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# **East Europe**

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# East Europe SUPPLEMENT

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**\* Restructuring of Foreign Trade Noted**

93CH0335B Prague EKONOM in Czech 14-20 Jan 93  
p 13

[Article by Cestmir Konecny of the Institute of International Relations: "No Disruption of Traditional Ties"]

[Text] In recent years, Czechoslovak foreign trade has undergone changes that can be designated as being fundamental. A positive aspect is that the Czech Republic now does approximately 70 percent of its foreign trade turnover with countries having developed market economies, whereas just three years ago this volume was approximately 30 percent. An extremely rapid increase has been noted in trade involving primarily Germany, whose share in our foreign trade turnover already represents not quite one-third. A specific increase in these economic contacts was noted last year, even involving additional countries with advanced market economies, such as Austria, Great Britain, France, as well as such distant countries as the United States and Japan, even though the shares accounted for by the latter two trading partners is relatively small for the present—2.2 percent for the United States and only 1.4 percent for Japan. These facts are important also because our economy, despite all of the problems it is overcoming, is capable of developing contacts on a commercial basis, even with such countries that belong to the world peak positions in terms of economic and technological viewpoints and in whose markets there is also very strong competition. However, the negative side of this process can also be seen in the fact that it is connected with a deterioration of the goods structure involved in our exports, which is characterized by a reduction in the share of machinery and installations and an increase in the share of fuels, raw materials, materials, and foodstuffs, something that was true even last year.

**Ties of an Infrastructure Character**

Among the most serious problems connected with the changes in our external economic relations is the disproportionately large decline in foreign trade turnover involving the countries of the former Soviet Union and the other countries of East Europe. This process continued even last year, despite the fact that to this day we have very strong ties in terms of infrastructure to these countries, ties that were established in the course of past developments. The share of the former USSR in the volume of our foreign trade turnover declined to 16.1 percent, the share of Poland to 4.6 percent, and the share of Hungary to a mere 2 percent, and the trend toward further decline continues to predominate. And this is occurring at a time when the boom in international markets is staying at a low level and the domestic market for our enterprises is now substantially diminished to cover the Czech lands. That is why it is necessary to support the increase in foreign trade involving countries having a developed market economy. In the case of economic contacts with countries of Central and East Europe, it is desirable to seek measures that would aid in halting the further decline of this trade on an accelerated basis and that would once more begin to see it rise in accordance with specific conditions—something

Hungary succeeded in doing last year in its commercial contacts with the countries of the former USSR.

**Priorities Regarding the Relationship With Russia**

In our external economic relations, there are some priorities, even in the relationship with Russia, which should be the subject of consistent attention.

In first place, this is applicable to the Friendship Pipeline and to deliveries of petroleum from the former USSR. Even though the import of petroleum from this region to our refineries has substantially declined in comparison with the situation that existed more than 10 years ago, it is necessary to remember that, at the present time, this is virtually the only usable method of assuring this important raw material for our economy. We are now exerting enormous efforts to see to it that the pipeline connection to the petroleum pipeline from Ingolstadt is created as soon as possible for our refineries—something that is to be realized over the next two years. However, this will not mean either the end of using the Friendship Pipeline or an end to the deliveries of Russian petroleum. The above connector pipeline will be important because it will make possible the supplying of our refineries with petroleum from several sources, as is currently the case in West European countries such as France and Germany. This will put an end to the unilateral dependence on deliveries of Russian petroleum that was created at the time of the cold war in Europe. Imports of this petroleum will then depend on the reliability of deliveries and a number of other market conditions, among which prices will play a far more important role. From this standpoint, the fact that not even the technological profile of the Czech refineries, which was conceived on the basis of deliveries from Russian deposits, is not negligible.

Another priority involves the delivery of Russian natural gas. On the one side, this is a decisive source of gas in our fuel energy balance and, on the other, it involves the transit movement of more than 10 times our domestic requirements to Western countries, particularly Germany. In this case, the Czech Republic participates in extremely extensive deliveries and is part of a network that transits from eastern to western Europe, which has a number of economically very important participants and a location where the stability of deliveries is coupled with their relatively high degree of certainty. We are extraordinarily interested in seeing our participation continue in an undiminished manner even in the future. To the extent to which existing deposits of gas might be exhausted in the future, we are interested in sharing, with other partners, in utilizing additional deposits of gas that have relatively significant reserves, on both the territory of Russia and Kazakhstan. Cooperation with Russian, U.S., German, and other firms will be very important in this regard.

We are also interested in additional imports of nonferrous metals and raw materials for the chemical industry from the countries of the former USSR. Our enterprises have the technologies for processing these materials, the methods for their transportation have been mastered, and there are a number of other ties that make it easier to

utilize these resources in regard to the acceptable level of car loadings, technology used, and so forth.

\* \* \*

It would be a mistake to underestimate the relatively large opportunities offered by the market of these countries with respect to the sale of our finished products. We can utilize such advantages as the fact that many of our products are introduced here, and others, such as chemicals and pharmaceuticals, have been tested. However, it is necessary to very rapidly perfect forms of payments contacts in such a manner that they would correspond to local conditions. Even in such matters, cooperation with Western firms looms as a very important condition for our asserting ourselves in these markets.

#### \* Restructuring of Coal-Mining Industry Discussed

93CH0335C Prague EKONOM in Czech 14-20 Jan 93  
pp 35-38

[Article by Libuse Bautzova: "Mines, Coal, Miners"]

[Text] *The demonstration that took place beneath the statue of Jan Hus in Old Town Square on 11 November of last year was participated in by an estimated 4,000 miners from coal mines, ore mines, lignite mines, and uranium mines from all mining regions in the Czech Republic. According to the words of Cyril Zapletal, chairman of the former Federal Trade Union Association of Miners, Workers in Geology and in the Petroleum Industry (FOSPHGN), "they were not protesting against the economic reform but against those people at the ministries who were harming the reform." Two months after that demonstration, it seems that everything has been resolved to the satisfaction of the government and the mining unions.*

Despite the fact that, in the fall of last year, it appeared that all attention on the part of the public as well as the state administration was focused on the basic problem—namely, the division of the Republic—the miners' demonstration, as an indication of the threat to social peace, resulted in relatively significant discussions and, in some circles, even in alarm. The fact that many of those who came to Prague in the middle of November to demonstrate their disfavor did not know precisely what was actually involved changes nothing with regard to the situation; everyone, however, had one great fear in his subconscious, a fear of not only the loss of privileges that had been granted to them for more than 40 years by the communist regime but also of the threat to social security—the fear of the future in general.

As could be seen from available materials, the entire mining problem was generally and unnecessarily dramatized. To satisfy the demands of mining trade unionists, some changes and augmentations in the original material involving the restructuring of the coal-mining industry, which had been worked out by the former minister of

economics, Karel Dyba, sufficed in the end (during this time, Dyba was enemy number-two of the miners, whereas enemy number-one was the Belgian T. Gheyselincq, the plenipotentiary for the privatization and restructuring of the coal-mining industry).

Because of the nature of the coal-mining industry (dependence on a single raw material, concentration in certain localities, and so forth), coal-mining unions all over Europe are among the traditionally best organized and "most militant" trade union associations. Let us only recall the protest actions of British coal miners that led to the fall of the conservative government of Prime Minister Heath in the 1970's and that recently shook the government of John Major. It needs also to be recalled that the majority of the centers of trade union associations, at least on the European Continent, are in contact with each other; even this fact could play its role in developments in the Czech Republic.

Following the last November session of the government that dealt with the restructuring of the coal-mining industry, virtually all discussions appear to have been concluded: Resolution No. 691 of the Czech Republic Government of 9 December 1992, regarding the program of restructuring the coal industry, is acceptable even for trade unionists from the mines. Let us, therefore, become familiar with what was the cause of the unrest among miners and what lies in store for the Czech mining industry in the coming years.

#### Stock Corporations

In the first place, it is necessary to realize that, as of 1 January 1993, the redistribution processes in the coal-mining industry had been completed and the prices of coal at least partially liberalized, which laid the foundation for the possibility of privatizing the Czech coal-mining industry. The project for restructuring the coal-mining industry foresaw the creation of private coal corporations that would come about on the basis of existing state enterprises by being transformed to joint-stock corporations. The proposed organizational structure of the new joint-stock corporations establishes a competitive environment within the coal-mining industry of the Czech Republic and, together with the appropriate importation of coal, will create pressure on enterprise management to lower their production costs to the maximum extent possible. The privatization projects of individual corporations were prepared in such a manner that they would represent the most advantageous tax and financial solutions and would take into account the lowering of social risks in the individual regions.

To be able to propose new organizational structures for the coal-mining industry in the Czech Republic, it was necessary to first divide the existing extraction organizations into approximately three groups—that is, into money-losing enterprises; into viable enterprises that were, however, vulnerable in the medium term; and into long-term viable enterprises. As a matter of interest, it is possible to state that the majority of the mining enterprises involved in bituminous coal mining are money-losing enterprises today, with

the exception of the CSM Stonava Mines. Also, the extraction of lignite is a money-losing proposition. On the other hand, brown coal mines are predominantly profitable. Losses suffered by state coal-mining enterprises were hitherto covered by redistribution within this sector. As of 31 December 1992, however, this redistribution was terminated.

Of 15 state enterprises that still existed at the end of last year, the Government of the Czech Republic proposed creating eight coal-mining corporations (see table entitled "Transformation of the Coal Corporations"), with the Ostrava-Karvina Mines, joint-stock corporation [a.s.], Ostrava (OKD), remaining viable after discontinuing some units that had no future. By combining existing state enterprises of the CSM Stonava, the Kladno Mine at

Libusin, the Tuchlovice Mine (accompanied by the simultaneous closing of some minefields at Kladno and Tuchlovice), there comes into being the joint-stock corporation entitled Ceskomoravske Doly (CMD). The Most Coal Corporation, joint-stock corporation, at Most (MUS) comes into being as a result of the combination of the state mine enterprises and the Komorany Coal-Dressing Plants, by the Lezaky Most Mines, the Hlubina Litvinov Mines (the J. Zizka Mine has been closed). The Nastup Tusimice Mines and the Bilina Mines will create the North Bohemia Mines at Chomutov, joint-stock corporation (SD); by combining the state enterprises of the Brown Coal Mines at Brezova (the Marie Mine has been closed), the Fuels Combine at Vresova, and Sokolov Reclamation Enterprise, there is created the Sokolov Coal Joint-Stock Corporation at Vresova (SU). Of the East Bohemia Coal Mines, the Katerina Mine will stay in business.

