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ECONOMIC COMMITTEE

RECENT FLOODING IN ROMANIA: AN ASSESSMENT

Note by the Chairman

Please find attached a brief analysis prepared by the Economic Directorate of the possible impact of recent floods in Romania on that country's economic development. The data presented are based on examination of both the Romanian and Western press and on material provided by delegations, especially by the United Kingdom and the United States.

2. As the assessment is based on available information received up to mid-August only, delegations are asked to provide the International Staff with any subsequent reports or information on the flood damage and effects in order that a more comprehensive and up-dated report may be prepared.

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This document includes: 4 Annexes

N A T O C O N F I D E N T I A L

RECENT FLOODING IN ROMANIA: AN ASSESSMENT

Note by the Economic Directorate

Introduction

1. Early in July, Romania's austerity economy was hit by heavy rains which also caused serious flooding in other parts of Eastern Europe (Hungary and Czechoslovakia). Romania was the most seriously affected country with damage, especially to the agricultural sector, even more extensive than in 1970 when floods struck the nation dramatically. By contrast, loss of life was relatively low (62 persons reportedly were killed), and the industrial sector was not critically affected. Bucharest has appealed for emergency disaster relief, but also appears to have hyperbolised its aid requirements to the extent that they seem highly disproportionate to the extent of the damage: requests have been made for debt rescheduling, credits and outright grants to Belgium, France, the Federal Republic of Germany, Italy, the United Kingdom and the United States (see Annex I). Requests have also been made to world aid agencies; there are no clear indications that Romania's COMECON partners are either willing or able to provide the kind of aid Romania requires.

2. The effects of the flood damage on the current Plan targets are difficult to quantify at this stage but they are certain to aggravate Romania's spartan economy with its low living standards and shortages of a number of staples. The rapid industrialisation programme had been hampered by two poor harvests in the 1971-1974 period and it will now have to absorb the impact of another mediocre harvest this year in addition to the losses from flooding to industry. Moreover, the floods will certainly contribute to postponing plans to resolve Romania's balance of payments problems; whether this can be achieved to any considerable extent by restricting imports - Ceausescu's proposal - remains to be seen. Nevertheless, Ceausescu is continuing to call for Plan implementation ahead of time and, despite the recent disaster, is demanding the upward revision of certain key targets in the 1976-1980 directives.

EXTENT OF FLOOD DAMAGE

I. AGRICULTURAL SECTOR

3. Concrete figures are still unavailable, but according to US estimates total grain loss is expected to reach about 1.7 million tons, i.e. equal to over 10% of the 1974 harvest. Additionally, the flooding caused significant losses of sugar

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beet (750,000 - 1 m tons), potatoes, vegetables, fruit and livestock - Ceausescu's assessment was some 2½ million acres flooded (approximately 6% of arable land), 10,000-15,000 head of cattle (around 1% of total), 70,000 pigs, 100,000 sheep and some three million fowl destroyed.

4. More than half of Romania's 39 counties suffered flood damage with the greatest area affected in the central and southern regions, where some 60% of Romania's wheat and corn are produced. A Red Cross estimate was that some 22% of the 1975 harvest had been ruined: a Reuter report of 21st August, 1975 suggested a 25% loss: both evaluations at variance with available US evaluations.

II. INDUSTRIAL SECTOR

5. Information remains sparse, but between 150 and 270 industrial plants of varying capacity were reportedly damaged, although the bulk of these are now partially operative again.

III. COMMUNICATIONS

6. Over 1,500 miles of railway were temporarily disrupted and a small percentage (approximately 170 miles of track) destroyed.

7. A number of bridges were destroyed (37) as well as a small percentage of the road network (i.e. some 80 miles out of an 8,000 mile total), although cross country traffic was seriously hindered for a while. Additionally telecommunications damage has been assessed at some \$18 million.

