

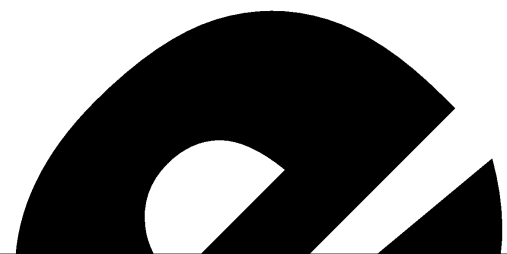


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Doing Business With Poland

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July 1972

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1972

INTELLIGENCE MEMORANDUM

DOING BUSINESS WITH POLAND

Introduction

1. In doing business with Poland, Western governments and businessmen have learned to do much, or most, of the work involved in bridging differences in economic policy, institutions, and attitudes. The US Government will become more involved in such efforts through the mixed US-Polish commission to be set up this year to facilitate trade. This memorandum briefly considers some of the main factors with which US officials will be reckoning - the Polish regime's economic objectives and problems, its specific hopes and limitations in the field of foreign trade, and the conditions for negotiating and carrying out business deals with Poland.

Summary

2. Since Edward Gierk and his supporters took over in Poland in December 1970, they have brought a new urgency to the task of stimulating Polish economic growth. The productivity of Polish industry increased very slowly in the 1960s, and urban workers saw little improvement in their living conditions. Gierk and his supporters feel they must do better.

3. The new leadership counts on trade with the West to help in realizing its ambitions. The Poles hope to change the composition of this trade, increasing the share of manufactures in exports and the share of technically advanced machinery and equipment in imports. In fact, much of the large amount of new machinery needed to modernize the structure of the Polish economy must come from the West. There is an acute shortage in the Communist world of equipment for high-priority industries, and all the Communist countries are looking to the West for help in developing the same fields - petrochemicals, automobiles, food processing and packaging, textiles, and supporting industries and services.

Note: This memorandum was prepared by the Office of Economic Research.

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4. Polish leaders are planning to buy during the current plan period (1971-75) some US \$2.5 billion worth of plant and equipment in the West, double the amount in 1966-70. They are ready to go deeper in debt to finance some of these imports - trade plans imply an increase in indebtedness to the industrial West from about \$1.2 billion in 1971 to as much as \$2 billion by 1975. The Poles are prepared to buy about \$400 million of the total imports of equipment from the United States. But, as Poland is fully aware, most of what it wants can be supplied from a good many Western countries - including West Germany, Japan, Italy, and the United Kingdom - and these countries will compete for the business. The United States will have to meet this competition, and the Poles, of course, hope that the US effort will lead to even more attractive Western terms.

5. The Poles are concerned to obtain the most favorable interest rates, repayment periods, and other terms for major deals with the West, although they are less rabid than the Soviets about interest rates. They are also embarked in an effort to beat down Western trade barriers, mainly nontariff barriers. Moreover, they will use whatever leverage they have as customers to increase Polish exports of manufactures, most of which have found rough sledding in Western markets. Chief among the means are arrangements for partial repayment of credits with goods and various kinds of joint ventures with big exporting firms.

6. Finally, the Poles have come to expect Western governments and firms to absorb most of the special costs and pains of doing business with them. A good deal of time and effort must be invested in educating Polish customers and in serving as stalking horses for deals with other countries. Western trade representatives are expected to endure cheerfully the rather severe restraints on their access to people and information in Poland, and to learn for themselves the informal channels and means - sometimes including bribery - through which business is done in Poland. Formal intergovernment channels are used by the Poles, as by the other East Europeans, chiefly to lobby for favorable action on their claims and expectations. They will surely expect the same of the new US-Polish commission.

Discussion**The Economy Under Gierak**

7. Favorable short-run economic trends and a candid approach to Poland's longer run problems have won the Gierak regime considerable public acceptance in the year and one-half since the Polish riots. Gierak

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took care to remove the immediate causes of the riots within a few months of taking power. He rolled back food prices, which had been boosted during the Christmas season of 1970; imported emergency meat supplies; and scrapped an unpopular incentives system that was ready for general introduction in industry. In contrast to Gomulka, Gierel went directly to the workers to hear their complaints, and he has continued to do so. He also has rewritten Gomulka's 1971-75 plan, edging up the goals for raising the standard of living. But as he has told the workers, substantial improvements probably cannot be achieved even by 1980.

8. Gierek's campaign to win the confidence -- and patience -- of the workers has been helped by good economic results. Personal consumption rose strongly in 1971, sparked by large increases in imports of meat and other consumer goods, a drop in prices of consumer manufactures, and a 5% rise in real wages. Investment and industrial output also increased sharply and agricultural production grew by a healthy 4%. Trade trends also were favorable -- solid gains in exports to the West gave Poland a \$113 million trade surplus in 1971 in spite of the added imports of meat.

