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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF: BULGARIA

Record of the Meeting held on 2nd July, 1965

Note by the Chairman

The International Staff has prepared the attached draft record of the meeting held on 2nd July, 1965 on the Bulgarian economy. Should participants in the discussion wish to propose amendments, they are invited to send them to the International Staff before 31st August, 1965.

(Signed) A. VINCENT

OTAN/NATO,  
Paris, XVIe.

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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY  
REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF  
BULGARIA

Record of the meeting held on 2nd July, 1965

The CHAIRMAN welcomed the presence of:

Dr. Czybulka, Ministry of Economics, Bonn.  
Dr. Völze, Ministry of Economics, Bonn.  
Mr. Fouchet, Deputy Director, Ministry of Foreign Affairs,  
Paris.  
Mr. D. Trice, Economic Counsellor, United States Legation,  
Sofia.

2. The Chairman recalled that the meeting was the sixth in the series of examining sessions on economic developments in Eastern Europe. He thanked the German Delegation for the interesting and comprehensive report which they had prepared and invited Dr. Czybulka to open the discussion.

I. INTRODUCTION AND GENERAL BACKGROUND

3. Dr. CZYBULKA referred first to the statistical data contained in the German paper. He said that various different sources had been used: official Bulgarian statistics, statistics published by other Communist countries and estimates by western specialists. He stressed the dubious reliability of much Bulgarian statistical information, and said that for this reason the latter had been supplemented where possible by United States estimates and reports by businessmen and other travellers returning from Bulgaria. Some comparison had also been drawn with the Soviet-occupied Zone of Germany. He mentioned that, since the completion of the German paper, the Bulgarians had published additional statistical data which should be incorporated where relevant in the Sub-Committee's final report.

4. Dr. CZYBULKA said that the Bulgarian economy had developed considerably during the past twenty years of Communist rule. This was particularly true of the industrial sector where priority had up till now been given to heavy industry. However, industry had not been required to divert much of its output to military ends, since 95% of Bulgarian military equipment was supplied by the Soviet Union. Questioned by Mr. BREECHER (United States) as to whether he thought the rate of growth might slow down in the future, Dr. CZYBULKA said that he thought this was probable.

5. The Bulgarian Authorities had published a long-term plan covering the years 1961 to 1980, according to which the objective of the régime was the "transformation of society". It seemed, however, that this plan had, at least in part, been tacitly abandoned. According to Dr. CZYBULKA, Bulgaria was the first of the Eastern European countries to have completed the socialisation of its economy. This point was disputed by Mr. PERRON (Canada) who claimed that this distinction belonged to Czechoslovakia which, since 1960, had officially styled itself a "socialist republic" whereas Bulgaria was still a "people's republic".

6. Mr. FOUCHET remarked that Bulgaria was an under-developed country and that in this respect it differed from most of the other Eastern European nations. The over-optimistic goals of the fourth five-year plan had not been realised, and there were reports that the fifth five-year plan, which was now being prepared, would be less ambitious and more realistic.

## II. INTERNAL ECONOMIC SITUATION

7. Mr. TICE said that the population appeared apathetic towards the régime and towards the Party Secretary, Zhivkov, in particular. Among the people it was widely held that real wages had fallen since 1961. The régime seemed sensitive on this subject and in a recent speech Zhivkov had gone out of his way to assert the contrary, citing numerous figures to prove his point. According to both Mr. FOUCHET and Dr. CZYBULKA, there had recently been a certain slackening of internal trade. Mr. TICE, however, felt that this may have been due to a reduction of the activities of unofficial middlemen and that there had been an improvement in both the quantity and the quality of goods available to the consumer.

8. On the question of wages and salaries, Mr. TICE said that no official data on this subject were published by the Bulgarian Authorities but his impression was that the wages of unskilled workers were generally between 60 and 90 leva a month and those of skilled workers between 70 and 110 leva a month(1). He could give no indication of the approximate average salaries of managerial staff. However, the standard of living of the managerial class did not depend entirely on the level of their salaries since they enjoyed substantial benefits in kind(e.g. the use of houses, cars, etc.).

