THE CHASE MANHATTAN BANK
National Association

1 Chase Manhattan Plaza, New York, New York 10015

September 15, 1975

J. V. REED, JR. *Vice President and Assistant to the Chairman*

The Secretary

Mr. L. Paul Bremer, III
Executive Assistant to the Secretary
Department of State
Washington, D. C.

Dear Jerry:

I am following up on a request by David Rockefeller to pass the attached to you. It is a paper which has been prepared by our Monetary Mission team for submission to senior officials in the Iraqi Government which follows directly after DR's and my visit there in January of this year.

DR appreciates that this will be reviewed by our Monetary Mission team and the appropriate desk officers. However, he wanted this to be forwarded to you for special attention and information.

With good wishes,

Sincerely,

Joe

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EXPANDING BUSINESS RELATIONS WITH WESTERN FIRMS

September 11, 1975

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I. This paper discusses the main types of business relationships which have developed over the years between government enterprises in centrally planned economies and private companies of Western Europe, the United States and Japan. It reviews the various types of arrangements, analyzes elements and conditions important to their success, and discusses some of the means available to socialist enterprises to protect their interests in such arrangements and to elicit the best efforts of the Western party. Finally, it draws several conclusions of special relevance to Iraq.

Commercial relations between private companies and government-owned enterprises are extensive and varied. This is true whether the government-owned enterprises are nationalized industries within basically private economies (such as the U.K., France and Italy) or national enterprises in state controlled, centrally planned economies such as those of Algeria, Yugoslavia or the Soviet Union.

In approaching this subject, we have drawn upon the experience of the United States and European corporations working with enterprises in Eastern Europe and the Soviet Union, with particular emphasis on Yugoslavia and Romania. Iraq differs from these countries in many ways including its economic conditions (e.g., foreign exchange adequacy) and unique cultural heritage. Nevertheless, the problems faced by Western companies and the solutions devised by them for doing business in Eastern Europe are instructive for Iraq, although Iraq will unquestionably want to develop its own special ways of structuring business ties with foreign businesses.

II. Business relations between Eastern European and private enterprises have expanded substantially over the past 10-15 years, both in volume and complexity, through various phases in political relations. Significant commercial ties began in the 1950's and early 1960's with conventional supply contracts involving the purchase and sale of goods and equipment. They were followed by purchase of production facilities on a turnkey basis often with a period of operations under a management contract providing for extensive training services. More recently, there has been marked growth in arrangements involving transfer of patent and product rights and production know-how (1) under licensing agreements and (2) under industrial cooperation or coproduction agreements. Under the latter types of agreements, companies may furnish personnel for an extended period, monitor quality of production to maintain standards, and agree to buy back a portion of the product for use or marketing in the West. Finally there has been a growing interest in the joint ventures established with Western firms for production and marketing of products in Socialist or Western markets.

The pace of expansion and the evolution in the form of such arrangements has varied from country to country. One of the principal stimuli bringing about change has been the desire on the part of socialist countries to accelerate and diversify their industrial development and to improve the general welfare of their people through significant increases in per capita consumption. Another factor has been the availability among Western companies of substantial capacity and resources with which to service this demand in the East.

A more rapid increase in U.S. trade and economic cooperation with Eastern Europe and the Soviet Union has taken place in the last few years. As a measure of this, exports from the U.S. to the five main countries in East-West Trade (Yugoslavia, Romania, Poland, Hungary and the USSR) have risen from U.S. $176 Million in 1968 to U.S. $1,650 Million in 1974 (see Attachment 1).

Yugoslavia has pioneered in the most advanced form of cooperation -- <u>the joint production venture with Western firms</u>. There are today 122 such joint ventures (a dozen with U.S. firms). Romania has formed 5 (1 with a U.S. firm); and Hungary has recently formed 2 with European firms. Many more ventures are now in various stages of negotiation in these countries. The USSR is known to be reviewing the experience in Eastern Europe, presumably in order to find a formula acceptable to its needs.