**Table 1**  
**Transformation of the Coal Corporations**

Title of Organization (Internal Organizational Extraction Units) in 1992	Property (millions of Kcs [korunas])	Number of Workers	Extraction in 1991 (millions of tons)	New Joint-Stock Corporation Created in 1993
<b>BITUMINOUS COAL</b>				
Ostravsko-karvinske doly, a.s., Ostrava (Doly 9 May, Frantisek, Darkov, CSA, Doubrava, Lazy, Dukla, J. Fucik, Hermanice, Odra, Ostrava, Paskov, Staric)	34,436	77,000	15.2	OKD
Dul CSM, s.p. [state enterprise], Stonava	3,243	9,010	2.2	CMD
Dul Kladno, s.p., Libusin	895	2,230	0.7	CMD
Dul Tuchlovice, s.p., Tuchlovice	473	1,560	0.5	CMD
East Bohemia Coal Mines, s.p., Trutnov (Katerina Mine and J. Sverma Mine)	1,092	1,950	0.5	Dul Katerina
West Bohemia Coal Mines, s.p., Zbuch near Plzen	265	1,580	0.3	ZUD [West Bohemian Coal Mines]
Rosicke Coal Mines, s.p., Zbysov near Brno	164	640	0.1	Liquidation
<b>LIGNITE</b>				
South Moravian Lignite Mines, s.p., Hodonin	1,496	2,390	1.5	JLD [South Moravian Lignite Mines]
<b>BROWN COAL</b>				
Mines and coal-dressing plant at Komorany, s.p., Most-Komorany	6,195	9,600	17.4	MUS
Doly Lezaky, s.p., Most	3,121	3,570	11.5	MUS
Doly Hlubina, s.p., Litvinov	1,281	4,520	2.4	MUS
Doly Nastup, s.p., Tusimice	4,393	4,050	17.5	SD
Doly Bilina, s.p., Bilina	5,802	5,700	7.6	SD
Fuels Combine, s.p., Usti nad Labem	2,031	2,200	3.3	Liquidation (1996)
Brown Coal Mines, s.p., Brezova	1,820	4,200	6.6	SU
Fuel Combine, s.p., Vresova	5,551	6,200	9.7	SU
<b>TOTAL FOR COAL-MINING INDUSTRY</b>	<b>72,258</b>	<b>136,400</b>	<b>97.0</b>	

Note: Data on property taken from privatization projects.

The sale of the overwhelming portion of the production of the JLD at Hodonin is tied to the energy industry, as is the production of the Katerina Mine, joint-stock corporation, at

Radvanice v Cechach. The JLD and the VUD [East Bohemian Coal Mines] enterprises have reached an agreement with the Czech Energy Enterprises, joint-stock corporation,

regarding a long-term series of deliveries. The West Bohemia Coal Mines, joint-stock corporation, at Zbuzh near Plzen is assured of sales in the West Bohemia region.

### Liquidation

The future of individual coal-mining enterprises is best depicted by the table entitled "Anticipated Discontinuation of Mines and Quarries in the Czech Republic in 1993-96." For the present, the future of the quarry at Chabarovice is unclear. Resolution No. 331 of the Czech Republic Government of 11 September 1991 and No. 444 of 30 October 1991 restricts the life expectancy of the quarry at Chabarovice to the year 1996 as a result of a conflict of interest with the community of Chabarovice and for ecological reasons. The privatization project submitted by the management of Chabarovice expects to continue extraction of coal even after transformation to a joint-stock corporation. The founder recommended this project obviously basing his decision on the fact that the Chabarovice Quarry produces high-quality brown coal with the lowest sulfur content in the Czech Republic.

According to government resolutions covering restructuring of the coal-mining industry, the government is promising to share in the cost of discontinuing mines and quarries in the Czech Republic, as well as in compensating for the costs connected with extraction in the past. The process of denationalization and privatization of the coal industry is connected with future profitability and with the solvency of the newly created stock corporations.

The costs for closing down mines include the costs for the technical liquidation of deep-mining and strip-mining projects, machinery, technological facilities, pumping and modification of mine water, and obligatory health and social claims of workers released as a result of discontinued operations. Furthermore, they involve compensation for mining areas in accordance with the mining law, one-time write-offs of the remainder value of unutilized basic assets and supplies, and compensation of costs for the liquidation of ecological damage resulting from the closing down of the mines.

Costs connected with extraction in the past consist of social costs, obligations toward the environment, and credits granted for operating investments and reconstruction in the past resulting from previous binding tasks assigned by the state plan. The state will also share in the cost of ecological investments—that is, in the cost of building and technologically equipping ecological structures or, possibly, the reconstruction of existing operations to reduce the ecological burden.

The overall cost of these expenditures, to be covered from the state budget (see table entitled "Compensation of the Requirements of the Coal-Mining Industry"), should represent Kcs2.8 billion in 1993, including Kcs2.1 billion for the realization of discontinuation programs and Kcs700 million to cover expenditures incurred in the past. In subsequent years, the following amounts should be released from the state budget for similar purposes: in 1994, approximately Kcs2.48 billion; in 1995, more than Kcs1.9 billion; and, in 1996, approximately Kcs1.5 billion.

**Table 2**  
**Compensation of the Requirements of the Coal-Mining Industry**  
**From the State Budget in 1993**  
**(in millions of Kcs)**

Item	Discontinued Mines	Active Mines	Total
Ostravsko-karvinske doly, a.s.	1,236	634	1,870
Dul CSM, s.p.	—	61	61
Dul Kladno, s.p.	59	17	76
Dul Tuchlovice, s.p.	32	5	37
West Bohemia Coal Mines, s.p.	—	10	10
East Bohemia Coal Mines, s.p.	127	8	135
South Moravian Lignite Mines, s.p.	167	12	179
Rosicke Coal Mines, s.p.	45	—	45
Ceske lukove a uhelne zavody, s.p.	19	—	19
Dul Slany (VKD, s.p.)	61	—	61
Brown Coal Mines Brezova, s.p.	55	4	59
Fuels Combine Vresova, s.p.	—	2	2
Mines and coal-dressing plant at Komorany, s.p.	—	9	9
Doly Nastup Tusimice, s.p.	—	2	2
Doly Lezaky Most, s.p.	—	3	3
Doly Hlubina Litvinov, s.p.	65	27	92
Doly Bilina, s.p.	—	6	6
Fuels Combine Usti, s.p.	—	2	2
Reserve	—	—	132
<b>Total</b>	<b>1,866</b>	<b>802</b>	<b>2,800</b>

**Table 3**  
**Anticipated Discontinuation of Mines and Quarries**  
**in the Czech Republic in 1993-96**

Name of Enterprise (Mine or Minefield)	Initiation of Liquidation	Termination of Liquidation (Anticipated)
OKD, a.s., Ostrava		
Dul J. Sverma	1 Jan 92	31 Dec 93
Dul Ostrava	1 Jul 92	31 Jul 95
Dul Hermanice	1 Jul 92	31 Jul 96
Dul Odra	1 Jul 94	31 Dec 96
Dul Kladno, s.p., Libusin (Kacice Minefield, Kamenne Zehrovice)	1 Jan 93	31 Dec 93
Dul Tuchlovice, s.p., Tuchlovice (Minefield 102, smeme, XI prekopu)	1 Jan 93	31 Dec 93
RUD [Rosice Coal Mines], s.p., Zbysov near Brno	1 Jan 92	31 Dec 93
VUD, s.p., Trutnov, Dul Jan Sverma	1 Jan 93	31 Dec 94
JLD, s.p., Hodonin, Dul Dukla	1 Jan 93	31 Dec 94
CLUZ [expansion unknown], s.p., Nove Straseci (Dul Rako)	1 Nov 91	31 Dec 93
VKD, s.p., Kladno, Dul Slany	1 Jan 93	31 Dec 94
HD [lignite mines] Brezova, s.p., Brezova, Dul Marie	1 Jul 92	31 Dec 95
Doly Hlubina, s.p., Litvinov, Dul J. Zizka	1 Jul 92	31 Dec 94
PKU [expansion unknown], s.p., Usti n.L., Lom Chabarovice	1 Jan 94	Not determined

### Prices and Competition

According to estimates, the current prices of domestic coking coal are approximately 7 percent lower than the prices (not dumping prices) of the cheapest imported coal, and the prices of bituminous energy coal are approximately 30 percent lower. The prices of brown coal are approximately 30 to 50 percent below the level of anticipated market prices. (In view of the fact that there is no international competitive price for brown coal, this is only an estimate.)

Even after coal prices are liberalized, the September decision of the Financial Council of the federation last year was that it would continue to limit the prices of bituminous coal for the population and brown coal for the population and industry. There is the danger that the private corporations will not be capable of subsidizing these prices or will reject doing so and will refuse to deliver coal to these small consumers. It is therefore being proposed that, with respect to bituminous coal delivered to the population, the difference between the regulated and the market price be taken into account on the basis of the actual volume of deliveries and the actual delivery price, and that the income situation of individual coal corporations be taken into account. It is being estimated that a full balancing of prices for bituminous coal and lignite would represent approximately Kcs550 million for 1993. For the time being, this amount is not assured from the state budget.

To a certain extent, it will also be necessary to regulate imports and exports of coal-industry production. Import licenses should be awarded only to large-scale consumers

and to coal corporations for the needs of those final consumers whose requirements cannot be satisfied by domestic suppliers. The final permit to import should be conditional upon the presentation of an import contract that will list even the appropriate import price. The government will also consider the creation of a state material reserve of bituminous energy and coking coal, amounting to a minimum of 1 percent of the annual demand (200,000 tons), to be financed by the state to reduce imports and to balance seasonal and time disproportions that exist between supply and demand.

A great problem for the coal industry in the Czech Republic could be imports of coal from Poland and Russia at dumping prices. That is why, even here, a specific import quota should be established for 1993 (the government has proposed 700,000 tons for the Czech Republic).

As far as exports are concerned, export licenses should be granted only to producers or organizations authorized by them because, for the duration of regulated prices, they are below world prices, and exports could get out of control, something that would certainly harm the Czech economy greatly.

### The Present and the Future

The importance of the coal industry for the Czech economy is attested to by the Kcs50 billion with which this industry shared in last year's gross domestic product and the number of employees in that sector, which is approaching 150,000. The demand for coal and thus for its extraction, however, has been declining in recent years. While in 1988 extraction was still greatly exceeding 100

million tons per year, in 1991 it amounted to only 97 million tons (in the case of brown coal, extraction declined by 25 million tons, and, in the case of bituminous coal, by 5 million).

It is interesting to note per capita coal consumption data for the Czech Republic: In 1990, it amounted to 11.1 tons; in 1991, it was only 9.3 tons. However, it would be a mistake to attribute that decline to accomplished rationalization measures; the decline in per capita consumption unfortunately has to do primarily with the decline in industrial production.

The restructuring to which the Government of the Czech Republic has resorted is essentially necessary; however, it is only with difficulty that the specific impacts can be estimated. It is not possible to determine in advance how the liberalized prices will be moving, how successfully imports will be controlled, and so forth. Moreover, it is necessary to take into account that all deep mines are sensitive to economic conditions and that they will be exposed to greater risks as inputs increase in price and as the ecological requirements increase. On the other hand, all of the proposed brown coal corporations should remain viable, despite problems involving sales and the initiated self-financing problems.

The fears of miners regarding their futures are surely connected primarily with the anticipated reduction of jobs in the coal industry. According to preliminary estimates, approximately 12,000-14,000 miners should leave the mines by the time the planned discontinuations are accomplished, as of 1 January 1993 (precisely only as a result of these discontinuations). (Additional reductions in the number of jobs will have to do with the rationalization of extraction and will impact primarily on workers "on the surface.") It is a paradox that some regions are experiencing a continuing shortage of miners—that is, workers who are actually willing to work below ground—whereas overemployment is the rule on the surface. However, it is not just a miner's problem that moving to follow a job is not particularly popular in our country. Moreover, discussions on whether the wages of miners actually reflect the importance and the demanding nature of the work continue to be topical (in 1991, average wages for workers in the coal industry were Kcs5,000).