9. Questioned by Mr. BREECHER upon the nature of the new methods of planning and management which were being introduced in the Bulgarian economy, Mr. TICE replied that no really comprehensive account of the new system had been published.

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(1) At the official rate of exchange the leva is worth \$0.85. This rate however is artificially fixed and cannot be used to compare real wages in Bulgaria with those in western countries.

Nevertheless, it was possible to obtain a general idea of the principles involved by piecing together the numerous bits of information on this subject which had appeared in the Bulgarian press over the past year.

10. The enterprises, it appeared, received from the central planning agency targets for their total output expressed in value terms, and certain broad instructions concerning the assortment of output. Prices were also to be centrally fixed, and constituted the main lever by which the central planners would control the activities of the individual enterprises. The latter were now encouraged to maximise profits and were allowed considerable freedom in choosing their sources of supply and in selling their output. The implementation of the new system was proceeding rapidly. By the end of 1965, 30% of all industry, including 95% of the light and food industries, would be working under the new system, and during 1966 it would be extended to cover the entire machine-building industry. Recently there had been a number of organizational changes in the Ministry of Agriculture which suggested that the new system was to be applied in the farming sector also, probably during the 1965 to 1966 crop year.

11. Mr. FOUCHET asked how profits and losses would be distributed between the enterprise and the central government. Mr. TICE replied that the enterprise's profits would be divided up as follows: a first part would be paid to the central government in the form of tax, a second part would be retained by the enterprise and placed in its own investment fund and a third part would be distributed in the form of bonuses to employees. The basic wage or salary of the employee would be set at 80% of his average total earnings during the previous year. Any additional earnings would be in the form of a bonus depending upon profits. The position of enterprises which continued to work at a loss was not yet altogether clear. According to some reports, such enterprises would be "disbanded" but this term could be interpreted in various ways.

12. Mr. FOUCHET asked whether the greater autonomy now enjoyed by the enterprise would be extended to the field of foreign trade. In this connection, the experience of the French Authorities had been interesting. In the course of trade negotiations between France and certain Eastern European countries, in which reforms similar to those now being applied in Bulgaria had been introduced, the representatives of these countries had sought to obtain a wording of the agreements which would in fact have permitted the individual enterprises to ignore commitments undertaken by their central governments, should it have suited them to do so. They had used the new "autonomous" status of the enterprise in their countries to justify this demand, which the French Government had of course firmly refused to accept. Were these tactics likely to be repeated by Bulgaria as a consequence of the new status of the enterprise there? Mr. TICE replied that he did not think a

serious conflict between the terms of a trade agreement and the interests of individual enterprises was likely to arise since the two should, at least in theory, be integrated and mutually consistent.

13. Mr. POTTER (United Kingdom) observed that there had been more economic experiments in Bulgaria in relation to its size than in any other East European country. His Authorities wondered whether the Soviet Union might be using Bulgaria as a testing ground.

14. Mr. du MOULIN (Belgium) asked Mr. Tice for his impressions of the Bulgarian technical and managerial personnel. Were they energetic or apathetic? Responsive to new ideas or dogmatic? Pro-western or anti-western? Mr. TICE said that a large number of those holding responsible posts in the economy held them more in recognition of their past services and political reliability than because they were technically qualified. These people were naturally conservative and hostile to any change which might threaten their position. However, they were now gradually being replaced by a younger generation of technocrats who were less ideologically committed and generally more open-minded. In the technical sphere particularly, there was considerable awareness of western progress and achievements and a keen desire to learn from the West.