9. The rapid growth of output is continuing this year. In the first five months, increases in investment, industrial production, employment, and labor productivity all were above plan. Because crop prospects thus far are only average, the agricultural sector will be hard pressed to achieve half of the overall 4.6% increase planned for 1972. However, purchases of animals for slaughter, and of milk and eggs, are running higher than expected. Thus far, wages are rising by an extremely fast 10%. Trade, at least through April, is booming; exports are up by 29% and imports by 24%.

10. Although the economy is off to a good start, many of Gierek's 1971-75 goals still are highly optimistic. The plan projects a more rapid yearly increase in national income than achieved in 1966-70, but with a slower growth of investment and employment than in that plan period. This combination of targets depends on achieving both substantial gains in productivity and major shifts within industry. The most dramatic structural change is slated for the high-priority chemical industry; investment in producing synthetic fibers and plastics is to rise from 20% of all chemical investments in 1966-70 to 47% in 1971-75, largely offset by a sharp plunge in the share of chemical fertilizers from 23% to 6%. Within industry as a whole, the share of food processing and consumer goods production in investment also is to increase.

11. Trade plans -- also ambitious -- call for a growth of exports at 9% compared with the 10% annual rate achieved in 1966-70. Imports are to rise at almost a 10% annual rate, compared with 9% in the last five-year

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plan period. Little if any change is foreseen in the geographic structure of trade. Poland will continue to depend heavily on trade with CEMA countries⁽¹⁾ for major raw material supplies and for most exports of machinery and other manufactures. CEMA and other Communist countries will still account for about two-thirds of total turnover, and one-half of that will come from the USSR.

Trade with the West

12. Even though Poland will continue to rely heavily on domestic output of investment goods and on purchases from the USSR and Eastern Europe, the West will play a key role in Gierek's plans to restructure and modernize Polish industry. In addition to a strong preference for Western technology, there is a shortage of the right kinds of equipment in the CEMA area. Thus Poland is joining other Communist countries in seeking Western machinery on favorable terms in order to develop the same industries - plastics, petrochemicals, automobiles, food processing, textiles, and support industries.

13. Even the cautious Gomulka regime vigorously sought, especially in the late 1960s, to obtain trade, credit, and market concessions from Western countries. Poland has been a full member of GATT since 1967 and conducts one-third of its trade with the West - more than any other CEMA member except Romania. Trade turnover with the West has more than quadrupled since 1955, reaching \$2.7 billion in 1971 (see Table 1).⁽²⁾ Trade with the industrial West now accounts for three-fourths of this turnover. Trade with the less developed countries (LDCs) has been slipping as a share since the mid-1960s, when it accounted for about 30% of Poland's non-Communist trade. West Germany surpassed the United Kingdom as Poland's main Western trade partner in 1970. Following these two countries in importance are Italy, the United States, and France.

14. Poland has run trade deficits with the industrial West in 8 of the 11 years between 1961 and 1971 (see Table 2). Small trade surpluses were achieved in both 1970 and 1971. Poland has done better in this respect in trade with the LDCs. In fact, since trade balances with many of these countries are settled in hard currency, Polish surpluses have been very useful in making payments on credits from the industrial West.

15. Imports from the West have provided machinery of advanced technological design, rolled metals, chemicals, and raw materials for light industry (largely textile fibers, fabrics, and yarns). Large grain imports have helped to boost livestock production for both domestic consumption and

1. The Council of Mutual Economic Assistance includes the USSR, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and Mongolia.

2. The tables are in Appendix A.

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export. Poland still receives almost 80% of its imported machinery from CEMA countries. The West, however, provides more than one-half of total imports of chemicals, processed foods, and articles of light industry. For the commodity composition of trade by geographic area, see Table 3.

16. Poland's ability to export to developed Western countries is presently limited mainly to agricultural products and industrial materials - hard coal, ores, and metals. The economy is still geared to produce for the domestic and other Communist markets and is not generating manufactures, especially equipment, that are readily salable in the West. In fact, in 1970, only 7% of Polish exports to the industrial West were machinery and equipment. Polish machinery sells much more readily in the LDCs, accounting for two-fifths of exports to the LDCs in recent years.

17. Polish indebtedness to the industrial West on medium-term and long-term credits is estimated at about \$1.2 billion at the end of 1971. This includes about \$700 million owed to Western Europe and Japan, and about \$500 million to the United States, mainly for Commodity Credit Corporation (CCC) credits and very long-term P.L. 480 loans. In addition, the USSR reportedly extended a hard currency credit of \$100 million for purchases of meat in 1971-72; it is not known whether all of this loan has yet been drawn. Poland's debt position with Western Europe and Japan is summarized in Table 4.