The restructuring of the coal industry as prepared by the government in its resolution and as it was accepted by all participating sides must be considered as an open process that must necessarily be rendered more accurate by the passage of time, must become more specific, and, perhaps, must even be corrected.

**[Box, p 35]**

We asked Eng. Jan Rucki, the chief director of the Section for the Mining Industry at the Ministry of Industry and Trade of the Czech Republic, whether the restructuring of the coal-mining industry has actually been solved once and for all.

His answer: The newly created joint-stock corporations should be self-sufficient, provided that they continue to be liberalized. However, it is not out of the question that, for some years to come, some deep mines, particularly, will get into difficulty again. It is possible to anticipate inflation in terms of inputs and increased expenses for ecological components, which can again mean losses for entire mines or enterprises. Then the state will have to decide whether it will support a certain minimal volume of extraction, something that is not being considered at present for strategic reasons, or whether additional downsizing will have to be accomplished.

**\* Macroeconomic, Social Aspect of Transformation**

93CH0336A Prague EKONOM in Czech 14-20 Jan 93  
pp 15-19

[Article by Anna Cervenková: "Our Economy, What It Is and What It Will Be"]

[Text] *A skillful fusion of economic and social viewpoints in evaluating the current reality and forecasting future developments is a rare phenomenon. For the sixth time now—thus far, always successfully (for example, EKONOM No 1/1992)—it has been attempted by a collective of authors from the Economic Institute of the Czechoslovak Academy of Sciences, led by Eng. Kamil Janacek, C Sc [Candidate of Science], this time in cooperation with workers from the Economic Institute of the Czechoslovak State Bank. Toward the end of 1992, they worked out a study called "Macroeconomic and Social Analysis: Fall 1992," in which they sought to meld both above-mentioned viewpoints. The study gives a detailed analysis of the state of our economy and a prognosis of its development in 1993; we are reprinting its main conclusions in the following article.*

**Developments in 1992**

An analysis of the trends and developments of macroeconomic aggregates in the Czechoslovak economy gives us contradictory results, which is characteristic for the given stage of economic transformation. In the economy, it is possible to note side by side tendencies toward the further decline of some quantities and the stabilization of others, and, at an ever faster pace, symptoms of revitalization. That makes the analysis as well as the interpretation of its results more difficult because these trends are not following each other in succession but are operating parallel to each other; they intertwine and influence each other in various ways.

In the private consumption sphere, there was a revival of demand as a result of the growth of nominal and real income. That, together with the usually higher seasonal purchases at the end of the year, indicates that, in 1992, there was a real growth in private consumption of 4-5 percent. Results of the survey of planned purchases show that the tendency toward a revitalization of demand has more of a permanent character in the Czech Republic.

In the investment sphere, the downward trend has bottomed out, as well; for the first time in nine months,

investments grew moderately (compared to the same period last year), and we can expect that this stabilizing trend, translating into growth, will continue. Although we cannot expect a fundamental turnaround in the investment activity of the great majority of industrial enterprises, the investments in foreign companies, particularly in the private sector, are on the increase. That is confirmed also by data on foreign trade: In the past several months, the imports of machinery and equipment have noticeably increased. Thus, there has been a break in the very unfavorable trend of declining imports of technology, which was characteristic for the period of recession in 1991.

The selective revitalization in some areas of demand is reflected in the developmental trends in industry and construction. Data for the entire year at first pointed toward a lessening of the decline in industrial production, but, in September 1992, it already began to grow. Although the decline in labor productivity in industry continues (decline in employment did not follow the decline in production), which, given the increase in real wages, signals pressure on costs and the possibility of inflationary tendencies, this is a positive turn of events. An acceleration of privatization could strengthen this trend; on the other hand, a strong and only slightly declining insolvency among enterprises and the threat of bankruptcies have a countervailing effect on the tendency toward faster revitalization.

In the construction industry, we have registered an increase in production during the entire 1992, particularly in small and medium-size firms. If, in the Czech and Slovak economies, construction also plays the role of an indicator of economic expansion (as it does in market economies), it would be further proof of a moderately increasing optimism of enterprise directors as far as the possibilities for future growth are concerned.

There is also a connection between the difference in the development and course of revitalization in industry and construction and the course of privatization in these branches. Data for the Czech Republic show that more than 60 percent of output in domestic trade is created by private enterprises, in construction it is more than one-third, and in industry one-fourth. Other analyses also show that the dynamics of growth in entrepreneurial entities in those sectors and branches where privatization has advanced further is noticeably different from the sectors and branches where privatization is only beginning. The preprivatization "agony" of the enterprises markedly influences their conduct and the decisions of their managers. If the thus-far prevalent reaction of the state monopolistic enterprises to the drop or increase in demand—that is, they usually increase prices rather than react by changing the offered product or the production program—is to be broken, privatization is a necessary (although naturally not a sufficient) requisite for changing such conduct.

In foreign trade, a moderate decline in exports continued, resulting exclusively from a further decline of exports to

countries of the former CEMA, particularly the successor states to the USSR. Export to the area of market economies continues to increase (almost by a fifth). We are thus succeeding, in spite of the persisting structural imbalance, in gradually replacing the lost markets in the former centrally managed economies by exports, particularly to the countries of the European Community.

In spite of the increase in domestic prices and the growing distance in time from the devaluations in 1990, the exchange rate of the Czechoslovak koruna still acts as a stimulant to exports, while, at the same time, protecting domestic producers from greater competition from imports. In the real exchange ratios, there was an improvement of more than 2 points, resulting from a decline in import prices. Export prices are also declining or, at the very least, remaining flat, as less effective groups of goods are being introduced into the export mix.

On the basis of an analysis of the development of individual macro-aggregates up to the end of the year, it can be expected that the gross domestic product in 1992 will decline roughly by 6 percent (while, in the fourth quarter, it grew for the first time in the past two and one-half years).

Throughout the entire year, the balance of payments developed favorably: The credit balance for 1992 will reach roughly \$1 billion. More than 80 percent of the credit balance comes from services; the balance of trade shows a moderate deficit.

In 1992, the flow of direct foreign investments into Czechoslovakia accelerated, in spite of the uncertainty and risks stemming from the division of the state. Over a period of 10 months, direct foreign investments reached \$1 billion. According to data from the Czechoslovak State Bank, we can expect that, toward the end of 1992, their volume for the year could reach as much as \$1.2 billion. The lower estimate of the development potential of Slovakia and a higher rate of uncertainty concerning its future economic development are reflected in the territorial distribution of direct foreign investments—92 percent in the Czech Republic and 8 percent in Slovakia.

The overall foreign indebtedness of the state, which at the end of the third quarter of 1992 stood at \$9.7 billion, was also developing favorably. Our foreign currency reserves reached \$4.9 billion, and the servicing of the debt proceeded at the very good level of 15 percent. It is also significant that more than three-quarters (77 percent) of our obligations are long-term in nature.

The results of budget management clearly show a further worsening of the balance between revenues and expenditures, even taking into consideration the traditional seasonal increase of expenditures at year's end. Although the aggregate of public budgets for 1992 was constructed with balanced revenues and expenditures, considering the current developments, the total budget system will end up with a deficit. The problems on the revenue side strongly influence the strain on the expenditure side. The real level of budgetary expenditures continued to fall in 1992, and, in relation to the GNP [gross national product], it came to

approximately 46 percent. The reduction of budgetary expenditures is much more evident in the long term: At the end of the 1980's, more than 60 percent of produced goods passed through the budget. This radical reduction in a relatively small time frame needs to be taken into consideration from the standpoint of budgetary strain.

In February 1992, a decline began in the unemployment rate that continued during all of 1992. On 30 November 1992, the unemployment rate was 5 percent in the CSFR—2.45 percent in the Czech Republic and 10.4 in the Slovak Republic. From these data, it is clear that the roughly fourfold difference in the unemployment rate between the Czech Republic and Slovakia persists. That is connected not only with (and not in the first place) the different impact of the economic reform in the two republics, but, to a continually increasing degree, with the different demographic, social, and cultural factors.

Although the overall situation in the job market looks favorable (especially in comparison with the other two transforming economies—that is, Poland and Hungary), we cannot overlook some instances that give us warning signals. During the entire course of 1992, there were signs of a lag between the decline in produced goods and the unemployment rate. In industries represented by enterprises with more than 25 employees, the output of goods declined in June 1992 in comparison with June 1991 by 12.1 percent, whereas the average registered number of employees declined by only 8 percent, which gives evidence of persisting (although gradually declining) excess employment.

To a considerable degree, the present trend in unemployment is the result of specific conditions of a given phase of the transformation process. The situation on the job market is influenced more by factors that work at cross-purposes and mutually influence each other. The most important can be considered the following:

- A change in institutional conditions (stricter conditions for granting unemployment benefits).
- Continuing preprivatization expectations, manifested by the effort of enterprise managers to solve the question of employment and wages by increasing prices, not by dismissing workers.
- The issue of enterprise bankruptcies remaining unresolved by law.
- More efficient working of the labor offices.
- Positive results of the until now applied active employment policy (especially the considerably higher number of newly created jobs, provisions for people applying for jobs for the first time).
- The increasing share of the private sector in overall employment and the creation of new job opportunities in the private sector.

The stabilization of the economy, the revitalization of economic activity in some sectors, branches, and enterprises, and the successful control of inflation (the rate of

inflation in 1992 fluctuated between 11.5 and 12.5 percent) were manifested not only in a faster growth of nominal income but also in the growth of real income. That is a significant difference from the year 1991. The average real income increased in 1992 by 7-8 percent and real income by 6-7 percent, while the buying power of wages, thanks to the valorization enacted on 1 June 1992, did not decrease.

The revival of wage increases and of the development of private entrepreneurship and the private sector as a whole leads to a growing wage, income, and, therefore, also property differentiation. This phenomenon also has its economic and social dimension. Wage differentiation, differentiation of earned income and income from social benefits, and, last but not least, the property restitutions—those are the main factors that influence the income and property differentiation. In the year 1993, income differentiation will undoubtedly reflect the tax reform, which will influence the income differentiation directly through the changes in the taxation of citizens' income, and indirectly by other factors related mainly to the introduction of the value-added tax.

In Czechoslovakia, there are at present the beginnings of a certain stratification of society, when, on one hand, the extent of poverty is not declining in any significant way, and, on the other, a thin stratum of population with considerably high income is being formed. This fact could become a potential source of social and, consequently, also political conflict. It can be assumed from the developments thus far that, as long as the extent of poverty does not exceed tolerable limits, which, to a considerable degree, depends on the quality and sources of the social safety net, social peace will be maintained, and the economic reform will be socially feasible.

In the behavior of households, the tendencies discussed in our previous analyses continue: a rational approach to decisionmaking, an effort to avoid risks, harmonization of the income and expense sides of the household budget, an effort to learn from past mistakes. Increasingly perceivable are long-term decisions and diversification of economic activities to ensure financial resources for the household. This is manifested in the behavior of the household by an effort to increase financial stability. According to the study of financial management in households, the overall tendency toward savings has not weakened as of fall 1992, and the present character of savings was preserved. In September 1992, more than 60 percent of Czechoslovak families (that is, 4 percentage points more than in the survey conducted in summer) stated that they put money into savings on either a regular or an irregular basis. The creation of financial reserves is becoming important as the dominant reason for saving.