15. Referring to the steel plant at Kremikovci, Dr. CZYBULKA asked whether this was well located geographically. Mr. TICE replied that the site had been chosen on account of its proximity to the ore-beds which were about 7 Km. away. Coal, however, had to be imported. At the moment about 50% of the ore supplies also had to be imported, although when the enriching plant was completed, some time in 1966, the enterprise would use local ore supplies only. Fumes from the blast furnaces were causing considerable pollution of the atmosphere in the neighbourhood of Sofia.

16. Mr. BREECHER asked whether economic factors had played any part in the abortive plot of April 1965. Mr. TICE replied that the real motives of the conspirators were not known, but there had been rumours that among the issues involved was that of the planning reform and also the future of the Kremikovci plant. There seemed to be some disagreement as to whether the latter should be enlarged. To some it was a symbol of Bulgaria's industrial progress, whilst others regarded it as something of a white elephant.

### III. BULGARIA'S TIES WITH THE SOVIET UNION

17. Mr. TICE gave it as his opinion that the so-called traditional and cultural ties between Bulgaria and the Soviet Union, although the theme of much official propaganda, were more apparent than real. The real ties were essentially of a military, economic and political nature.

18. In the military field Bulgaria was almost entirely dependent on Soviet deliveries of arms and equipment. There were a number of high-level Soviet military advisers attached to the Bulgarian armed forces, but there did not appear to be many Soviet troops stationed on Bulgarian soil. Asked by the CHAIRMAN under what conditions Soviet arms deliveries to Bulgaria were made, Mr. TICE replied that this remained a closely guarded secret. He felt that such deliveries were probably included in the trade turnover between the two countries, but he could not say whether they were made on credit or not.

19. Mr. TICE next referred to the wide measure of political control exercised by Moscow over Bulgaria. It was rumoured that the April plot had been discovered by the Soviet intelligence services, whilst Suslov's visit to Bulgaria shortly afterwards was commonly referred to as a "tour of inspection".

20. Economically, Mr. TICE continued, Bulgaria was heavily dependent upon her COMECON partners and particularly upon the Soviet Union. Of Bulgaria's total foreign trade, 80% was with COMECON as a whole and 50% with the Soviet Union alone. Moreover, the latter country had extended very substantial credits to Bulgaria - 465 million roubles in 1964 alone. The CHAIRMAN observed that partly no doubt as a result of this dependence Bulgaria appeared to accept with docility the rôle allotted to her in COMECON plans for the division of labour among member countries. Mr. TICE agreed, saying that Bulgaria considered active participation in COMECON as the most promising means of developing her own industry. He doubted whether the Soviet Union would have granted such large credits to Bulgaria if the latter had not adopted a co-operative attitude in COMECON. In any case, it was very doubtful whether Bulgaria would be able to find markets elsewhere for many of the products which at present she exported to her COMECON partners.

21. The Soviet Union clearly exercised considerable influence over Bulgarian economic policy. The Bulgarian currency reform of 1961 was modelled closely upon that carried out in the Soviet Union a year earlier. In 1964, following an exchange of visits between the Soviet and Bulgarian Ministers of Light Industry, an official announcement was made concerning the priorities for the development of Bulgarian light industry in the coming years. This was interpreted in some quarters as indicating that Bulgaria's economic policy was dictated by Moscow. Mr. FOUCHET thought that Moscow's intervention may have been designed to give Bulgaria the green light for a change in priorities in favour of light industry.

22. Mr. POTTER referred to the ways in which Bulgaria's indebtedness to the Soviet Union might affect Bulgarian economic policy. It might be argued for example that Russian pressure upon Bulgaria to make herself more efficient had the effect of stimulating the movement towards economic reform. At the same time, Bulgaria might run the risk of losing further Russian credits if she went too far in exploring methods of co-operation with the West.

23. Mr. BREECHER summarised the opinion of Bulgaria held by his Authorities. It was the most docile and obedient of the satellites, and economically more dependent upon the Soviet Union than any other of the Eastern European countries. Nevertheless, his Authorities did not feel that Bulgaria need necessarily always remain so closely tied to Moscow as she was now. The United States Government had, in 1960, resumed diplomatic relations with Bulgaria after a lapse of eleven years.