IMPACT ON THE ECONOMY(1)

A. Internal Difficulties Worsen

8. Following a long-term pattern, austerity will remain the keynote of Romania's economic evolution throughout the rest of 1975 and well into the next Plan period (1976-1980) irrespective of the recent disaster. Ceausescu's policy of forced industrialisation has consistently maintained a lower socio-economic level than in the other COMECON countries (even Bulgaria). Nevertheless the Romanians refuse to admit that current Plan targets will probably not be met in a number of key sectors: in order to meet targets, workers' summer vacations have been cancelled and a seven-day week and evening overtime to meet 1975 targets seem to be the general rule.

(1) A detailed report on the Romanian economy for 1973-1974 was issued by the Directorate in April, 1975 (C-M(75)23).

9. Forced savings and reduced living standards may provide the basis for accelerated industrialisation, but few Romanians would accept the official claim, for example, that the "price and wage adjustments" announced some ten days after the floods began will boost the net income of the population. Nominal wages and salaries were increased 4%, but concurrently prices for fuels, building materials and a wide range of consumer goods (excepting food) were hiked, leaving the majority of workers worse off in real terms. Chronic supply problems have led to widespread hoarding, which in turn has depleted available stocks.

10. It is difficult to imagine that the Romanians will make concessions in the industrialisation programme, either for the rest of 1975 or through the next Plan period, despite the adverse conditions that will require additional sacrifices by the population. The Romanian leader continues to ask for implementation of targets ahead of time with the inevitable result that living standards will rise more slowly; if anything the pace will be accelerated with industrial output rising at an annual rate of 11.2% instead of 9-10%, and the share of national income allocated to investment - 33.5% - will be by far the highest ratio within COMECON.

11. On 22nd July, 1975 Ceausescu called for average agricultural output in the next Plan period to increase some 34-36% over the current Plan period average, although the original directives in this sector called for only a 25% hike. This significant upward revision is presumably due to the fact that the flood damage will keep agricultural output in 1975 well below planned targets and a huge effort will be needed to redress the imbalance over the next five years, both to meet basic consumer needs and the nation's strategic requirements.

12. The impact of the damage to the economy will probably cause some drop in real growth of NMP during the final year of the current Plan period. To offset this decline a great effort is being made to repair flood damage and drain inundated areas, while enterprises have been ordered to make every effort to recoup production losses by the end of 1975 by resorting to "extended" shift work.

13. The disastrous 1970 harvest required net grain imports of 1.2 million tons in 1971. It is reported by Deputy Agriculture Minister Stancin that due to the current flood damage, Romania will need to import at least 100,000 tons of feedgrain by the end of September. In addition, US observers feel that some wheat imports may be necessary for the following reasons: (a) wheat stocks are probably very low following

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last year's poor crop; (b) due to the poor quality of the 1975 crop, a larger proportion of the wheat will be used for animal feed and waste will be abnormally high; (c) Romanians have told WFP personnel that they need an unspecified quantity of wheat flour for emergency relief; and (d) some imports may be needed to help meet Romanian export commitments.

14. Also, because of the loss of feed supplies, the authorities are worried about the mortality rate of young livestock which could adversely affect next year's Plan fulfilment target(1).

15. On the industrial side, the textile industry appears to have been most seriously affected, although most damaged plants are expected to be back in operation by the end of September. Romania has directed all industrial units to boost output to compensate for lost production.

B. Aggravation of External Difficulties

16. Internal economic problems are seemingly paralleled by strain in the foreign trade sector. Recently, Ceausescu revealed that the Romanian balance of payments deficit with the industrial West rose in 1974 by a further \$200 million over 1973: in addition, it should be noted that Romania's aggregate indebtedness towards the West now stands at well over \$2 billion. The non-convertible trade surplus with the COMECON countries is a meagre compensation for Romania.

17. Since the floods, the Romanian government has retrenched its longer-term commitments with the West: Western companies in recent weeks have been unable to secure new orders and negotiations about agreements, already initialled, have also often been suspended.

18. The longer-term Romanian goal is still to solve the country's balance of payments problems and meet targets by importing only basic and raw materials over the next five years while satisfying demand for machinery from domestic output; it is clear that shorter-term requirements and goals will only be met through additional, substantial imports of goods which only the West can provide satisfactorily. In addition to sugar purchases from the World Food Programme, imports of sugar (for example) can also be expected in 1975-1976 from the West because of this year's crop shortfall. Textile plant will also have to be replaced, probably from the West, so as to avoid serious delays in Romania's export schedule.