US-Polish Relations

18. Poland has long had considerably more trade with the United States than any other East European Communist country. By 1971 this trade totaled \$180 million compared with \$66 million for Romania, the closest contender. Polish imports from the United States dropped drastically in 1965 after the withdrawal of P.L. 480 credits and by 1971 were still only one-half of the 1964 level (see Table 5). The trade likewise shifted in 1965 from a deficit to a surplus. During the past seven years, Poland has run a cumulative surplus of \$212 million in trade with the United States. This compares with a cumulative deficit of \$498 million during 1957-64. Part of the surplus has been used to make payments on past credits and on the claims agreement signed in 1960.

19. Poland is the only East European Communist country to have drawn heavily on US credits. During 1957-66, Poland drew \$538 million in P.L. 480 credits, \$61 million in Mutual Security Act loans, and \$22.9 million worth of Export-Import Bank guaranteed credits for the purchase of agricultural commodities. In addition, drawings on CCC credits totaled \$134 million during fiscal years 1963-71. Outstanding indebtedness

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5

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on P.L. 480 credits amounted to \$402 million on 31 January 1972.⁽³⁾ Indebtedness on CCC credits, which are payable in equal installments over three years, was roughly \$40 million as of mid-1971. During fiscal 1972, Poland drew about \$60 million in CCC credits. In addition, Poland owes \$5 million on the surplus property loan of 1946 and \$50 million on the Mutual Security Act loans of 1957, 1958, and 1959.

20. In commodity structure, Poland's trade with the United States is quite different from its trade with Western Europe. The present pattern of trade mainly involves an exchange of Polish hams and semi-manufactures for US grain and other agricultural commodities (see Table 6). Imports of machinery and equipment made up only 4% of total Polish purchases from the United States in 1971.

21. An example of one of the few equipment orders placed in the United States is the \$7 million contract signed by Polimex-Cekop with DuPont and Petrocarbon Developments, Ltd. of the United Kingdom in November 1971 for the construction in Pionki of a plant based on Corfam technology. About 85% of the equipment is to come from the now-closed DuPont plant at Old Hickory, Tennessee, and the remainder from Petrocarbon. DuPont has granted Poland exclusive selling rights in Poland and selling rights in all other countries except the United States and Japan. The plant is scheduled to begin operation in 1974 and to have a capacity of about 2 million square meters a year. The Polish product is to be sold under the trade name of Polcorfam. Another contract signed in 1971 was that with Epstein Process Engineering for the purchase of \$8 million worth of cooling plants.

22. Polish sales to the United States have more than tripled since the reinstatement of most-favored-nation (MFN) status to Poland in 1960. Poland's desire to establish hard currency markets despite price considerations, and the fact that Polish hams and semi-manufactures have long been salable here, undoubtedly played a major role in achieving this increase, but the availability of MFN facilitated this drive.

Trade Plans

23. In the effort to increase its competitiveness in the sale of manufactures in Western markets, Poland plans a huge increase in imports

3. A large part of the repayment on P.L. 480 loans currently is in Polish zlotys. Poland's current annual payments on P.L. 480 amount to almost \$50 million, of which only some \$15 million is in hard currency. P.L. 480 zlotys so far have been used to finance cultural, scientific, and medical projects in Poland and to some extent to finance US Embassy expenses. Any other uses, such as for advertizing and commercial publicity, would have to be negotiated with Polish officials.

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of advanced capital equipment. The plan for 1971-75 calls for imports of machinery and equipment from the West worth \$2.5 billion, twice the level of such imports in 1966-70. The Poles expect these imports to result in a trade deficit with the industrial West of \$70 million in 1975. Although the regime expects a positive balance on services with the West, sizable new credits will be needed to finance the current account deficit over the period.

24. Planned purchases are to raise the share of machinery and equipment in total imports from the industrial West to more than 40% in 1975, compared with 28% in 1970. The share of fuels and consumer goods in imports from the West also is expected to increase, while the share of agricultural materials and foodstuffs is to decline sharply.

25. The planned change in the structure of exports to the industrial West is far less dramatic. Poland expects a slight increase in the share of machinery and equipment, chemicals, textiles, and other industrial products, and a small decline in the share of traditional exports — foodstuffs, raw agricultural materials, fuels, and ores and metals.