A certain warning signal, again confirming the existence of inflationary expectations, can be seen in the attitude toward future savings. The number of households that do not intend to put money in savings in the next 12 months increased mainly in Slovakia. Although the fear of the devaluation of savings is not strong enough to lead to

giving up saving altogether, a shift in the preferred ways of using financial means has been noted here. Moving again into first place among the ways of using financial means in Slovak households are the creation of reserves in foreign currencies and the purchases of durable goods.

These results merely reflect the already existing situation: Since the second half of 1992, the rate of savings by Slovak and Czech households began to develop differently. Slovak households, expecting the division of the state, prefer to deposit their savings in Czech banks and savings institutions or in foreign banks. That, among other things, caused a lack of liquidity in Slovak banking institutions and increased their demand for refinancing by credits from the Czechoslovak State Bank.

The different behavior of Czech and Slovak households in 1992 reflected the different economic expectations and evaluation of economic prospects in the development of both independent republics in 1993. They are therefore an important indicator and source of information for formulating the economic policy for the next phase of the transformation. They prove that Czech households have a more rational view of future development and are better able to judge the risks that may ensue from the changes in the state setup and the overall development of the macroeconomic situation. At the same time, they show that a systematic continuation of the quick economic transformation, respecting the social tolerability of individual measures and spreading out the costs of this operation not only over time but also among individual groups of the population, is feasible from the social point of view.

#### Developments in 1993

The division of one integrated economy into two wholes makes any kind of predictions more difficult than is the case in more usual circumstances. For that reason, forecasts have the character of estimates carrying a high rate of risk and uncertainty.

#### Economic Activity

The economies of both republics will be marked, although not with the same intensity, by tendencies toward economic revitalization, resulting from:

- Development of the private sector, particularly in services, trade, and, gradually, also in the primary and manufacturing spheres. The faster development of the private sector in the Czech Republic than in Slovakia will continue to be one of the reasons the impact of the economic transformation in the Czech Republic is less painful than in Slovakia, and why there is a difference in the unemployment situation (5-7 percent in the CR, approximately 15 percent in Slovakia).
- A continuing increase in exports from the Czech Republic to the area of developed market economies.
- Continuing revitalization of construction and construction products (applies to both republics; revitalization of industrial production will continue to be selective,

depending not only on the branch of industry but also, and particularly, on the adaptability of enterprises).

- First effects of the large privatization—clarification of ownership, gradual improvement in the quality of management, decisions made for the longer term, more effective employment policy, and so forth.
- Certain increases in the investments in the public sector in contrast to 1992.
- The impact of the influx of foreign investments in the last period as well as new ones (in view of the territorial distribution of investments, especially in the Czech Republic).

#### Developments in the GNP

In the economy of both republics, a shift from the manufacturing to the service sector<sup>1</sup> is taking place. This tendency is more pronounced in the Czech Republic. It means that indicators of a purely GNP type (material products) or growth of industrial production are no longer adequate (exclusive) indicators of economic activity. That is clearly shown by the difference between the rate of the GNP and the national income in 1991 and 1992.

Following the moderate growth of the GNP in the Czech Republic in the fourth quarter of 1992, the growth of the GNP in the Czech Republic in 1993 can be estimated at 1-4 percent (contingent on maintaining the rate of growth of exports to developed market economies and a gradual revival of domestic demand). The economy of the Slovak Republic will more likely stall. Revitalization of the economy through deficit spending can have only a short-time effect and will more likely be swallowed by inflation engendered by such an economic policy.

#### Prices

The central price changes in 1992 will increase the index of consumer prices in 1993 by 1 percent. In addition, the price level will be raised by the introduction of the value-added tax on 1 January 1993 by 7-9 percent. It can be said, therefore, that the central changes in prices will cause an increase in the price level of 8-10 percent in 1993.

Another price-forming factor will be the separation of Czechoslovakia into two independent states. This separation will have influence in two ways:

- a) There will be a weakening of contacts between enterprises in the Czech and the Slovak Republics as a result of the "economic separation" of the single state. The changeover to independent currencies, uncertainty about future exchange rates, and lower transfers from the Czech Republic to Slovakia will cause some restriction of trade activity, with an asymmetrical impact on the two republics (given by the different importance of mutual trade in the production of both republics). Replacement by supplies from other territories will intensify domestic marketing difficulties in both republics, raise the level of prices (more in the Slovak Republic because the share of the Czech

Republic in the sales of the Slovak industry is double what it is the other way around), and increase the ensuing inflationary tendencies.

b) There will be a differentiation in the economic policies of the Czech and Slovak Republics. In view of the visible tendencies of the Slovak Government to practice state control in the economy, in Slovakia we can expect deficit financing, price control on a broader scale, regulation of foreign currency management, and so forth. That will lead to a strengthening of the inflationary trend and a consequent necessity to devalue the Slovak currency.

The Czech Republic will continue to follow moderately expansive monetary policy and a responsible fiscal policy (with the effort to keep the deficit in the state budget at a minimum<sup>2</sup>). Under those circumstances, the growth of consumer prices can be estimated to be within the range of 15-18 percent, and in Slovakia twice that (30-40 percent), as far as the visible inflation is concerned. If more broadly applied price controls are implemented in Slovakia, it is highly probable that hidden inflation will again begin to manifest itself: Its extent is very difficult to predict.

#### Income

In 1993, a faster growth of nominal income will continue, but it is possible that the difference between the rate of nominal and real income will decrease, thanks to an expected higher rate of inflation. Some differences between the republics can be expected:

- In the Czech Republic, as a result of the faster increase of the share of the private sector, the surge in tourism, and stronger signs of revitalization of the economy, there is a greater probability that the moderately positive growth of real income will be maintained. In Slovakia, where there is a greater probability of higher inflation, such development will be less likely.
- The savings rate will continue to be higher in the Czech Republic than in Slovakia.
- Revitalization of the economy will lead to higher consumer spending in the Czech Republic than in Slovakia. (This is given by the fact that there will be a moderate increase in domestic demand, as well as a demand by tourists who mostly come to the Czech Republic.)

For the Czech Republic, we estimate the growth of nominal income in the 20-22 percent range, of real income between 2 and 6 percent.<sup>3</sup> Earned income will grow faster than social income. That will put increased demand for transfers in the budget in order to maintain the real buying power of social income.

#### Coordination of Economic Policy

The obvious effort of the economic policy of both states is and will be not to allow any significant decline in trade relations, to slow down and halt the disintegration of mutual economic ties. It is obvious that the discontinuation of transfers of financial means from the Czech Republic to the Slovak Republic (roughly Kcs25 billion in

1992—that is, about \$900 million) will have either a direct or an indirect impact on the decline in Slovak demand for goods of Czech production. (Some estimates state that the drop in demand for this reason could reach 10 percent.) The currency arrangement—that is, the process of separating the currency—could have a similar impact.

Any currency arrangement or a stage in its process will have its pluses and its minuses. In the Czech Republic as well as in Slovakia, there will have to be a certain trade-off: a slow-down or a stay of the disintegration will have to be bought by the necessity to scale down the implementation of other goals. The costs of alleviating the shock of disintegration will be the greater the more divergent the development of both economies and economic policies becomes. The goals that will have to be sacrificed for the sake of slowing down the disintegration (maintaining a common currency, firm rate of exchange or firm limits for floating it) will have somewhat different consequences in each republic as a result of their different economic strength. In the Czech Republic, at issue will be mainly a threat to the goal of macroeconomic and currency stability (the danger of inflation with common currency or a fixed rate of exchange and a difference in economic policies, the threat to the domestic market, the possibility of exhausting foreign currency reserves by a de facto financing of imports from the free currency area also for the needs of the Slovak Republic, the cost of intervention to maintain the rate of exchange within the set limits.)

Although for Slovakia the disadvantages of the Czech Republic could become advantages, even for Slovakia there will be costs and risks. In the Slovak Republic, the problem especially will be the danger of forced currency restriction and the danger of losing foreign currency reserves because of a trade deficit and the necessity to give up or restrict the possibility to stimulate production and export (or the influx of investments from abroad) by devaluating the currency. The important question in both republics is to prevent such risks from leading by another route precisely to the kind of decline in production that is supposed to be prevented by the slowing down of the disintegration. A certain amount of disintegration could even be a part of the healing process of both economies (entering the markets of developed countries).

In discussions about how to prevent a negative impact of the division of the state on the economies of both republics, the analogy with the impact of the breakup of CEMA on the decline of economic activity in Czechoslovakia in 1991 is often used. But this resemblance is, of course, only partial. In spite of all the efforts to achieve integration, most of the economic relations among the CEMA member countries had the character of simple trade, whereas the relations between Czech and Slovak enterprises are to an overwhelming degree relations of long-term, often very close, cooperation. Therefore, this character of relations could act as a break on a rapid (and uncontrolled) loosening of mutual economic ties because these are much more difficult to interrupt than trade (which actually can be stopped "from one day to the next").

For these reasons, all measures creating conditions for a smooth functioning of economic cooperation between the two republics have great real and psychological significance. Influencing the expectations of economic entities and lowering the risks and uncertainty concerning the future development of the customs and currency arrangement are of prime importance. For example, in the currency area, it would be desirable to make the already announced mechanism more detailed. Such information will give enterprises the basic orientation (in a normally functioning market, it would even give them the possibility to protect themselves against possible fluctuations in the exchange rate). The price of this approach, aimed at slowing down disintegration, will be a marked increase in the impact the expectations of the real developments will have. Waiting for each successive step will cause the enterprises (and households) to react in ways that could force a faster approach or greater movement in the mutual rate of exchange than the situation would otherwise demand. The influence of an approach by stages, assumed by the government to be a positive one, could be negated if enterprises do not have confidence that the solution by stages is tenable and will expect a quick breakdown of the currency agreement.

Coordination of economic policies in these areas could therefore strengthen the confidence of enterprises, reduce the level of risk and uncertainty, slow down or stop the deceleration of mutual relations, and thus prevent a slowing down or interruption of the revival that is beginning to take hold in the economy. Any other alternative will result in worse solutions and development.

#### Footnotes

1. This does not mean fewer problems in the transformation of the primary and manufacturing sector. Nevertheless, it is obvious that, in both the Czech and the Slovak economies, the processes typical for mature market economies have accelerated over the last several decades.

2. It can be expected with a great deal of probability that the balance in the state budget will be under increasing strain, and there will be a limited possibility for the government to resolve this imbalance. The budget deficit, as a result of the influence of exogenous factors, will have an unfavorable character. In the short term, we cannot expect a revitalization of incomes, while, at the same time, room for budget cuts on the expenditure side is already considerably smaller.

Growth of the total debt could cause, in a relatively short time, considerable dynamism in the public debt, with all its negative consequences. A dynamic increase in the share of the debt in the GNP would not be easy to stop under our circumstances, and an effort to do so, given a slow rate of growth and high interest rates, could considerably increase the potential danger of inflation.