Important features of such ventures are the extended duration of the cooperation (5-20 years) and the fact that the partners share in the realized profits in proportion to their contribution. Control always resides with the socialist partner who must contribute 51% or more of the investment in the venture. (see attachment 2).

III. The accelerated pace of trade and industrial cooperation would not have been possible without companion efforts to create an improved political, legal, and business environment within which to conduct such ventures. This improved environment usually came about after lengthy step-by-step efforts to adjust procedures and regulations, amend relevant law, and devise new organizational structures on both sides. Generally, the main task has been to find ways to facilitate cooperation with, and provide sufficient incentives for, Western companies while at the same time preserving the essential ingredients of socialist ideology and practice. Practically, the issues to be dealt with range from the need for simplification of visa requirements to ease travel, to the need to develop new rules for the adjudication of contract disputes as well as for the valuation and repatriation of profits.

These steps to create a favorable environment were not left to negotiation at lower echelons of management. They required top level attention and decision in the socialist governments and the companies involved. Some of the adjustments were only possible after exchange of visits at the highest government and industry levels over an extended period of time (see attachment 3 for a brief chronology of one such interchange). In some cases, continuing bodies were established to monitor the environment and recommend improvements on both sides, like the Romanian-U.S. Economic Council which meets annually.

IV. Confidence is critical to successful joint undertakings and is not established easily or lightly. It is more than a matter of developing trust in specific individuals, as important as that may be. In business, particularly that conducted across borders and economic systems, confidence flows out of other more concrete factors including knowledge that:

a) The underlying business arrangement is sound and reasonable;

b) the contract has been carefully negotiated and includes appropriate protective clauses, and

c) it is in the self-interests of the parties to meet their obligations.

Each of these elements is examined briefly below.

Soundness of the business arrangement. Socialist enterprises can generally satisfy themselves as to the quality of the underlying business relationship through normal precautionary measures, including:

- careful definition, through internal planning, of the kinds of projects to which Western concerns can make optimum contribution, and identification of the desired form of such contribution;

- careful selection of the contractor/partner;

- o competitive bidding among, or preliminary negotiations with, a desirable cross-section of firms;
- o comprehensive feasibility studies to ensure that all parties understand the undertaking; and
- o cross-checking with other customers, banks, countries as to experience with and capabilities of the firm selected.

The most difficult problem in planning for a joint undertaking can be inability to interest the most suitable companies in the proposed venture. This in turn can result in the selection of second or third rate firms, or firms less experienced in dealing with socialist enterprises. There are a host of reasons why companies may not be interested including:

a) past unfavorable experience with the country expecially regarding payments under contracts;

b) concern over political stability of the country;

c) uncertainty over legal rights and enforceability of contracts;

d) cost and frustrations involved in lengthy negotiations;

e) less than optimal political and economic relationships between the countries involved:

  i) existence of unsettled claims
  ii) lack of diplomatic relations

f) inadequate incentives.

Based on East-West experience to date, an early direct approach to senior levels of quality companies offers the best opportunity to ferret out any inhibitions which might exist, to lay the foundation for mutuality of interest, and to ascertain what other steps may be necessary to create or reactivate interests.

The contract or agreement. The formal agreement between the parties provides the opportunity to spell out the business arrangement and to build key elements of protection. These include:

- performance specification and warranties;
- inspection and assurance testing requirements;
- the method of payment;
- management responsibility;
- service responsibilities;
- training arrangements and allocation of costs;
- events of, and remedies in case of, default;
- methods of settling conflicts.

A contract usually involves compromises on the part of all parties to it, with the result that each party must accept certain risks. But regardless of how detailed a contract may be and of how carefully it may have been negotiated, it is virtually impossible to anticipate every contingency that might arise, and therefore potential disputes may have to be resolved later. In case of such disputes the interpretation of the contract becomes a crucial concern.