26. The trade plan for 1971-75 indicates a willingness to increase hard currency indebtedness by drawing heavily on long-term Western credits. In fact, the regime is prepared to increase its import targets if it can either achieve above-plan exports or find new sources of credits. Since the Poles expect inflationary trends in the West to continue, they regard it as good business to buy on long-term credit; the Gomulka regime has been accused of shortsightedness in failing to take full advantage of available credit. As the plan now stands, Poland hopes to finance as much as 60% of its imports of Western machinery and equipment by means of credits of seven or more years. In addition, the country presumably will receive some shorter term credits so that by the end of 1975 hard currency indebtedness on medium-term and long-term credits might total \$2 billion. Debt servicing during 1971-75, excluding the \$500 million owed to the United States, might run as follows:

	<u>Million US \$</u>				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Repayments on credits drawn prior to 1971	165	145	113	80	50
Repayments on credits drawn during 1971-75	0	19	77	126	182
Total repayments	165	164	190	206	232
Interest payments	41	48	57	69	83
Total debt servicing	<u>206</u>	<u>212</u>	<u>247</u>	<u>275</u>	<u>315</u>

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7

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27. Poland's chances of getting the needed credits are good. Many Western countries are eager to boost sales of machinery and equipment to Poland, and the Polish record for making repayments (including those to the United States) is spotless. Also, present debt servicing -- more than one-fifth of exports to the industrial West -- is not beyond Poland's capabilities. Although the debt servicing to export ratio is high by Western standards, it is quite respectable by East European standards. The ratio is 40% for the Romanians and 20% for the highly conservative Hungarians.

28. The Polish regime would particularly like to expand its imports of US technology and equipment during 1972-75. As far back as 1968 an adviser to the Polish Ministry of Foreign Trade said that Poland hoped that the United States would figure prominently in Poland's economic plans through 1985. The Poles, however, stress that if they are to import much capital equipment from the United States, they must have Export-Import Bank credits and guarantees. Export-Import Bank credits, which currently bear a rate of 6%, are now competitive on the world market. So far, Romania is the only East European Communist country to have become eligible for Export-Import Bank financing since enactment of the Export Expansion Finance Act of 1971.

29. In December 1971, Poland submitted a \$350 million shopping list of desired purchases of machinery and equipment from the United States. In April 1972, a Polish trade mission submitted an expanded version of this list, containing about 30 items valued at more than \$400 million. Among the major items are equipment for an oil refinery in Gdansk (\$45 million), a catalytic cracking plant in Plock (\$20 million), an ethylene-propylene plant (\$35 million), a silicon steel mill (\$30 million), a ball bearing plant (\$15 million), two meat processing plants (\$26 million and \$6 million), a brewery (\$24 million), and several textile plants (\$55 million). Also included are various types of electronic equipment (\$44 million) and equipment and know-how for the production of agricultural machines (\$14 million). Some of this equipment will provide output previously imported (for example, the steel mill and the petroleum equipment). Some will help boost supplies of consumer goods and exports -- for example, the meat processing and textile plants.

30. The Poles exerted considerable pressure on US Embassy personnel in Warsaw and on US government officials in the United States during 1970-71 to get approval for an export license permitting the sale of US catalytic cracking technology to Poland. In August 1971, such approval was granted and an application was submitted by Universal Oil Products (UOP) Co. of Chicago for this technology. However, it was not until June 1972 that Poland awarded a contract to UOP after seeking competitive bids from other US firms.

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31. Poland also submitted a list of items it would like to export to this country. As with their trade with other Western countries, the Poles want to push sales of semi-manufactured and manufactured goods such as chemicals, pharmaceuticals, furniture, iron and steel products, and machinery. Because of the difficulties of selling manufactured goods here, however, hams and semi-manufactures probably will dominate Polish exports to this country for some time. Poland's sales of manufactures to the United States will probably continue to be largely small-lot, one-time transactions such as the contract won in 1971 for the delivery of \$10 million worth of battery operated golf carts.

New Contracts

32. In line with the five-year plan, Poland has already signed a number of contracts and received substantial credits from Western Europe and Japan for machinery to be delivered by 1975. One of the largest deals is an \$85 million Italian credit to cover the purchase of machinery and equipment for a new Fiat plant to be constructed in Poland. [REDACTED]

25X1

[REDACTED] The new plant is to produce a popular priced small car; a larger Fiat has been built under license since 1967. About three-fourths of the cost of the plant is to be repaid by deliveries of Fiat spare parts produced in Poland. In March 1972 the National Westminster Bank of London reported that it had signed an agreement with Bank Handlowy Warszawie for \$16 million worth of credits, with an option to raise it to \$26 million. These credits, which are backed by the Export Credits Guarantee Department (ECGD) of the British Government are to be used to finance 85% of British capital and semi-capital goods and associated services.⁽⁴⁾ Repayment periods will range from five to eight years from the date of delivery or completion. Interest is to be at whatever rate is current for ECGD credits at the time the contract is signed. The rate is currently 6%. In 1971, British Petroleum (BP) signed an agreement with the Ciech foreign trade enterprise for the construction of an oil refinery in Gdansk. The agreement includes financing by BP and promises of delivery of crude oil for the refinery beginning in 1976.