The government probably will not be able to prevent a budget deficit in the near future. But it would be useful to weigh other possibilities for easing the tension in the budget balance—for example, by using means gained by

the sale of state nonfinancial assets (that is, mainly properties in national ownership).

3. It is typical for the year 1991 that the statistics inadequately describe some of the income from private activities (insufficient number of financial offices and inconsistent registration and tax collection). Some estimates talk about more than tens of billions of korunas. That would increase the rate of growth of nominal income in both years in the range of 1-3 percent and commensurately increase the rate of growth of real income in 1992. Further, it would mean that the decline in real income in the year 1991 was lower by several percentage points than officially declared. At the same time, it is one of the answers to the question of why the transformation of the Czechoslovak economy, in spite of a palpable decline in living standard, has been workable from the social point of view.

#### \* Stockholders' Rights Under Coupon Privatization

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[Article by Jan Dedic: "Coupon Privatization: Stockholders' Rights"]

[Text] In EKONOM No. 1, we published an article entitled "We Are Becoming Stockholders." Today we follow it with a second part, which discusses the specific rights of stockholders—owners of shares acquired in coupon privatization—and how to sell and buy the shares thus acquired. Answers to these questions should make it easier for the new owners of shares to decide what to do with the acquired assets. The article does not go into the legal status of citizens who invested their investment points through the IPF [Investment Privatization Fund] because their route to shares will be more complicated.

#### Stockholder's Right To Share in the Control of a Corporation

One of the basic components of the right to share in the control of a corporation is the right of the stockholder to attend and vote in the annual stockholders' meeting, to ask for explanations, and to submit proposals.

The number of votes the stockholder has is determined by the face value of his shares. Each stockholder therefore has the number of votes that corresponds to the share of the face value of his stock in the initial capital of the corporation. The certificate of incorporation establishes the manner of voting in more detail and may set a maximum number of votes a stockholder can have.

Further, a stockholder has the right to be informed about the agenda of the general meeting on the invitation to the meeting. The obligation to inform is specified more fully in connection with the discussion of the annual financial statement and with increasing or decreasing the initial capital.

Part of the right to participate in the control of the corporation is the stockholder's right to request the board of directors to give him a copy of the minutes from the

annual meeting or part of them, and the right of every stockholder to ask the court to declare the resolutions of the general meeting invalid, if they are in contradiction to legal rules or the certificate of incorporation (for example, the stockholder's participation in the general meeting was not made possible, or the adopted resolution is in contradiction of the law).

Certain rights concerning a stockholder's share in the control of the corporation can be applied only by stockholders who own shares with face value equal to one-tenth of the initial capital. This applies to the following rights:

- a) The right to request the board of directors to call a general meeting to discuss matters proposed by them. If the board does not call a general meeting within 30 days after the request is delivered, the stockholders may turn to the court, which will call the general meeting in place of the board; the stockholders in question have the right to be compensated for costs they incurred as a result, mostly by the board.
- b) The right to request the board to include a specific item on the agenda of the general meeting.
- c) The right to request the supervisory board to review the performance of the board of directors in matters specified in their request.

#### **Stockholder's Right to a Dividend**

The second basic right of the stockholder is his right to a share of the profits (dividend) from that portion of net profits the general meeting designated for distribution. However, the certificate of incorporation may designate a mandatory amount that the general meeting must distribute among the stockholders. The amount of a stockholder's dividend is determined by the ratio of the face value of the shares of all shareholders. The dividend may not be paid out of the initial capital, the reserve fund, or the assets that, according to law and the certificate of incorporation, are to be used to replenish the reserve fund. But, as long as the stockholder accepted the dividend in good faith, he need not return it.

For the stockholder to be entitled to a dividend, two conditions must be met simultaneously. As the first condition, the management of the corporation must show profit, and, as the second condition, the general meeting must pass a resolution that part of the net profits is to be used to pay dividends.

Theoretically, it is possible to distribute the entire net profits of the corporation in dividends, but prudent stockholders never accept such a decision. The profits must be used to finance further development of the corporation, and the officers of the corporation as well as its employees must also share in the profits. Therefore, part of the net profits is set aside for bonuses (rewards to members of the board and the supervisory board) and, generally, for giving a share of the profits to employees.

A dividend is paid, as was already mentioned, out of net profits—therefore, after the 45-percent corporate income

tax has been paid. The dividend that will be paid to the stockholders (in our case, we have in mind only participants in the coupon privatization) is then taxed again at a special rate of 25 percent of the dividend at the time it is paid to the stockholder, so that the dividend the stockholder receives from the corporation has already been taxed.

#### **Stockholder's Share of Remaining Assets After Liquidation**

Another basic right of a stockholder that stems directly from the law is the right to a share of the remaining liquid assets of a corporation if the general meeting resolves to dissolve the corporation, and if there are remaining liquid assets after all obligations (debts) of the corporation have been satisfied. The liquidation remainder is distributed among the stockholder proportionately to the face value of their shares, unless the certificate of incorporation establishes a different way of distribution.

The corporation pays a corporate income tax on the liquidation remainder in the amount equal to 45 percent of its value.

The stockholders's share of the liquidation remainder is also taxed at a special income tax rate of 25 percent, even before it is paid out. The stockholder does not have the right to request the corporation to return his deposited capital either during the life of the corporation or after its dissolution (he has only the right to a share of the liquidation remainder). Nor does the stockholder have the right to have the corporation buy back his shares from him. The Business Code even specifically prohibits such practice, with the exception of buying back employee shares.

The law also grants stockholders rights in connection with increasing the initial capitalization (preemptive rights, when new stock is issued to increase capitalization and for obtaining new stock gratuitously, or for increasing the face value of existing shares when increasing the initial capital out of the assets of the corporation).

#### **Exercising Stockholders' Rights**

A stockholder can either exercise his stockholder rights in person or let himself be represented by another person. Such arrangement is practical especially in the case of exercising the right to participate in the management of the corporation if the stockholder does not have substantive knowledge of the corporation's business, or in exercising the right to a dividend. A stockholder may let himself be represented either without consideration on the basis of a commission contract according to the Civil Code, or on the basis of a contract on securities management according to the law on securities and the Business Code.

Anyone can represent a stockholder on the basis of a commission contract (as long as there is no conflict of interest). However, the Civil Code does not require professional management for such representation.

### Stock Management

A stockholder who wants to make certain that he will have competent representation in exercising his stockholder rights should make a contract for securities management according to the recently passed law on securities.

Management of securities (not only for participants in the coupon privatization) can be undertaken only by a bank or a stockbroker, as long as the permit to operate as a bank or a stockbroker does not imply something else. The manager is entitled to a remuneration for his professional management (management fee).

The securities manager is obliged, even without the instructions of the stockholder, to carry out all of the legal acts that are necessary to exercise and maintain the stockholder's rights, particularly to attend and vote in annual stockholders meetings and cash dividends for the owner of the shares, which he can either pay him in cash or deposit in an account. However, a stockholder can also reserve certain rights that he will exercise personally.

Of particular importance is representation at the annual stockholders' meeting because it makes it possible for the corporation to save the costs for calling a general meeting in order to issue registered stock. If the majority of stockholders were to entrust their registered stock to managers, the board of directors could invite to the general meeting personally only the managers (whose number is limited) instead of several tens or hundreds of thousands of stockholders. In such a case, the corporation would have to be informed who the manager of the securities is so that it could send him notices of the annual stockholders' meeting.

If the manager is to exercise the voting right at the annual meeting, the stockholder is obliged to give him a power of attorney before the meeting, and can also give him instructions on how to vote. If the stockholder does not give him such instructions, the manager should vote in a way that is in the best interests of the stockholder. It is clear from this that the manager of the stock is obliged to inform the stockholder that a stockholders' meeting was called and thus give him the opportunity to attend in person or give instructions on how to vote at the meeting.

### Selling, Buying, and Giving Shares as a Gift

Those who acquire shares in the coupon privatization can, from the very beginning, dispose of them, especially sell or give the shares a gift. The holder of the shares will be able to transfer the shares to any person he chooses, either to a local citizen or a foreigner, as long as the certificate of incorporation of the corporation that issued the stock does not impose some restrictions.

However, the law directly limits the possibility to transfer shares to the corporation whose shares the participant in the coupon privatization acquires. According to the Business Code, the corporation that issued the shares cannot obtain its own shares other than by inheritance, as a gift, or as the legal successor of the person who owns its shares. Even if, as an exception, a corporation acquires its own

shares, it cannot exercise stockholders' rights attached to them and is obliged to sell them within three years; otherwise, it must take them out of circulation, decrease the initial capital by their value, and destroy them.

The transferability of registered shares may be limited also by the certificate of incorporation, and that is why it is necessary to become thoroughly familiar with the certificate of incorporation. And, in the case of registered shares, the corporation would also have to be asked to make a change in the ledger of stockholders; otherwise, the corporation would continue to consider the previous owner to be the stockholder.

The buying and selling of shares (the so-called contract on trading securities) is covered by the law on securities and the Business Code. Shares are sold and bought for their market price, not the face value at which they were issued. The market price depends mainly on the well-being of the corporation, the amount of the anticipated dividend, the amount of interest on the deposits, and the kind of supply and demand there is for the shares. It could be lower or higher than their face value.

Trading shares can therefore be a possible source of income. However, income from speculative sale (sale within one year of acquiring the shares) is subject to income tax. Partial base for the tax is the selling price of the share less the price for which the stockholder acquired the share. (It has not yet been established how to determine the cost value of shares acquired within the framework of the coupon privatization.) If in question are shares acquired as a gift or inherited, the value of the shares, as it was determined for the purpose of the inheritance or gift tax, is deducted from the purchase price. If the cost value is higher than the purchase price, the difference is not taken into consideration. The determined partial tax base is then added to the other partial tax bases from other sources, and the resulting total tax base is then taxed, after subtracting the deductible items, at the income tax rate for physical persons.

Shares acquired for investment points can be sold either privately to anyone and anywhere, or on an organized (public) market. According to the law on securities, all shares issued before the law went into effect can be publicly traded, which means that they can be traded on the stock exchange as long as they are accepted by the Exchange Chamber for trading on the stock exchange or on a market organized outside the stock exchange on the basis of a Finance Ministry permit.

The owner of the shares can sell the shares himself, or he can use the services of another citizen or a stockbroker, as long as the owner of the shares makes a mandatory, commission, or agency contract, which are subject to the provisions of the law on securities and the Business Code. However, he will have to pay a fee for that service.

If the stock is accepted for trading on the exchange, the owner can have it sold on the stock exchange. But the owner of stock acquired for investment points will not have access to the stock exchange because only members of

the stock exchange or dealers in securities, who have obtained the consent of the Exchange Chamber, can trade on the stock exchange. The owner of the stock will have to turn to a person entitled to trade on the stock exchange (an appropriate securities dealer) to sell the stock for him.

At present, it is assumed that all shares can be traded on the organized market outside the stock exchange, both directly by their owners and through stockbrokers. Details will be determined by market regulations.

The giving of shares as a gift will be similarly regulated by the provisions of the Civil Code on gift contracts, and the donee will pay the gift tax.