Because of the important role given to law and legal contracts in certain Western countries, considerable stress is placed there upon the contractual arrangements and their enforceability. This results in lengthy documents in which every effort is made to anticipate all contingencies, and considerable care is taken to detail the rights of the parties as well as the procedures of settlement of conflicts and enforcement. Misunderstandings during the course of such lengthy negotiations as well as doubts about enforceability, particularly during the earlier years, has unquestionably slowed down the pace at which East-West business ties developed and, in some instances, held them up for lengthy periods. At the same time, early recognition of problems during negotiation may prevent the necessity of resolving more difficult misunderstandings later.

Self-interest. The third factor - i.e., self-interest -- is always determinative.

Western companies, aware, and often suspicious, of the power of their own governments, are afraid of finding themselves at a considerable disadvantage when dealing abroad with government-owned entities. By the same token, socialist enterprises buying from or selling into private Western markets are suspicious of their prospective contractor/ partners, particularly when those partners are giant multinational corporations.

Knowledge that the underlying business arrangements are in the self-interests of both parties goes a long way toward overcoming these suspicions and providing a sound basis of confidence. Indeed, the challenge to both parties is to understand these self interests and to bring about their successful harmonization.

The self interest of socialist countries is to enhance their existing industrial/agricultural activities and to establish new capabilities, all in conformity with the 5-year plan. Where infrastructure projects are involved, quality and timeliness (so as not to delay related projects) are crucial. Where import substitution facilities are involved, advanced technology and modern production techniques assume major importance. Where new export capabilities are involved, distribution, selling, quality and cost control (to assure competitiveness) become essential. In virtually all instances, the training of local staff to operate and maintain the facilities is vital.

The self interest of Western private companies is best understood by analysis of their broader business objectives. While maximizing profit is a continuing overall and prime objective, it is too general a concept to be useful in understanding a company's interests with respect to individual projects. For example, a project which provides a needed source of raw materials may have special value to some firms regardless of the profit to be earned on building or operating the extractive facility itself. There are also firms which are prepared to bid original equipment at break even or low profit levels in order to get the much more profitable replacement parts, peripheral equipment or follow-on business, or to keep equipment, labor and/or plant in operation during economic lulls. Also, market preservation or penetration may be a primary objective. Many companies are prepared to commit important resources in order to keep their market options open on the chance that significant potential may develop at a future date. This is not true of all companies. Others place heavy emphasis upon early realization of desired profits, especially where environmental uncertainties add a heavy speculative element to their achievability.

Structuring arrangements to provide Western firms with sufficient incentives can pose problems for socialist countries. This is particularly true in the case of large export projects or where foreign proprietary products or unique technology are involved. In such instances, Western companies are often in a strong position to insist upon management control and some form of equity participation as a condition to sharing their technology, management skills or product rights. The traditional method of achieving this in the West is via the purchase of common stock and the execution of management contracts.

Most socialist countries are prepared to enter into management contracts. The principal difficulty lies with the equity investment. The objectionable feature is foreign ownership. Some socialist countries have been able to design "equity type" arrangements involving capital inflow and profit sharing but not ownership. This approach has been of special interest to nations which are short of foreign exchange and which can only expand by recourse to foreign capital. Requiring foreign partners to put up an important capital contribution, particularly cash, provides significantly greater assurance of ongoing commitment. Fear of loss (or erosion) of capital can be a powerful motivating force assuring compliance with both the letter and the spirit of contracts.

Socialist nations which do not need foreign capital or are opposed to equity type arrangements of any kind have used other techniques to attract desired Western companies including industrial coproduction arrangements. In one instance we know of, involving the processing of acrylnitryl into synthetic yarn, a foreign partner was given the long-term right to manage production and to buy a fixed proportion of output at cost. In another instance, involving electronic products, a foreign company was given a 5-year contract to supply components and exclusive rights to distribute the end product abroad. A more common technique is for Western firms to negotiate long term technical service and licensing agreements under which royalty payments are structured to substitute for profits. The techniques utilized in all these cases tend to have two characteristics in common -- i.e. they give the Western Company an opportunity to satisfy its business objectives (i.e. profit, market penetration, or source of supply, etc.) and to enjoy the benefits of the arrangement over an extended period of time. Socialist countries which incorporate these characteristics into their agreements can be assured under anticipated circumstances that the foreign companies' self interests are being served.