33. In addition, West European countries have concluded a number of deals for which financing arrangements are not known. The Polish foreign trade organization Varimex has signed a contract to import \$4 million worth of textile machines from a French concern (SACM). The West German firm Textar is to build a factory in Poland to produce brakes and clutch linings for cars, trucks, and buses. The first stage of this contract -- signed with Poland's Polmot trade enterprise -- is worth about \$11 million. Petrocarbon

25X1

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Development Ltd. of the United Kingdom has agreed to deliver a natural gas separation and helium liquefaction plant worth \$7 million. The contract will be handled on the Polish side by Polimex and the Polish Gas Union, who will be responsible for civil engineering and offsite facilities. Another British firm - Woodhall-Duckham Ltd. - signed a contract worth \$13 million in March 1972 with Polimex-Cekop for the delivery of installations for a caprolactam factory. Duckham heads up a group which also includes Inventa of Switzerland and TechniPetrol of Italy. Duckham and TechniPetrol are to handle the detailed engineering and procurement and supply of equipment. Inventa, which is supplying the know-how, has agreed to take about 10,000 metric tons of caprolactam over four years as part payment. The project is to be financed by "multinational credit arrangements."

34. Poland is looking beyond its traditional ties with Western Europe to Japan. Like the United States, Japan has been only a marginal supplier of capital equipment but has become increasingly interested in the CEMA market. Poland would like to buy a wide range of Japanese equipment and plants for the chemical, petrochemical, iron and steel, non-ferrous metals, engineering, electronics, and light industries. In June 1970, three Japanese firms, the Mitsui Bussan Co., C. Itoh and Co., and the Nichimen Jitsugyo Co., extended a \$100-million seven-year credit at 6%-7% annual interest for the purchase of Japanese equipment. In return, Poland is to ship 20 million tons of coking coal to Japan during 1974-84. So far, Poland has ordered a ball bearing plant (\$10 million), a polypropylene plant (\$10 million), and a nylon-6 textile plant (\$20 million). In April 1972, Poland ordered a \$20 million tandem cold strip mill for the Lenin Steel Works. Payment is to be made in US dollars over a period of eight years. In March 1972, Poland requested additional credits of \$400 million to \$500 million from Japan but is unlikely to get this much.

35. Apparently, only one large contract has yet been signed with US firms on the basis of the shopping list presented to the United States. In fact, Poland is looking in Western Europe and Japan for much of this same equipment. Furthermore, US affiliates in Europe stand a better chance of getting a Polish contract than do firms located in the United States. An official of the Handlowy Warszawy Bank in Warsaw recently stated that, although Poland is anxious to obtain US machinery, it believes that the best way to do this is through US subsidiaries in West Germany. The willingness of the Poles to buy the equipment here will depend on whether or not they can obtain favorable credit terms and, to a lesser extent, on whether they can persuade US firms to take Polish products as at least partial payment for machinery and equipment. West European and Japanese firms are more willing to accept this type of arrangement than are US firms. In addition, US firms may not have the patience to deal with the often slow-moving Polish trade apparatus, especially since the chances of obtaining a contract even after protracted negotiations are uncertain.

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36. US firms are far behind those of Western Europe in their knowledge of how to operate in Poland. West European firms have already established contacts inside Polish industrial and trade enterprises and ministries. They have learned on their own, perhaps with an assist from the Embassies, the informal channels and means (sometimes including bribery) through which business is done in Poland. They maintain these connections with frequent visits. Furthermore, European traders apparently have learned to endure – when they cannot circumvent – the rather severe restraints on access to people and information in Poland.

37. In addition to conventional trade contracts, Poland is actively seeking joint production venture arrangements. West European firms often have been willing to oblige, and Poland has claimed exports of several million dollars a year resulting from such deals. In 1970, such exports represented nearly one-fourth of total machinery exports to those Western countries with which Poland was conducting joint ventures. Illustrative of recent joint venture arrangements is a ten-year agreement signed in February 1971 between Ponar, the Polish Machine Tool and Industrial Association, and the Swedish state-owned SMT Machine Co. AB. The agreement calls for a two-way turnover of \$30 million during 1971-76 and includes plans for bilateral deliveries and the assembly and sale of these machine tools in domestic and foreign markets.