#### **Transfer of Listed Shares**

A contract on the transfer of shares (for consideration or gratuitous) still does not transfer the share to the new owner. The transfer of the share to the new owner takes place only on the day the center for securities registers the transfer of a listed share. The registration of the share transfer takes place when it is recorded in the securities center, debiting the account of the transferor (the center will write off the transferred shares from the account of the present owner) and crediting the account of the transferee (the center will enter it in the account of the transferee). The center is obliged to execute both entries on the same day.

The securities center will carry out the registration of the transfer on the basis of an order to register the transfer. The order to register the transfer will be given to the center by both the transferor and the transferee within an arranged time limit, and, if a time limit is not arranged, within seven days of concluding the contract on the transfer of the security. The center is obliged to execute the orders in the sequence in which they were received, but only when the order of the transferee and the transferor are in agreement. Therefore, it would be prudent to submit the orders for registering transfers on one document signed by both parties to the contract.

However, if the security is sold through the agency of a stockbroker, the stockbroker will give the order for the registration of the transfer as a representative of the seller or the buyer. If the security is being sold on an organized market outside the stock exchange, the registration order will be given by the organizer of that market, under conditions determined by the market regulations.

If the center does not execute the registration because the share that is being bought and sold is no longer carried on the account of the seller, the seller will be responsible for the damages he caused the buyer. The buyer will be entitled to withdraw from the contract, demand the return of the paid price, and be able to make a substitute purchase of a security at the cost of the one who did not fulfill the original contract.

#### **Pledging Shares**

Shares being a security are a property value and therefore can be used as a pledge to secure the stockholder's obligations. For example, shares can be used as a pledge to secure

a claim for paying back a financial loan or credit, or as a pledge to secure the claim for paying the purchase price.

To pledge a share, a signed written pledge contract and a notation in the ledger of the securities center that a right of pledge has been attached to the share will be necessary. It will be possible to continue trading the pledged securities, but the right of pledge will be transferred to the new owner of the share. If someone sells a share encumbered by a right of pledge and does not inform the buyer of this fact, he will be answerable to the buyer of the share according to the provision of the Business Code on legal defects in sales contracts. However, the right of pledge will apply not only to the pledged share but also to its yield (dividends).

If the claim (credit, purchase price, and so forth) secured by the right of pledge is not satisfied in a timely manner, the creditor will be able to sell the pledged share through a stockbroker and use the proceeds of the sale to satisfy his claim, including the costs connected with the sale of the pledged shares.

#### **Transfer of Stock to Other Persons**

Shares, as any other property value, are subject to inheritance. The shares become the property of the heir on the day their holder dies, but, in view of the fact that these are registered shares, the transfer of the shares to the heir must be registered at the securities center. The center will register the transfer of the shares on the day of the owner's death upon request by the heirs and on the basis of the original or a notarized copy of the ruling of the probate court.

From what has been said above, it is clear that it is important for all participants in the coupon privatization to familiarize themselves thoroughly with the new securities law, the Business Code, and the certificate of incorporation of the company whose stockholders they will become.

Each of them will also have the choice of a number of possibilities. First, every new owner of shares must decide what to do with the acquired shares—that is, whether he will utilize the rights attached to the shares or transfer (sell) the shares either on his own or through a stockbroker, and on which market. But the sale of the shares immediately after they were acquired carries certain risk because an adequate market price of the shares has not yet been formed.

Those who keep the shares can then decide whether they will exercise the rights attached to the shares personally or entrust the exercise of those rights to a bank or a stockbroker based on a contract on securities management, and to what extent.

The conclusion of the first wave of the coupon privatization therefore places all of its participants before new decisions, which must be thoroughly considered not only from the legal but also from the economic point of view because, through this phase, the privatization enters into real economic and life relations, both from the standpoint of the corporations and the owners of the shares. Any hasty decision may deprive the stockholder of profit. On the other hand, a lack of decisiveness and competence in making decisions can even cause losses. Now it is up to us.

**\* Industrial Ownership, Patent Laws Reaffirmed  
by CNR**

*93CH0335A Prague HOSPODARSKE NOVINY in  
Czech 19 Jan 93 p 7*

[Article by Vladimir Pitra, Czech Republic Office of Industrial Ownership: "Patents Have the Green Light; Protection of Industrial Ownership Assured"]

[Text] *In conjunction with the demise of Czechoslovakia, the CNR [Czech National Council] approved Law No. 14/1993 Sb [Collection of Laws] on 20 December 1992 on measures to protect industrial ownership, which serve to assure the complete legal continuity of this protection over the territory of the Czech Republic. This is most important because industrial rights are effective only within a certain area circumscribed by the borders of the state in which they were granted, and, with the demise of such a state, these rights would disappear with it without appropriate measures.*

A general type of adoption law would not help in the given case, and the question as to whether new applicants should be granted original priorities with respect to the new territories involved would remain open. Damages based on such legal uncertainties would be incalculable because any kind of business and undertaking is based on guarantees that every modern state grants, particularly in the area of industrial ownership. The timely adoption of this law, which became effective the moment the Czech Republic came into being as an independent entity under international law, served to ward off this danger.

The above-mentioned law accomplished two decisive steps. First, it outlined the jurisdiction of the Czech state in the public administration of protecting industrial ownership. This public administration was entrusted to the Office for Industrial Ownership of the Czech Republic, which thus becomes a new central organ of state administration. In this way, the Czech Republic fulfilled a fundamental international obligation to protect industrial ownership—in other words, it created a special office and a central registry so as to be able to announce patents granted for inventions to the public, as well as useful samples, industrial samples, models, and factory or commercial trademarks. The second fundamental step taken by the law was the recognition of individual administrative decisions made by the Czechoslovak Federation (for example, a decision to grant a Czechoslovak patent), with effect for the Czech Republic. The achievement of this measure is also unprecedented. Essentially, what is involved here is the recognition of a foreign legal decision without any kind of nostrification, verification, or the necessary legal actions required of the owners of such rights. This means that copyrights and patents for inventions, copyrights and patents for industrial samples, validating entries for industrial samples, useful samples, the topography of semiconductor products, trademarks, and marks of product origin recorded in registers that were valid up to 1 January 1993 remain valid and continue that way on the territory of the Czech Republic. As for the registration of those objects of industrial rights that had

not been decided on by 1 January 1993, they will be handled by the Office for Industrial Ownership according to existing regulations. All of this will also take place without any additional strings attached, which means that applicants need do nothing further as long as they will be asking for protection on the territory of the Czech Republic. The sole exception was provided for by the law in regard to registration of discoveries, proceedings on which are being halted by law. Such a solution is sensible because these applications represented the residue of the past. In actuality, this involves only a few applications that had been handled in accordance with regulations from the 1970's. As of 1991, the registration of discoveries is not incorporated in the positive legal literature.

The law also made available a legal regime for all bilateral proceedings in matters of industrial rights that had not been concluded by 1 January 1993. For example, this involves expungement proceedings and proceedings involved in eradicating patents or possibly determination proceedings designed to test whether the object described in the application falls within the scope of a certain patent. Even in these proceedings, which were initiated before the Federal Office for Inventions, the Office for Industrial Ownership will readily continue because any legal actions taken previously, as well as legal facts that occurred previously, continue to be valid.

The adoption of the material and processing law involving objects of industrial ownership is also important from the standpoint of fees to be paid in conjunction with the application and maintenance of the validity of industrial rights. Fees that have already been paid, for example—registration fees as well as maintenance fees—must be regarded as having been properly handled even for the Czech Republic. Of course, fees payable after 1 January 1993 must be properly credited to the account of the Office for Industrial Ownership.

The demise of the Czech and Slovak Federal Republic, however, also has its influence upon the litigation position of some participants. Here we have in mind primarily the position of participants who have no residence in the Czech Republic or have a seat here. They are subject to the duty of having an obligatory representative, which now applies even to entities that have a residence or seat in the Slovak Republic. Also, the existing Chamber of Patent Representatives will be divided; the register of the Chamber of Patent Representatives of the Czech Republic may continue to record only those individuals who are fulfilling the civic principles stipulated by the regulations governing patent representatives.

In the Slovak Republic, as of 1 January 1993, there has been established an Office of Industrial Ownership. As for temporary provisions dealing with material and procedural patent and trademark laws, they had not been regulated at the time this article was being prepared. Particularly with regard to the transition of applications to actual proceedings, there is no necessity to anticipate that the regulation will be identical with similar regulations in the Czech Republic.

### \* Kupa's New Privatization Program Discussed

93CH0337A Budapest BESZELO in Hungarian  
23 Jan 93 pp 6-7

[Article by Mihaly Laki: "The Newest Kupa Program: A Case Study"]

[Text] *Although the public debate by experts on a system of privatization that has not yet been employed in Hungary is taking place in the government, it has not elicited special attention. The subject of the debate, more precisely, is the State Property Agency [AVU] plan to make 1 million forints' worth of credit vouchers available, practically free, to every Hungarian citizen with which to buy parts of state assets.*

#### Not Entirely a Usual Quarrel

For what reason should the public or the profession make note of the news? During the past two to three years, the government, the coalition parties and, of course, the MDF [Hungarian Democratic Forum] have repeatedly modified their stance on the methods and speed of privatization and on the role of foreign capital. This hardly could have happened otherwise, for the methods that were believed to be the most expedient ones have, one by one, turned out to be disappointing. Central privatization programs have lost their momentum, just as preprivatization, which wanted to subcontract stores and restaurants to private entrepreneurs, did. Employees are usually not in a hurry, not even with significant benefits, to buy part of an enterprise that is providing them with a job and, excluding a few successful cases, foreign investors are also cautious and obtain only a few percent of shares in privatized companies which in fact remain under the majority ownership of the state.

One reason for the lack of interest in the debate on credit vouchers is that it did not present new views and arguments in the debate of many years between those who believe in distributing public assets free of charge or with great benefits and those who promote the so-called "classic" privatization (which transfers state property into private hands for money).

Bela Kadar, in his interview given to the MAGYAR HIRLAP (MH, 2 January 1993), spoke succinctly and clearly about perhaps the most important argument of opponents of unlimited privatization, namely, that "As a characteristic of 'the Hungarian way' of restructuring, we want efficient owners and not merely owners. It is simple to distribute collective state property but is not entirely suitable for finding 'owners' who would be able to use capital more efficiently." One finds similar views in the singular opinion of the press department of the Ministry of Finance—obviously approved by Mihaly Kupa (it repeatedly speaks in the first person singular)—that came out five days later. The small investor "will have an interest in short-term disinvestment" because "He will have no real say in the decisions of the given firm and will thus be at the mercy of the latter. And, in the case of bankrupt firms, credit voucher and bill of credit payments continue to be an obligation which the owner of the bill of credit or credit voucher can only fulfill through the use of his own personal savings. These problems discourage the small investor

from using his own personal savings as capital." This is where the argument—well-known from the earlier debates—appears, namely, that "credit vouchers have an inflationary effect" and that "decisions as to who can acquire assets or stocks, and what kind, in exchange for credit vouchers, will have strong corruptive effects." The press department also called attention to the fact that "the planning of 1-million-forint credit vouchers is based on the assumption that assets worth 8,000 billion forints exist in case everybody wants to buy credit vouchers, but we do not have such large assets." (This is an embarrassing, even painful, miscalculation, for—according to certain estimates—the book value of state assets is, at the most, one-quarter of this sum, i.e., 2,000 billion forints.)