The difficulty, of course, is that circumstances sometimes change. For example, the foreign firm may find it cheaper to supply its needs from another plant. The managerial resource requirement may prove too demanding given other more profitable opportunities. Or the market may change. The principal protection a party can have in such circumstances is to make the cost of non-performance high. Cost, as measured by loss of reputation, can be important to many companies. Cost measured by damage claims arising out of breach of contract can also be important. The difficulty in such instances is often that it can take a long time to establish damage awards, particularly where there are counter claims. Furthermore, uncertainties over legal due process can seriously delay satisfaction. In the final analysis, cost measured by the threat of loss of invested capital (or funds escrowed in guarantee of performance) is probably the surest way of causing a foreign company to comply with its responsibilities in all but the most extreme cases.

Circumstances can, of course, change for socialist countries as well, resulting in new priorities and significantly adverse developments for the mutual venture. Change, indeed, is a business risk which both parties have to accept. Selection of partners who are least likely to default and most likely to adapt constructively to change affords some protection. Requiring the commitment of funds, however, still probably offers the optimal solution.

V. Business relations between Iraq and the United States have expanded significantly since 1972 when several key barriers were removed. Over the past several years, U.S. exports to Iraq have grown from $20 odd million to $287 million in 1974, with a forecasted level of $600 million for 1975. Such trade can be expected to expand.

However, Iraq's announced program of internal expansion calls for much more than classical trading. The construction of critical elements of infrastructure, the purchase of advanced technology, the development of meaningful and efficient import substitution industries and, very importantly, the building of an export industrial base, including both petroleum and other elements, are essential ingredients to its success. Substantial foreign involvement would be helpful, if the pace of development is to achieve the targets suggested by some.

If U.S. companies are to play a vital role in this development, careful consideration should be given to the means at Iraq's disposal to create a receptive environment and generate the level of mutual confidence desired. In this connection a dialogue between selected Iraqi and U.S. business leaders would be very helpful, particularly if directed to the following kinds of questions:

(i) <u>How important are improved political relations</u>? There is a difference of opinion within the U.S. business community on this question. Some feel constrained in their dealings with Iraq in the absence of more normal political relations. They are inclined to condition increased commitments upon clear cut signals of more favorable Iraqi-U.S. relations. They argue that, in the absence of such relations, the step by step dialogue needed to create a favorable environment can too easily be side tracked, creating interminable delays. They further note the possibility of adverse public relations in the U.S. Others are convinced that the establishment of full diplomatic relations including the appointment of ambassadors is essential. Generally, U.S. companies are anxious about the protection of their business or employees' legal rights in countries where there is no American Embassy. This is particularly true of smaller and middle size U.S. firms.

On the other hand, some business leaders argue that the current exchange of "interest sections" is adequate and that political ties in and of themselves are not absolutely essential. They question the value of U.S. embassies in building their commercial relations or working out agreements. Furthermore, they perceive no significant legal disadvantage because of the absence of formal diplomatic relations. Finally, some argue that their flexibility to do business from plants and/or subsidiaries elsewhere in the world make bilateral relationships between Iraq and the U.S. of minimum importance.

As a practical matter, the answer for many U.S. companies probably lies someplace in between these positions - i.e. they consider the existence of diplomatic relations desirable even if not essential; desirable because, quite apart from the political aspects, certain U.S. government sponsored export financing and insurance - i.e. from Eximbank, FCIA and OPIC - and other forms of trade promotion are not generally available when formal diplomatic relations do not exist or are strained. For some companies the absence of such U.S. government assistance means they cannot or will not participate in a foreign project; for others, such absence means the need to add a premium, which either prices them out of the market or merely increases the cost of the foreign project.

Finally, it should be noted that the step by step approach required to establish the most favorable business environment required for the more advanced commercial relations has not pursued its full course in the absence of favorable political relations.