38. Poland is interested in joint venture arrangements with the United States in such areas as tourism, the development of Poland's raw material base, and joint production of machinery. In January 1972, Intercontinental Hotels, a subsidiary of Pan American Airways, signed a franchise and technical agreement with Poland for a 750-room hotel in Warsaw. Poland is to carry out the actual construction. Intercontinental is to assist in planning, decorating, and management and to provide worldwide reservation services as long as the hotel meets Intercontinental's standards. In May 1972 the Polish foreign trade enterprise Bumar and the Warsaw Ludwig Warynski Construction Machinery Works signed a long-term agreement with the Koehring International Corporation of Milwaukee on technical and trade cooperation and co-production in modern hydraulic building machinery. The Polish construction machinery industry has been granted the right to produce and sell certain types of construction machines designed by Menck and Hambrock, the Koehring subsidiary in Hamburg. The agreement also provides for sales by Koehring of certain products of Bumar in Western Europe.

Polish Business Facilities and Procedures

39. Poland is not easy to do business with. The regime does not officially permit sales representatives of Western firms to set up permanent offices in the country. The Poles prefer that foreign firms deal directly

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11

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with Polish state trading enterprises but will allow them to make arrangements through state agencies that accept foreign representations. Western businessmen can go through the red tape of gaining ministry approval to make exploratory contacts with Polish enterprises. The Ministry of Foreign Trade does, however, permit Western firms to open technical liaison and service facilities, provided that prior sales of equipment, requiring servicing, have been made to Polish end-users.⁽⁵⁾ In practice, although not officially, these facilities are not precluded from offering expanded customer services, which might include market promotion and sales. [] a number of Swedish, Japanese, and British firms have already opened such offices, and Caterpillar Tractor is considering the establishment of a servicing facility in the Polish sulphur mining area. Besides formal restrictions, there are physical obstacles to the establishment of offices. Hotel rooms rented on an extended basis often have to suffice because of shortages of housing and regular office space.

25X1

40. Poland will permit the opening of trade and technical information centers. In December 1971 the Polish government agreed in principle to the establishment of a US Trade and Technical Center in Warsaw. As discussed in Appendix B, the British opened a Technical Information Center in Warsaw in late 1971.

41. End-users in Poland play an important role in deciding on imports. They must place orders through the foreign trade companies (such as Polimex and Bumar), but they can turn down a bid if it does not offer the desired technical standards. The end-users often indicate in their specifications preferred prices and the countries (and even the firms) with which they would prefer to deal. The foreign trade companies, however, generally send requests for quotations to a broader range of potential suppliers in an attempt to obtain the best possible deal. Representatives of the end-using firms as well as the foreign trade companies participate in market research and fact-finding missions and in the actual commercial negotiations. End-users naturally are mainly concerned with specifications, while foreign trade firms, banks, and the ministries worry more about financing. Difficulties in reconciling these interests have been a major factor in protracted negotiations on contracts with Western firms, especially for machinery.

42. For example, negotiations -- still not completed -- on a plant for producing electrical steel sheet have been long and expensive. The experts representing interested US firms have had to make many trips to Poland. Furthermore, the US firms are in competition with about eight to ten foreign firms, including the Japanese, on bidding for the prime contract.

5. The Soviets, East Germans, and Romanians permit both sales and technical representatives of a few Western firms to open offices in their countries.

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In June 1971 the subsidiary of a US steel company was awarded a contract to provide technical specifications in an agreement signed with Centrozap, a Polish trading organization. In the spring of 1972, however, matters were obviously still at the talking stage. In early April 1972, a representative for a US manufacturer met in Krakow with officials of Biprostal, a Polish agency responsible for technical negotiations on steel mills, chemical plants, and the like, to discuss the steel plant.

43. Trade arrangements as well as provision for joint ventures have been spelled out in some detail in long-term trade agreements which Poland has signed with several Western countries, including West Germany, the United Kingdom, Austria, and the Benelux countries. These agreements universally call for: the furthering of economic and scientific-technological cooperation and industrial co-production; the establishment of mixed government commissions (which typically include on the Western side, businessmen and bankers as well as government officials); annual protocols to the trade agreement governing the goods exchange; and stipulation as to means of payment and general pricing policies. Maritime shipping protocols and other relevant agreements concerning trade and payments are referenced in, or appended to, the trade agreements. In addition, trade agreements with GATT members include the provision that the Western partner will reduce or abolish restrictions on Polish imports during the period of the agreement and that both parties will grant each other most-favored-nation tariff treatment. Arbitration procedures for commercial disputes are usually spelled out in an "arbitration clause" in contracts between Polish and Western firms. Unless otherwise specified, Polish civil legislation calls for the site of arbitration to be determined by analyzing the contract to establish the country with which the contract "is most closely connected."