(1) US sources report that during the next few weeks the Romanians will have to import protein supplements, vitamins and antibiotics for mixing with domestically produced grain for this livestock.

C. Romania's aid appeals to the West

(i) Humanitarian Aid

19. In order to cope with the immediate impact of the flood damage an appeal has been made for United States' emergency disaster relief - apparently at least 200,000 tons of feedgrain are required. Requests for construction and industrial raw materials have also been put forward although the need for them is less acute. An assessment on the extent of damage to machinery cannot be made at this stage but a representative of the United Nations Relief Agency in a Reuter statement on 29th July, 1975 commented that it would cost some \$5 million to replace damaged equipment imported from the West.

(ii) Non-Emergency Longer-Term Aid

20. Romania has contacted not only the United States but also Belgium, France, the Federal Republic of Germany, Italy and the United Kingdom both for outright grants as well as for debt rescheduling, credits and other assistance (see Annex I). So far there are no indications that the Soviet Union or Romania's other COMECON partners have been contacted by Romania for assistance or that they have offered concrete aid following the flood disaster, although Moscow will presumably make some gesture of assistance in the near future, if only to counteract or forestall possible offers of aid (not yet reported, however) from Peking.

D. Assessment of Aid Request

21. The impression is that as in 1970, Romania is again hyperbolising its claims of flood destruction in the hope of obtaining as much aid as possible, indeed of getting concessions which it might have sought even without the floods, especially as Romania's constant need for Western machinery and technology and higher prices on imported raw materials (about which Ceausescu has frequently complained) will keep the balance of payments with the West in the red well into the medium-term. Romania will also most likely request longer-term loans from the World Bank (first request in 1975 for \$100 m), draw on further Western government-guaranteed credits and request additional assistance from the Arab oil producers.

22. The current flood damage does present the Romanian leadership with the chance to obtain substantial longer-term credits and trading concessions normally unobtainable, a fact which could help Romania preserve or even increase its somewhat independent stance towards Moscow.

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23. Finally, consideration might be given to the concept that in its aid appeals, Romania is pursuing one or more of the following goals:

- (a) Exaggeration of extent of flood damage in the hope that the West will react generously and, thereby, believe it can perhaps promote Romania's autonomous status within COMECON. The current extent of aid appeal might also serve to help the Romanian leadership test Western cohesion in the economic co-operation sector with Eastern Europe and ascertain Western policy in this field.
- (b) Oblige Moscow to offset the possibly adverse reaction of extensive aid from the West by offering improved terms of trade and better credit conditions; additionally, the Romanians might hope for a wider margin of independence, at least in the foreign economic relations sector.
- (c) In a period of increased austerity for Romania, offering the population some hope of internal improvements following the rather successful diplomatic efforts by Ceausescu in recent years (e.g. IMF accession, MFN status by the United States).

24. In the light of the above analysis, it may, nevertheless, be concluded that Romania will not try to exploit its current economic problems through approaches to the West in an attempt to achieve much greater autonomy vis-à-vis Moscow. The country remains a highly centralist economic and political entity, primarily bound to COMECON under Moscow's tutelage. It seeks, however, an independent line in external relations as has been demonstrated hitherto by: (1) being the first COMECON country to be brought into the EEC's system of generalised preferences; (2) by stressing a more flexible attitude towards foreign investment and achieving easier access to Community markets, and (3) by seizing every opportunity to extract more economic advantages from the West - the current flood crisis offers the most recent example - in a currently difficult period both internally and externally, the Romanian leaders hoping concurrently that Moscow's attitudes will, consequently, become understanding.

ROMANIA'S AID APPEALS

Romania's aid appeals may be grouped into two categories:

- (a) Traditional disaster and humanitarian assistance.
- (b) Specific aid requests of a longer-term nature and not necessarily deriving from the flood disaster.