#### IV. EXTERNAL ECONOMIC RELATIONS

24. Mr. BREECHER asked whether there was a genuine desire on the part of the Bulgarian Authorities to increase trade with the West. He observed that, according to the German paper, the Bulgarian long-term plan provided for an absolute increase in the volume of foreign trade with non-Communist countries over the period 1965 to 1980, but that the share of such trade in Bulgaria's total trade would fall.

25. Dr. CZYBULKA replied that in his Authorities' opinion there was a real desire on the part of the Bulgarian Authorities to increase trade with the West. In the case of the chemical industry, to the development of which the Government attached great importance, imports of western equipment would be indispensable.

26. Mr. FOUCHET said that the principal obstacle to an expansion of Bulgaria's trade with the West was of course the very limited range of products which the Bulgarians could offer for export. Apart from tobacco, sunflower seed and canned fruit and vegetables, they produced virtually nothing of interest to western-buyers. He asked whether, in view of this situation, the Bulgarians were endeavouring to diversify the range of products available for export.

27. Mr. TICE replied that at present the Bulgarian Authorities appeared to be concentrating their efforts on finding new outlets for their traditional exports. It had also been suggested that it would be more rational to change the structure of Bulgarian agriculture so as to produce less grain and more fruit and vegetables. Some of the currency earned from exporting the latter could then be used to import grain. Mr. PERRON confirmed this. The Bulgarian Authorities, he said, had made the same point in conversation with Canadian officials.

28. In the long run, however, according to Mr. TICE, the policy of the Bulgarian Authorities was to improve the quality of their industrial products so as to be able to sell them abroad. With this end in view, no doubt, official propaganda constantly stressed the need to raise the quality of output to "world standards". Already Bulgaria exported some manufactured goods such as furniture and electrical lifting equipment to the Soviet Union, but it was doubtful whether these would be competitive in western markets.

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29. Mr. FOUCHET remarked that Bulgaria appeared to have a deficit in its overall balance of trade. How was this covered? Mr. BREECHER (United States) said that he thought it was covered by credits from western countries. Mr. TICE pointed out that Bulgaria earned some foreign currency through tourism. No figures concerning this were available, but he did not think that the amount involved was very large. Tourism presented the Bulgarian Authorities with something of a dilemma. On the one hand they were anxious to earn foreign currency; on the other hand they did not take kindly to the opportunity for increased contact with foreigners which the inflow of tourists afforded to the population. Although they tried to confine tourists to the Black Sea resorts, they found that in practice it was difficult to do so.

30. The CHAIRMAN reminded the Sub-Committee that some other Eastern European countries had recently made overtures to western economic organizations such as GATT and the European Economic Community. Were there any reports of similar initiatives by Bulgaria? Dr. CZYBULKA replied that he had heard of no such move. The European Economic Community was not favourably regarded by the Bulgarian Authorities and was the subject of frequent vituperative articles in the press.

31. Dr. CZYBULKA said that Bulgaria had shown an interest in the possibility of joint projects to be run in partnership both with western firms and with enterprises in other Communist countries. In his view, this was a practice which might become more widespread in future. Mr. POTTER said that his Authorities had the impression that the Bulgarians were less opposed on ideological grounds than any other East European country to the idea of joint projects with western companies and were prepared to talk in quite radical terms about co-operation of this kind.

32. Mr. TICE stated that a Bulgarian enterprise, "Rhodopa", had recently made proposals to a United States poultry firm for a joint project to produce poultry feed. The Bulgarians apparently hoped that this might enable them to become the main suppliers of poultry feed within COMECON. The United States firm had been offered participation on a fifty/fifty basis, but the most interesting and surprising feature of the case was that the Bulgarians had offered to entrust the management of the enterprise entirely to the United States company. The latter had been extremely surprised at this proposition and had not yet decided whether or not to accept.