44. The mixed government commissions meet once or twice a year to negotiate annual trade protocols and to evaluate and promote trade and economic cooperation. A Polish-Italian mixed commission, for example, will hold its next meeting in the fall of 1972, when it will discuss the broadening of industrial cooperation and the expansion of Italian deliveries of industrial installations to Poland. The commission also will discuss credits to be arranged for the Italian machinery. Thus, the commission will serve as a working group on subjects brought up in June 1972 during talks between the Polish and Italian foreign trade ministers. The West German-Polish mixed commission has on occasion set up a working group to do the same kind of thing.

45. Bargaining over quantitative restrictions on certain goods is an important element in the formulation of Polish trade agreements with developed Western countries. Annual protocols effecting long-term trade agreements contain goods lists specifying quantity or value ceilings and/or

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licensing requirements for certain products and product groups. Quota ceilings imposed by Western countries are raised annually for various products, but in cases in which Poland has made substantial inroads into a domestic market, or for a variety of other reasons, some Western quotas remain at fixed or nearly constant levels. The more sensitive products subject to rigid quotas are generally those goods Poland has had considerable success in selling in the West, including fruits, vegetables, meat products, coal, textile and wood products, a few steel and machinery items, and a range of light manufactures, including glass products and certain consumer goods (especially footwear).

46. Although Polish trade agreements with Western countries contain a statement of intent by the Western partner to reduce and to eventually eliminate quota restrictions against Polish imports, such statements are invariably accompanied by an escape clause stating that the Western country reserves the right to maintain certain quotas deemed to be in the national interest.

47. Talks leading up to the long-term trade agreements have in some cases been very lengthy. The Poles' insistence on a clause covering industrial and economic cooperation agreements was the primary cause of the protracted talks with the British between December 1968 and the final signing of the five-year trade agreement in April 1971. Talks with the West Germans dragged on in the fall of 1969 and the following winter because of disagreements over credit terms. In the end, reference to credit arrangements was omitted from the trade agreement.

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APPENDIX A

Statistical Tables

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Table 1
Polish Trade by Geographic Area ^{a/}

	Million US \$					
	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1975 Plan</u>
Turnover	1,852	2,820	4,568	7,155	7,910	11,282
Communist coun- tries	1,183	1,780	2,956	4,739	5,163	7,295
Free World coun- tries	668	1,041	1,612	2,416	2,747	3,987
Imports	932	1,495	2,340	3,608	4,038	5,797
Communist coun- tries	605	950	1,547	2,473	2,721	3,768
Free World coun- tries	327	545	793	1,134	1,317	2,029
Exports	920	1,325	2,228	3,548	3,872	5,485
Communist coun- tries	578	830	1,409	2,266	2,442	3,527
Free World coun- tries	341	495	819	1,282	1,430	1,958

a. Because of rounding, components may not add to the totals shown.

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Table 2

Polish Trade with the Industrial West a/

Million US \$

<u>Year</u>	<u>Turnover</u>	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1961	942.2	527.1	415.1	-112.0
1962	971.7	509.9	461.8	-48.1
1963	983.6	500.8	482.8	-18.0
1964	1,137.5	587.6	549.9	-37.7
1965	1,148.1	546.7	601.4	54.7
1966	1,335.3	677.9	657.4	-20.5
1967	1,408.5	724.4	684.1	-40.3
1968	1,537.9	801.3	736.6	-64.7
1969	1,639.7	859.0	780.7	-78.3
1970	1,847.6	896.8	950.8	54.1
1971	2,093.1	1,031.0	1,062.1	31.1

a. Data are from Polish statistics. Because of rounding, components may not add to the totals shown.

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Table 3

Poland: Commodity Structure of Trade, by Geographic Area
1971

	Percent of Total					
	Imports			Exports		
	<u>Total</u>	<u>Communist Countries</u>	<u>Free World Countries</u>	<u>Total</u>	<u>Communist Countries</u>	<u>Free World Countries</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Machinery and equipment	37.9	43.7	25.8	42.3	55.4	20.1
Fuels and power	6.4	8.9	1.4	14.0	11.9	17.5
Ores and metals	16.4	17.2	14.9	8.1	6.4	10.9
Chemicals	11.0	7.5	18.1	9.1	9.2	9.0
Light industry products	7.0	6.0	9.1	9.9	10.4	6.8
Processed foods	6.7	3.7	13.1	9.2	2.9	20.0
Raw agricultural materials	7.7	5.6	10.0	3.5	1.1	7.5
Other	6.9	6.4	7.6	3.9	2.7	8.2

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Table 4

Poland: Estimated Drawings and Debt Servicing on Medium- and Long-Term Credits from Western Europe and Japan

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
	<u>Million US \$</u>					
Drawings on credits received	140	175	210	235	205	260
Debt servicing	125	138	162	177	191	205
Repayments	105	115	135	145	155	165
Interest	20	23	27	32	36	40
Indebtedness at end of year <u>a/</u>	355	415	490	580	630	725
	<u>Percent of Total</u>					
Debt servicing as a share of exports to the industrial West	22	24	25	26	23	21

a. Indebtedness at the end of 1965 is estimated at \$320 million.