(ii) <u>To what extent does uncertainty as to legal rights deter the parties?</u>

Lack of certainty as to the interpretation of and availability of due process of law in other nations is always a matter of concern when negotiating international contracts. This is particularly true where there is doubt -- whether justified or not -- as to the objectivity or jurisdiction of local courts under conditions of international stress. As a result, it has become a fairly routine practice to provide for arbitration of contractual disputes in a neutral jurisdiction such as Switzerland or Sweden. Under such arbitration clauses the parties agree to accept the decision of a panel of independent arbitrators.

The main concern of the parties to an arbitration agreement is the enforceability of the decision of the arbitrators. If, in spite of an adverse judgement, one of the parties refuses to be bound by the arbitrator's decision, there remain serious doubts as to what, if anything, the other party can do to ensure its rights. In many countries this problem is solved by local law which makes arbitration awards enforceable in local courts.

One method of supplying sanctions against non-compliance with an arbitration award and thereby improving an investor's confidence is to involve a powerful international institution like the World Bank in a project. This in turn can be done by arranging at least some financing for a project either from the World Bank itself or from its affiliate, the International Finance Corporation which is particularly designed to participate in industrial ventures. It also can be done by providing for disputes to be settled under the auspices of the World Bank's affiliate, the International Centre for Settlement of Investment Disputes, which was established in 1966 to provide impartial international machinery for the conciliation or arbitration of investment disputes. In order to make the inclusion of such a clause possible, Iraq would have to become a party to the Convention on the Settlement of Investment Disputes between States and Nationals of other States, which, as of June 30, 1975, had been ratified by seventy-one countries. While the involvement of the World Bank does not give any effective assurance of enforceability of arbitration awards either, the fact that non-compliance with an arbitration contract award would be not only a bi-lateral matter, but a violation of agreements with an international body is generally considered a substantial deterrent by potential business partners.

With some potential partners, fears about the enforceability of awards may be dispelled by explaining that countries such as Iraq, engaged in ambitious long range plans, have the same self-interest in maintaining a good performance record under its contractual obligations as major international companies do.

Concern has also been expressed about the objectivity of some arbitrators under conditions of stress such as might arise in case of an oil embargo or a renewal of the "cold war". Whether this is a serious risk is a moot point. But it is undoubtedly true that some companies, and some countries, have this concern.

Finally there are some who do not consider enforceability of awards a crucial issue, accepting non-enforceability as an ordinary risk in international business which need be of concern only when there are serious doubts about the contracting company or the self interests of the parties in the arrangement.

(iii) Are the more advanced forms of industrial cooperation really necessary to Iraq's development plan and are there acceptable substitutes for equity investment?

It seems unlikely that Iraq can carry out its ambitious development plan without moving rapidly into more advanced business arrangements with Western firms, including major turnkey facilities, transfer of management and production technology and sophisticated coproduction arrangements. In addition, while having more skilled personnel than many socialist countries, Iraq may still find it advantageous to turn to the West for substantial managerial help and aid in training professional and service personnel. Depending upon developments in the petroleum and political arenas, there could also be a need for foreign capital.

Some Western firms have been reluctant to enter into coproduction arrangements or to transfer technology or sell rights to proprietary products or commit skilled personnel without direct equity investment and an acceptable role in management. Since such arrangements are possible in most other nations, and equity-type arrangements can be worked out in many socialist countries, it is doubtful that Iraq can expect a special exception, particularly if the best firms are to be attracted.

Equity investment is not possible in Iraq. Furthermore, some in Iraq may find the equity-type arrangements designed by other socialist countries ideologically objectionable. The principal alternatives would appear to be a liberal pricing policy spiced by the prospect of long term supply, marketing or other forms of follow-on business opportunities. Unfortunately, the underlying business venture may not always lend itself to such arrangements. In addition, some of the most desirable firms may hold out for equity-type arrangements.

Iraq will either have to find its own, perhaps unique, formula for attracting such companies or accept the consequences of not doing business with them. If the formula does not involve an important investment of capital by the foreign partner, Iraq will have to accept the further risk that during periods of conflict or stress, or in the event that marketing or supply advantages sought prove less attractive, such partners are likely to lose their interest and commitment sooner.