The important arguments that support privatization speeded up by distribution and transfer with great benefits also appear in the reply on the following day of V. Imre Csuahaj, the privatization minister's press chief: "The downsizing of the bureaucratic state economy and the creation of market economy's basic institutions cannot (does not) happen exclusively through organic development. It is necessary and indispensable to also take measures which include central decision making or the employment of solutions that are seemingly 'foreign to the market.' Of course, all this also applies to the complete restructuring of ownership and privatization that promotes restructuring." And, with regard to the 8,000-billion (over)supply and the concerns about the danger of inflation, the cabinet chief said that "credit vouchers would be issued—up to a specified amount—only after the 'supply package' has been put together. This would automatically eliminate any uncovered issuance" (MH, 8 January 1993).

#### Front Man From the Hinterland

The above is nothing but a new turn in the year-old debate on the authority of the privatization minister, who supervises the AVU. But what is the explanation for the participation of the minister of international economic relations who usually is so restrained, or his angry statement that "those who oppose the imports of foreign capital and foreign goods on the basis of some kind of boorish Hungarian nationalism and without familiarity with the requirements of international modernization, are unfamiliar with our own past." In its singular opinion, the Finance Ministry, too, is afraid that the credit voucher will make "the foreign investor shy away instead of bringing in high technology, capital, technical know-how, and markets for the Hungarian economy." Bela Kadar is even more pessimistic than that: "If a country is unable to acquire substantial foreign capital and foreign markets and is forced to go through the tribulations of modernization with its own meager resources, then it will agonize and bleed and will be pushed to the periphery of world economy."

Although it is mentioned in V. Imre Csuahaj's article that "the sociopolitical objective of Hungarian privatization is to expand and strengthen the stratum of Hungarian businessmen," such statements—well-known from the National Revival Program or the Kupa program—hardly

provide an explanation for the strong words of the two ministers. And they provide even less explanation for the fact that they discuss a concept that is being formulated not behind closed doors but in public. It is as if the chief of the privatization cabinet himself did not understand the whole issue: "It must be stressed that the government's decision concerns the formulation of the concept, and not the introduction of a completely worked-out method." Csuha is on the defensive even when not confronted by his debate partners: "However, privatization built on market principles cannot be identified with a kind of simplified 'marketing.'"

To whom are the debate partners' messages, which are more or less unrelated to the subject (credit voucher system), addressed?

It is not without interest from the aspect of our analysis that Istvan Csurka's writing, entitled "Bitter Hinterland," appeared in the MAGYAR FORUM a few days before the beginning of the credit voucher debate (on 24 and 31 December). This new production apparently elicited less of an uproar than "A Few Thoughts..." its infamous predecessor. Despite the fact that renowned Csurka opened up a new front in this writing, namely, launched an attack against the quatermasters of capitalism, industrial society, and consumer society.

The "Bitter Hinterland" is a passionate declaration of faith in support of—let us put it this way—non-left-wing anticapitalism. "There has been, and there is, a great world system, the industrial society, which used to have two war industries and two methods of governing and controlling citizens: consumer satisfaction, middle-class limitations imposed on subjects, and coercion through shortages.... Of course, there is a great difference between state capitalism and free capitalism, especially in terms of the efficiency of human labor but, in a historical comparison, they merely represent a worse and a better solution in an era. They belong together despite their differences" (MF, 24 December 1992). An analogy for the same thing: "There is no such thing in the world as a change of regimes, there is only an old egg with its yolk and egg white which are mixed into a single yellow mass." According to Csurka, the egg mixers are implementing a change of regimes only to prepare quarters [for capitalism], and "the West continues to support the quatermaster." Its opponent is the one who creates order and who demands an explanation from the government for the order-creating change of regimes that has failed to take place.

Returning to our narrower topic, according to Csurka, "the ideology of preparing quarters says, let us privatize, let us sell everything to those who will buy it, at a price that they are willing to pay, and let us create a wealth through these sales akin to the wealth of the other European states, then let us integrate into the economic community of peoples, and let us strive to have our own consumer society. For Hungarians are in dire need for this and, for this reason, this is the primary objective and meaning of restructuring. This is how our national goals will materialize. But this is not how it is. For although it is true that it is the right thing

to do to make an agreement on customs tariffs and to sign partnership contracts at the right time and to make sure that the Hungarian economy has the possibility of future partnerships, and it is the right thing to do to set the goal for catching up, to do all this with a quarters-making change of regimes is a fatal mistake, especially when leaving out the order-creating elements and will, because in this way Hungarian middle-class society, which could occupy a respectable place in Europe, cannot be created because the Hinterland will be left behind because only the elite will have a chance for integration and catching up, and it will be precisely this process of privatization in which the people—the bitter ones—will fall behind because they will be left behind. Consistently, and by the quatermasters."

#### Addressee Not Unknown

To whom are these strong words addressed? First of all to "the MDF leadership and, in general, to the entire national rally," "the greatest neglect of which is that, even after seeing the falseness of the quarters-making change of regimes, they still have not prepared a program for their constituents—for the 'Bitter Hinterland.'"

But economists are the ones who are really responsible: "Away with economists! Enough of them. What is needed for creating a society in which the Supreme Commander is not the Bank is to not leave it up to economists to plan the foundations and to determine policies."

And it suffices to read a few of Csurka's "basic principles" to clearly understand where to find the quatermaster-economists.

"Today's industrial production ... is not even half of that of earlier times, and it is expected to further decrease. This is not caused by economists but they have a fault in it, because the plan which they began working on during the beautiful old times of the Grosz administration to eliminate internal state debt and corporate chain debts, remains to date in the verbal stage, and then such confusion and uncertainty was created with a prematurely presented bankruptcy law and a simultaneously run privatization, that it is now extremely difficult to resolve."

"Until now, the programs of the respectable economists proved to be not only utopian but appropriate for fillers in a cartoon magazine, in other words, they are not even funny. Every budget collapsed, and every program became extinguished in its own ashes. Nonetheless, they continue announcing new ones."

The finance minister is unlikely to cheer about such comments. If he adheres to his ideas on modernization, his colleague who is supervising international economic relations cannot be enthusiastic either about admonitions that "Hungary's soil is not for sale. A foreigner should not be allowed, not even in the form of a joint venture, to acquire Hungarian land above a minimally set level. For the same reason, the Hungarian banking system should not be sold either beyond a certain percentage. Forty percent is too high! In addition, joint banks should be forbidden to

conduct mortgage transactions because they pay foreigners with land for bad loans that they are stuck with. The country can easily be sold out if the banks create a situation in which many smallholders default on their loans."

#### **Journey to the Past**

We have come to a classic situation of the Kadar era. How often did we see that, in response to the hard line's open attack, partisans of the market economy and modernization sent messages, in the framework and under the pretext of another debate, not only to their opponents but also to the profession and to the public interested in politics. And the favorite game would go on, to determine the winners and losers of positions in the heroic battles between reformers and their opponents. To determine whether it would help the reformers if, winking as accomplices, we pretend to densely get their message when in fact we clearly

understand [the game]—which is proven by the fact that we got the message. Or whether it would be better to say aloud what they did not say.

The fact that this intellectual game is gaining ground again—as illustrated in our little case study—is an important symptom of our age. However, what was only boring in the communist regime has now become ridiculous. Those who disagree today with the right-wing's anticapitalist program, may stand up and leave any time, they are awaited by the Hungarian and international business and scientific world. The old line of the reformers that "it is still better if, instead of them, I do it," and the self-delusion and the delusion of others, are obsolete. Those who—in order not to give their opponents another opportunity to attack—freeze or withhold monies from institutions that employ imagined or real political opponents, those who spend their time in order-creating committees, will soon lose not only their credibility but also their remaining professional authority, no matter how refined their signals that they do not belong to Those.

**\* World Bank Expert on Polish Credit Use**

93EP0163B Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 21 Jan 93 p 1

Article by Danuta Walewska: "World Bank Credit: No One Presses, Money Sits"]

[Text] Use of credit granted to Poland by the World Bank is no worse than in other countries to which that financial institution has given assistance, said Claude Bianchi, economic adviser to the vice president of the World Bank. Of the \$2.6 billion allocated to Poland, we have expended \$750 million, which is an absolutely acceptable result. All adjustments and short-term credits have been put to use.

The bank would be very satisfied if this year we were able to spend 8 to 9 percent of the allocated amount. The height of our dreams would be 12 percent. It is worth adding that the money allocated to use (except for lines of credit) has been classified as long-term and can be used over a period of six to 10 years.

"If one were to talk about the bank's concerns," said Claude Bianchi, "it would only relate to the use of lines of credit, but we realize that this is caused by the macroeconomic situation, and the reasons that the money is lying there are very complex."

Claude Bianchi also noted that his current visit to Poland is not one of intervention, nor did he skimp on praise for the Finance Ministry and the National Bank of Poland [NBP], with which the World Bank cooperates.

Eight of the 15 loans extended to Poland have recently been approved and signed. This means that half of the \$2.6 million has been available only very recently. In most countries where funds allocated by the World Bank are used, five years is the average term. In Poland, this financial institution has been operating since 1990.

As is apparent from the materials RZECZPOSPOLITA obtained from the World Bank's Warsaw office, lines of credit, from which it is possible to secure \$400 million, continue to be available. State, cooperative, private, and mixed enterprises can take advantage of them. Their purposes vary—financing purchases of machines and equipment in Poland and abroad, consulting services, and training.

Available credits for the agricultural and food industry are intended to serve modernization and improvements in the quality of industrial-agricultural production. A line of credit for privatization and restructuring is available to only private and commercialized enterprises.

Any heating plant that has not yet received aid from the World Bank can use a line of credit for restructuring heat engineering. There will be more money for this purpose because soon a new aid project will be drafted in the form of a grant of \$25 million from the Environmental Protection Fund; it is to be designated for the conversion of coal boilers to gas.

There is also money (loans and grants) to promote employment; it is held by the Ministry of Labor and Social Affairs.

It can be used to support training programs for the unemployed, or by the unemployed who would like to open small businesses.

For loans for agricultural development—agricultural, agricultural-industrial, private, and privatizing enterprises—one must turn to the Food Production Economy Bank, cooperative banks, and interested commercial banks. The NBP has the list of those banks.

World Bank lines of credit can also be used by those seeking funds for the development of private-sector health care (lines are available through the Ministry of Health and Social Services), while construction firms and individual borrowers can use a line designated for Polish residential construction.

The loan currencies are U.S. dollars, German marks, and Polish zlotys. Generally, loans are granted for up to 12 years, with a three-to-four-year period of amortization. Interest rates vary and are based on LIBOR [London Interbank Offered Rate] or FIBOR [Frankfurt Interbank Offered Rate] levels. Payments generally occur on a semi-annual system. Specific conditions vary in individual investment cases and depend on specific World Bank loans.

**\* Study of Obstacles, Remedies for Private Business**

93EP0163A Warsaw RYNKI ZAGRANICZNE in Polish 7 Jan 93 p 3

Article by (emes): "Legal Barriers to Private Enterprise"]

[Text] It is hard to do business in Poland today. This can be confirmed by almost anyone who in the past few years had decided to "take matters into his own hands" and open his own business. In spite of this, there are plenty of such brave ones. It is enough to say that, in the past three years, more than 1.5 million small and medium enterprises, in which 56 percent of all those employed work and which already produce about 44 percent of national income, have sprung up. The success of these firms, but perhaps more often their setbacks, arise out of the existence of various barriers that stand in the way of private enterprise, such as tariffs and taxes. Many of them are the result of obsolete structures and the antiquated thinking of officials.