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Table 5

Polish Trade with the United States a/

Million US \$				
<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Turnover</u>	<u>Balance</u>
1956	3.7	27.4	31.1	23.7
1957	73.1	30.0	103.1	-43.1
1958	105.2	29.7	134.9	-75.5
1959	74.7	31.9	106.6	-42.8
1960	143.1	38.8	181.9	-104.3
1961	74.8	41.3	116.1	-33.5
1962	94.4	45.8	140.2	-48.6
1963	108.9	43.1	152.0	-65.8
1964	138.1	54.2	192.3	-83.9
1965	35.4	65.9	101.3	30.5
1966	53.0	82.9	135.9	29.9
1967	60.8	91.0	151.8	30.2
1968	82.4	96.9	179.3	14.5
1969	52.7	97.8	150.5	45.1
1970	69.9	97.9	167.8	28.0
1971	73.3	107.2	180.5	33.9
1956-71 cumulative total	<u>1,243.5</u>	<u>981.8</u>	<u>2,225.3</u>	<u>-261.7</u>

a. US Department of Commerce trade data.

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Table 6

Polish Trade with the United States
by Selected Commodities a/

	Million US \$		Percent of Total
	1970	1971	1971
Total imports	69.9	73.3	100.0
Food, beverages, tobacco	20.1	39.2	53.5
Of which:			
Barley	--	3.3	4.5
Corn	5.4	18.8	25.6
Soybean oil and meal	8.6	9.0	12.3
Tobacco and cigarettes	1.7	1.7	2.3
Crude materials	24.0	14.8	20.2
Of which:			
Hides and skins, un- dressed	1.7	4.9	6.7
Soybeans	10.0	7.7	10.5
Cotton, raw	5.7	--	--
Oils, fats, and waxes	12.9	10.1	13.8
Chemicals	6.5	3.5	4.8
Manufactures and semi- manufactures	2.4	2.6	3.5
Machinery and equipment	3.6	2.6	3.5
Other	0.4	0.5	0.7

a. Data are from US sources. Because of rounding, components may not add to the totals shown.

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21

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Table 6

Polish Trade with the United States
by Selected Commodities
(Continued)

	<u>Million US \$</u>		<u>Percent of Total</u>
	<u>1970</u>	<u>1971</u>	<u>1971</u>
Total exports	97.9	107.2	100.0
Food, beverages, tobacco	54.8	51.2	47.8
Of which:			
Canned hams and shoulders	39.2	36.8	34.3
Canned cooked pork	7.8	6.5	6.1
Cod blocks, frozen	3.4	4.5	4.2
Crude materials	3.2	3.1	2.9
Chemicals	3.4	4.1	3.8
Manufactures and semi- manufactures	34.3	46.9	43.8
Of which:			
Iron and steel semi- manufactures	6.2	19.2	17.9
Iron and steel manu- factures	5.9	6.3	5.9
Fabrics	3.8	4.1	3.8
Furniture	2.3	2.5	2.3
Clothing and footwear	2.2	3.3	3.1
Machinery and equipment	1.9	1.5	1.4
Other	0.3	0.5	0.5

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APPENDIX B

The British Technical Information Center

The Technical Information Center of British firms associated with the Overseas Marketing Corporation, Ltd. was established in Warsaw in late 1971. The Center represents the interests of 33 British industrial firms, including PYE of Cambridge, Ferranti, ICI Plastics (Film Division), International Combustion, Ltd., the RACAL Electronics Group, Alginate Industries, Colloids, Ltd., and Smith Kline and French. Among the functions of the center are the following:

- The organization of expositions and exhibition displays of machinery and equipment.
- The provision of technical catalogues and the distribution of pamphlets and other publications on products of the various British firms.
- The organization of technical symposia and film shows.
- The offering of basic consulting services in order to promote contacts between representatives of British firms and the corresponding Polish ministries, industrial unions, design offices, research establishments, and industrial and trade enterprises.
- The publication of a technical bulletin in the Polish language.