint Ventures

Partners join forces to manufacture a commodity or perform a service by committing capital and exercising joint control. The arrangement is suitable where the partners confidently envisage lasting co-operation. It is a natural phenomenon in a market economy as it gives maximum flexibility to the enterprise to adjust to circumstances. It is less appreciated in circumstances where enterprises are under strict central control as regards planning and production.

So far only Roumania and Hungary have followed the Yugoslav example in permitting the setting up of firms with foreign participation in enterprises.

Examples

The first joint venture likely to be approved is the sponsoring of a new enterprise in Romania by the Zahnradfabrik, Renk, to make machine gears. Other ventures envisaged include one with Italy for the manufacture of man-made fibre and one with the US for the manufacture of peripheral equipment for computers.

G. Joint Enterprises outside the Eastern countries

There is much less objection by Eastern countries to joint enterprises if they are located abroad. Many such firms have been set up to market Eastern products in Western countries, the control being mainly Eastern. A notable example of this is the Scandia-Volga concern in Belgium which assembles and sells Russian lorries and automobiles. Most of the East European countries have firms to market certain of their products, especially consumer goods.

It could be argued that such arrangements hardly come in the category "industrial co-operation" and should be regarded as long-term commercial arrangements.

The activity of the Polish construction firm abroad is interesting in this connection. In Denmark alone it is building a steelworks worth \$65 million, a 500 flat estate and an hotel.

Finally there is the joint activity of Eastern and Western enterprises in third countries such as Austria and Hungary in Turkey, Hungary and Italy in Greece.

H. Joint Research

In the West a great deal of industrial research is done by firms and industries. In the East research and development tends to be the task of the central organs. East-West co-operation in this sphere tends therefore to be between Western firms and official research bodies in the East. It is to be noted that the Soviet Union is very interested in acquiring technical knowledge through this channel. In countries where there has been decentralization of control, research co-operation with firms is possible.

Examples

The Soviet Union has concluded arrangements with many Western countries to exchange scientific and technical information. Thus with France on space, on auto design, atomic power stations, marine engineering etc. Up to now at least seven big West German firms have arrangements with the Soviet State Committee for Science and Technology to exchange information in various fields. There are similar arrangements with Italian firms (e.g. Innocenti on steel tubes), with the US General Electric on power engineering with the UK Rank Xerox etc. An example of joint research by firms is the arrangement between Krupp and Csepel (Hungary).

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