VI. Iraq has played a unique and pivotal role in World History and has been a pacesetter for the Arab World. Geographically and cultrually, it has been situated at the confluence of ideas, techniques, and institutions for many nations, enabling it to contribute important adaptations and innovations in many areas. Thus, it would not be surprising for Iraq to lead in its region in experimenting with and evolving new forms of private-socialist economic cooperation.

Elsewhere, development of the necessary legal and commercial environment to support more advanced arrangements between private and socialist enterprises has taken a number of years, particularly, where important innovation has been involved. If this were to be the case with Iraq, it would be necessary to start preliminary explorations now in order to have a range of joint venture options during the new five year plan. Such efforts could create new instruments for management, investment and technology transfer for selective application by Iraq in realizing its exciting potential for development and self-sufficiency.

The questions posed in the section above are only illustrative of those which might profitably be addressed by responsible parties in Iraq and the United States business sector in search of suitable and innovative approaches for Iraq. There are many others which will flow naturally out of a better understanding of the interests and needs of the Government of Iraq.

We in The Chase Manhattan Bank feel that it would be in the longer term interests of both United States enterprises and Iraq to enter into a series of dialogues where such matters can be discussed openly and freely. Details concerning timing, place, agenda and attendance can easily be worked out to satisfy any special requirements the Iraqi Government might feel appropriate. Briefing papers to assure focus upon specified issues may prove to be useful. We are prepared, under Mr. David Rockefeller's sponsorship, to take the initiative in establishing such dialogues and in preparing, in conjunction with designated people in Iraq, whatever background papers may prove desirable.

Attachment 1

U.S.EXPORTS TO USSR AND SELECTED EAST EUROPEAN COUNTRIES

(In Millions of U.S. Dollars)

	1968	1970	1972	1974
USSR	$ 58	$ 119	$ 550 1)	$ 609 1)
HUNGARY	11	28	23	56
POLAND	82	70	114	397
ROMANIA	17	66	69	278
YUGOSLAVIA	8	13	170	314
TOTAL	$176	$296	$926 1)	$1,654 1)

1) Excluding grain, the Soviet figures would be $181 in 1972 and $331 in 1974; the totals for the five countries would be $557 in 1972 and $1,376 in 1974, producing a compound annual rate of growth of 41% over the 1968-74 period.

CHARACTERISTICS OF JOINT VENTURES IN ROMANIA AND YUGOSLAVIA

The use of the Joint Venture, the most complex of the forms of East-West cooperation, has grown rapidly in the last 3 - 5 years. The unique feature of these ventures is that Western companies are allowed to contribute to the capital of enterprises located in Socialist countries and to receive and repatriate a share of the earnings or surplus in hard currency.

From the viewpoint of the Socialist country the impetus for such agreements has been a desire for foreign expertise in specific areas of the economy to help with one or more of the following; (a) solve operational problems, (b) expand production capacity, (c) assure availability of latest technology, (d) reduce foreign exchange costs of projects and (e) improve management practices.

Before such relationships could be finalized, it was necessary for each Socialist country to enact basic changes in their law authorizing foreign parties to hold a share of business involved.

Some of the usual characteristics of such joint venture agreements are as follows:

- The Eastern partner may be a Ministry, a subunit thereof, or a decentralized unit, like the Workers Councils of Yugoslavia or the "industrial central" of Romania.
- Each partner contributes to the assets (land, buildings, equipment, technical

know-how, cash, etc.) based upon agreed valuations. The Western partner usually contributes technology, product rights, equipment and cash and the Eastern partner land, buildings, cash, etc. At least 51% of the investment must be held by the Eastern partner.

- Control is vested in a General Assembly of Shareholders (Romania) or Joint Business Board (Yugoslavia) nominated by the partners; decisions by 3/4 majority or unanimous vote are required. In Romania, there is also a Managing Committee of 5-7, which meets more frequently.
- The General Manager is appointed by the Assembly or Board and is always from the Socialist country. The Deputy is generally from the Western company.
- Only a relatively small number of the top staff are from the Western company -- e.g., the director of operations, the superintendant of maintenance, etc. All other personnel are from the country. Extensive training is frequently provided.
- Labor usually participates in the governance of the enterprise through representation on the Assembly or Board.