33. Mr. FOUCHET said that he had heard of one or two other proposals for joint projects. One had concerned a hotel, but the Bulgarians had in this case insisted on managing the enterprise themselves. Up till now, in his experience, the Bulgarian response to such proposals had generally been rather negative. The Bulgarians had been inclined to say that no such venture could be undertaken until after the introduction of the new planning

and management system, and that extreme caution would be necessary in order not to upset the Russians. The case referred to by Mr. Tice was to the best of his knowledge unique. In the past, joint projects proposed by Communist countries had not, in fact, fulfilled the necessary conditions of a mixed company in the true sense of the term; namely that capital, profits and management should all be shared. In reality, the Communist proposals had generally amounted to disguised requests for loans at low interest rates.

34. Mr. BREECHER said that he had heard a lot of talk about the possibility of joint projects, not only in Bulgaria but also in other Communist countries, but that, as far as he knew, none of these projects had ever materialised. He wondered whether the proposals by the Communist countries for such projects were really serious. Mr. FOUCHET thought that the fact that there had been so many proposals of this kind indicated that the Eastern European governments were genuinely interested.

35. The CHAIRMAN pointed out that a small number of mixed companies, jointly financed and managed by western and Communist enterprises, had existed for some time in western countries. Mr. FOUCHET cited as examples the Banque de l'Europe du Nord and some small trading and manufacturing companies in France. It was also not unknown, he said, for enterprises from Communist countries to sub-contract for work from western firms.

36. Mr. TICE said that there were a number of factors in the "Rhodopa" case which rendered it rather different from others. In the first place, the United States poultry firm, to which the offer of a joint project had been made, had already negotiated a licensing agreement with "Rhodopa" for the running of some broiler farms. The need to procure supplies of poultry feed for these farms had apparently induced "Rhodopa" to propose a joint project to produce such feed. Moreover, "Rhodopa" was a rather unusual enterprise. It was the second largest trading firm in Bulgaria, and the director was a personal friend of Zhivkov. The enterprise was already engaged in a co-operative venture with the Ethiopian Government, the Red Sea Development Corporation, with headquarters in Asmara. This rather unusual background might explain the abnormal degree of initiative that it had displayed.

37. Referring to the prospects of possible western initiatives to loosen Bulgarian ties with the Soviet Union, Mr. FOUCHET said that it could hardly furnish a basis for any such initiative. Mr. POTTER said that in April this year the United Kingdom had made certain proposals to the Bulgarian Government. These entailed the removal of some restrictions upon Bulgarian exports to the United Kingdom, subject to an undertaking by the Bulgarian Government that neither the volume of these exports nor the prices at which they would be sold would be such as to disrupt the British Market. Somewhat to the surprise of the British Authorities, the Bulgarians had accepted these proposals, and apparently expected the volume of Anglo-Bulgarian trade to double as a result.

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V. SUMMARY AND CONCLUSIONS

38. Summing up the discussion, the CHAIRMAN said that Bulgaria's economic development appeared to have progressed quite successfully up to now, but that the rate of growth was likely to decline in future. The exchange of views had shown clearly that Bulgaria was heavily dependent, militarily, economically and politically, upon the Soviet Union. For the moment, there seemed to be little that the NATO countries could do about this, although of course they should continue to follow the situation closely in the hope that sometime an opportunity for initiative on their part might arise. He wondered whether the example of the United Kingdom in liberalising its trade with Bulgaria might not profitably be followed by other western countries. However, he felt obliged to point out that several of the commodities exported by Bulgaria, for instance tobacco, were such as were likely to compete with those of certain NATO countries, particularly Greece and Turkey. Members of the Alliance should take care to ensure that an increase in imports from Bulgaria, should it prove feasible, was not achieved at the expense of Greece and Turkey.