A. Humanitarian Aid

Emergency, humanitarian aid is being sought. It comprises essentially foodstuffs and medication for cattle, especially to ward off foot-and-mouth disease, help for the flood victims (accommodation, food for young children, etc.), grain and seed, and help to re-establish basic infrastructures. Appeals have been made to international organizations (e.g. UN Relief Agency) and to certain Western governments.

The following very tentative picture emerges as of mid-August of aid granted gratuitously by NATO countries:

FRG: grain, seed, cable, railway equipment
(value: DM. 10 million) German Red Cross
contribution of DM. 14,000

Belgium: Red Cross contribution of B.fr. 100,000

Netherlands: 10 tons of powdered milk

Canada: Emergency Relief Fund of CIDA
contribution of \$75,000

UK: water purifying equipment

Other offers of aid have reportedly been made by Turkey and the US.

B. Non-Emergency Aid

FRG: (i) larger textile imports requested by
Romania
(ii) extension of tariff concessions
(iii) attempts to obtain credits on 1970 basis,
i.e. 8½ years period with 3½ years' grace
at interest rate of 4½-4 3/4%

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- Belgium: requests for grain, sugar, soya, cellulose, paper, building materials and industrial raw materials
- Denmark: certain (non-specified) import quotas to be raised
- France: (i) general aid request to be clarified during Chirac visit
(ii) suggestions that import quotas be raised for a number of items including: sheep, textiles and clothing

Additionally Romania has asked France to support its request to the EEC for tariff concessions as a developing country. Finally, apart from requesting new credits at preferential rates, Romania has also called on France to purchase more Romanian products.

- UK: request for higher quotas of Romanian goods to be admitted into Great Britain, new long-term credits and requests for certain raw materials (e.g. coke).
- Italy: (i) request for debt rescheduling of commercial credits (new date: December 1976). Also call for Italy to import more Romanian products, including fuel oil, artificial fibres, cattle and footwear
(ii) request for preferential tariff on certain goods
(iii) request for urgently needed items on credit basis: pumps, coke and cast iron, pharmaceutical products for veterinary use, cables and building materials, seed, vehicles.

1976-1980 PLAN

Average Annual Increases

	Directives Adopted in November 1974	Ceausescu's Proposals in July 1975
	per cent	per cent
Social product (NMP)	8.0 - 9.0	9.0
National income	9.0 - 10.0	10.5
Total industrial production	9.0 - 10.0	11.2
Total agricultural production	4.6 - 6.0	6.0 - 7.2
Volume of foreign trade	11.5 - 12.5	12.3
Number in employment	3.0 - 3.5	3.2
Labour productivity (if working hours unchanged)		
- in industry	6.7 - 7.2	9.1
- in construction	8.4 - 9.4	9.4
- in rail transport	3.7 - 4.8	4.9
Real total income of population	6.2 - 6.5	6.5
Real wages	3.4 - 3.7	3.4 - 3.7
Real income of farmers from work done in APCs and private farms (per capita)	3.7 - 4.6	3.7 - 4.6
Volume of retail sales	7.0 - 7.7	8.0

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ROMANIA'S GRAIN TRADE(1)

	(millions of tons)				
	1970/71	1971/72	1972/73	1973/74	1974/75(2)
Imports	1.1	0.4	0.3	0.6	1.1
Exports	0.3	0.2	0.9	0.2	0.2
Net Imports(3)	0.9	0.3	-0.6	0.4	0.9

(1) Year beginning 1st July. Excluding rice. Entries may not add to totals because of rounding.

(2) Forecast by USDA

(3) Minus denotes net exports

ROMANIA'S SELECTED GRAIN CROP OUTPUT

	(millions of tons)				
	1970	1971	1972	1973	1974(1)
Wheat	3.4	5.7	6.0	5.5	4.9
Barley	0.5	0.8	0.8	0.7	0.9
Corn	6.5	7.8	9.8	7.4	7.2
TOTAL GRAIN(2)	10.6	14.5	16.9	13.8	13.2

- (1) 1974 data are provisional or USDA estimates. Entries may not total because of rounding.
- (2) Includes rye, oats, buckwheat, millet, spelt, mixed grains and rice.

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