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- The agreements may run for 10-20 years and always detail the rights of parties on completion or dissolution. Arbitration of disputes is generally provided in third countries - Sweden, Switzerland, or Austria - under the law and practice of those countries.
- The joint enterprise pays local taxes. There are sometimes tax incentives for reinvestment in the country.
- Accounting principles (as to valuation, computation and distribution of "surplus", depreciation, etc.) are spelled out in the agreement.
- The Western partner can annually repatriate agreed upon shares of the "surplus" in hard currency. The repatriations are frequently tied to export earnings of the enterprise.
- In some cases, the Western partner agrees to buy back some of the product of the joint venture for marketing in countries outside Comecon.

The ventures range in size of total investment from $1 Million to $500 Million and cover a variety of heavy and consumer industries -- i.e., automobiles, steel, grain production, processed food products, road building equipment, chemicals, cigarettes and electronics, to name a few. Typical

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of such ventures involving U.S. companies might be the following:

1. In February 1974, the Corn Production System Co. entered into a joint venture to graft American technology on to Yugoslav farming. In the 1974 growing year, a model farm of 23,000 acres was planted in 10 days (instead of the usual 25) with a yield per acre about 3 times the existing average. In 1975, the acreage involved would be expanded to 371,000. The objective is to increase efficiency by a factor of 10 times (as measured by output) above that of the State Farms.

2. The largest joint venture (when finalized) will be done between Dow Chemical and Yugoslav INA (a letter of intent was signed in Feb. 1975). Dow's share of the enterprise will be 49% of an estimated $500 Million. A complex of plants at Rijeka on the Adriatic will produce plastics and synthetic rubber for Yugoslav industry. Dow provides the technology and will link marketing of some of the product with its West Europeans units.

3. In April 1973, Control Data Corp. established a joint venture to aid Romania in setting up a fledgling computer industry. The new enterprise, Rom Contract Data SRL, will manufacture peripheral equipment (printers, card readers, and punch equipment) for both Eastern and

Western markets. CDC put up to 45% of the $4 Million capital.

It is too early to draw significant conclusions about the effectiveness of the joint ventures in any country outside Yugoslavia. In Yugoslavia, where experience has run several years for some ventures, the device seems to have worked well.

No form of enterprise is without problems. Good joint planning by the partners in the preliminary stages (feasibility studies) helps in identifying problems and the expectations of each party. A key, of course, is the quality and experience of the managerial personnel each party puts into the enterprise, which must be maintained over the life of the venture. The skill of the labor force and the adequacy of supporting supply and services to the enterprise are also crucial. In resolving such problems and monitoring performance, informed observers of East-West joint ventures stress the importance of direct and separate communication links (or liaison) between parent enterprises at high levels.

attachment 3

Steps Toward U.S. -Romanian Economic Cooperation

1969 - U.S. Congress passed Export Administration Act declaring policy of the United States to increase trade with all countries with which the U.S. has diplomatic or trade relations (basis for East-West trade initiative).

- President Nixon visited Romania.

1970 - U.S. trade delegation went to Romania to follow-up on Nixon-Ceausescu talks.

1971 - U.S. Export-Import Bank was permitted to make loans to Romania.

- Romania enacted basic law which authorized the formation of joint ventures with private firms.

1972 - U.S. Overseas Investment Corporation (OPIC) was permitted to insure the investment of private American companies in Romania.

1973 - First joint venture agreement between a Romanian and private enterprise was signed with an American firm, Control Data Corporation. (April 4, 1973).

- President Ceausescu visited U.S; Tax treaty signed.

1974 - First meeting of the Romanian-U.S. Council composed of ministers, officials, and company executives with interests in trade and cooperation.

1975 - President Ceausescu visited President Ford.

- Romania given most favored nation trading status under recent U.S. legislation.