Many if not most of these barriers come from the lack of a clear, precise, and stable legal system. Our laws simply cannot keep up with rapid economic changes. And, although much has been done in the area of their creation and modification from the standpoint of the needs of a free market economy, numerous mistakes have not been avoided along the way. Some of them emerged at the construction stage, and some appeared during their execution. What is important is that both obviously have an impact on restraining the reform process and are sharply felt by people conducting economic activity.

Realizing this, the National Council of Economic Associations, taking advantage of financial help from the American Center for International Private Enterprises in Washington, undertook research on the major legal obstacles restraining the development of private enterprise and a study of practical recommendations intended to remove them. An analysis emerged as a result of this activity, and we present extensive excerpts here.

### Specify Legislative Principles

Polish entrepreneurs take on the risk of economic activity in unusually difficult conditions of fundamental systemic changes. These difficulties intensify the existing and persisting vagueness of legal standards and the excessive ease with which rules promulgated at various levels of the administration can be broken. They are also taken by surprise by constant changes in tariffs and turnover tax rates and other regulations. Thus, legal chaos arises, as a result of which planning and forecasting economic activity, relating not only to future matters but even to individual transactions, become almost impossible. This burdens entrepreneurs with the weight of additional risk and discourages the investment of resources in long-term undertakings—in a word, it constitutes a serious barrier to economic development.

Hence, the urgent need to draft and codify, taking into account the current state of knowledge and the jurisdiction of the Constitutional Tribunal, specific, modern rules for lawmaking. They should have a clear place and foundation in the Constitution, which would give them the standing to organize legislative activity and put its effects thus far in order. Such a regulation would force scrupulous, punctilious observance of appropriate procedures and rules by legislative bodies. At the same time, it would contribute to the restoration of the already seriously impaired confidence of citizens in the state and, closely tied to this, in executed reforms.

It is important that basic legislative principles be found in a document of high standing—in a statute. Such a statute would include in its scope a specific definition of the system of sources of laws and issues related to the publication, implementation, and operation of executive acts. A guarantee that a lack of executive regulation will not delay the operation of statutes is necessary.

Before its passage, a correction and supplement to the principles of lawmaking regulated by the Constitution should be carried out. This relates mainly to putting in the procedures statute basic legislative issues such as a ban on the retroactive operation of laws, rules for protecting properly promulgated laws, or defining the minimum period from the passage of a statute to its effective date.

### Obsolete Labor Laws

The labor laws in effect in Poland arose in a different political system, under conditions of a centralized state economy. So it is no wonder that in no way do they apply to market economy conditions. Thus, changes are crucial,

not only in the substance of specific solutions, but also in their design and applied methods of execution.

In the labor code and in all regulations, introducing a uniform definition of "employer" is crucial. The right of the "employer" and "employee" should be equal. The current code covers mainly employee rights.

As far as protecting an employee from termination is concerned, a change in the formula from "the rule of termination" to "prohibition of wrongful termination" is warranted. The former signified an employer's obligation to indicate affirmatively the reasons for termination, which often makes necessary changes in employment impossible. The latter gives an employer the opportunity to select employees appropriate to the operating needs of a given business, at the same time prohibiting discriminatory terminations that conflict with principles of social coexistence.

Work time should be regulated in a way that assures the necessary protection of employees and gives employers the opportunity for flexible use of its various forms in specific circumstances. The point here is mainly to expand opportunities to use so-called equivalent work time and its other specific forms.

Regulations governing an employee's financial responsibility as a result of unintentionally inflicted injury are unsatisfactory. It is warranted to require employers to increase the maximum level of damages due from the employee, in both the case of injury caused by gross negligence and as a result of a violation of employee rules. Dual coverage by ZUS [Social Security Agency] and a business for work-related accidents should also be eliminated inasmuch as the social insurance premiums by employers also include accident insurance.

The social insurance system requires urgent, fundamental reform, especially its financial and organization. The level of premiums in Poland is among the highest in Europe and, together with low labor productivity, constitutes a significant barrier to the development of entrepreneurship and employment growth. The insurance system should operate efficiently and be financially self-supporting. There should be created separate, independent insurance funds for individual risk groups (for sickness, work-related accidents, pensions, and retirement). Employees should participate in the payment of premiums—as is true in most countries of the world. Alongside universal insurance, it would be necessary to introduce supplemental private insurance.

### Stop Administrative Interference

The statute of 23 December 1988 on economic activity created conditions for the introduction of a market economy. In practice, its operation is often effectively limited by the state administration, while the private entrepreneur is often subjected to excessive interference by employees of high-level offices. The reasons for this situation are twofold. On one hand are longstanding habits of administration representatives still holding themselves out

in the rule of "authorities" in relation to private entrepreneurs. But, on the other—and most important—this behavior results from shortcomings in the statute's regulations and their faulty interpretation.

Upon its eventual amendment there should be introduced a provision that the administrative body execute an entry in the records *ex officio*, according to the notification. It may not make the entry conditional on presenting additional information, other than that required in the statute. Nor may it alone evaluate economic activity.

The range of undertakings for whose operation a license is necessary is expanding at an alarmingly rapid rate. The statute should limit this in a decisive way. The fundamental, sole premise by which a legislator should be guided in erecting administrative barriers to economic activity is the security of the state and the protection of its important economic interests. All other premises are unwarranted and contrary to the principle of economic freedom stated in the statute.

Where licensing is truly indispensable, it is necessary to simplify the procedures associated with it as much as possible and precisely define the conditions that must be met in order to obtain a license. This is tied to total elimination of the discretionary powers of the licensing bodies. Nor can negative decisions be of a discretionary nature. Oversight powers and the power to withdraw or limit the scope of a license should also be modified. Also important is detailed regulation of the level, course, and rules for depositing collateral, depending on the type of economic activity.

#### **Privatization for Private Entrepreneurs, Too**

The process of privatizing the Polish public sector clearly displays a preference for employees of privatized businesses. Yet participation by private, outside investors, even in employee partnerships, is not only much desired but also necessary. Only in this way can economically healthy, strong private enterprises emerge, managed according to European standards by owners who have the necessary knowledge and experience. That is also why access by outside private entrepreneurs to transactions undertaken within the scope of liquidation-type privatizations should be simplified. This can be achieved by limiting the requirement to obtain the approval of the minister of ownership transformations for participation in partnerships established in order to take the enterprise to profitable use only to state and foreign principals. In the case where an enterprise is located in the area of a *gmina* particularly threatened by unemployment, it should take advantage of improved debt repayment terms (a more favorable payment arrangement, freezing part of the debt allocated to restructuring of the enterprise). It would be desirable to make it possible to transfer ownership to the partnership or principal acquiring title to the firm on the way to a sale contract after payment of 40 percent of the debt.

Of the other issues considered by the National Council of Economic Associations for standardizing legal regulations

intended to accelerate private enterprise, there is the possibility of including investment costs with the costs of securing revenues by businesses financing investments from their own funds and setting partnership law in order—according to EC standards. Only the implementation of these points can contribute to the acceleration of economic reform in our country.

#### **\* Software Industry Against Pardons for 'Piracy'**

*93EP0163C Warsaw RZECZPOSPOLITA  
(ECONOMY AND LAW supplement) in Polish  
17 Jan 93 p 1*

Article by Zbigniew Zwierzchowski: "Computer Software Market: Harbinger of Normality"]

[Text] Polish legality marks will soon begin to appear on both native and foreign computer programs sold here. In this way, the producers and distributors of these products, united in the Polish Software Market [PRO] association, which has been operating for several months, will counteract piracy, to which neither existing laws nor market customs have been an obstacle so far.

Copying software, whose development often requires many years of work, can take mere seconds. Because of the dissemination and use of illegal copies, producers and authorized owners of software have lost at least \$100 million annually in recent years. Of that amount, PRO estimates that 10-15 percent represents a loss to Polish software firms. The number of these native software companies is estimated at 300-400, and about 20 are large firms, employing more than 20 persons. For all of them, but especially the smallest, the plague of computer piracy means that they cannot get on their feet and grow because they do not receive the revenues due them.

The PRO association, operating formally since last September and bringing together dozens of both Polish and foreign computer firms present in our market, decided to print and distribute software legality marks, even though work on the statute on copyrights and related laws has not been finalized.

This work has been going on for over a year. Recently, the issue of introducing amnesty in the case of protection of computer programs has affected the delay. If amnesty were to be granted, it would mean that holders of illegally obtained software would not be accountable for copyright violations before the effective date of the statute, and they would be able to continue using illegal copies. Advocates of the principle argue that other remedies would involve substantial costs among software users. In the opinion of PRO and the Polish Information Technology Association [PTI], the statute should not permit amnesty because, in the period between the passage of the statute and its effective date, users of illegal programs would have time to legalize their software. Software producers and distributors would also agree to a solution whereby an appropriate pricing policy would be applied (because some programming firms in Poland, as well as abroad, are already doing this). As a result, the law (without amnesty), in the opinion of PRO and the PTI, would serve to standardize the Polish

market and protect the interests of computer firms. Otherwise, the period before the law's effective date will be used for the emergency of a "software copying industry," says PRO president Dr. Roman Dolczewski. In his opinion, fears about the high costs of legalizing software that would be incurred if the amnesty were abandoned are exaggerated. The changes occurring in the software field are so revolutionary (brought about, for example, by the introduction of Microsoft's "Windows" into the market) that talking about the high value of old software is unwarranted. Obtaining programs illegally should be rewarded by legalizing them. But, considering the situation and

events in the Polish computer market, the punishment for holders of illegal software should be problems with legalizing this software before the law's effective date.

Until genuine legal protection is established, the newly introduced legality marks will only be a harbinger of normalization of the computer market. But, along with the law, they may lead to the situation that arose in the United States, where, as a result of the application of various forms of resistance to piracy, its scale has decreased by more than half in the past three years. Losses dropped from over \$2 billion to approximately \$1 billion.

**\* Perspectives on Significance of Recent UDMR Congress**

**\* Columnist's Analysis**

93BA0542A Bucharest "22" in Romanian 21-27 Jan 93  
p 8

[Article by Andrei Cornea: "The True Romania Is in Brasov"]

[Text] Among the so many incomplete or actually false images that we live with is that of the uniformity of the UDMR [Democratic Union of Hungarians in Romania]. Consciously maintained—apparently, by the government—this image of all Hungarians forming a compact bloc that votes UDMR without hesitation and without dropouts, manifesting a uniform hostility toward Romanians, could not be farther from the truth. More than ever, the Third Congress of the UDMR, held at Brasov during 15-17 January, proved the essential fact that the UDMR is not a party but rather an alliance of some numerous and very diverse parties, groups, and civic and cultural associations with distinct ideologies. UDMR is, in fact, a Hungarian replica on a smaller scale of Romanian society: Here there are liberals, Christian-Democrats, socialists, and even miniature replicas of "Romania Mare," judging by the haste with which some representatives of the UDMR rushed to judgment against critics from the Liberal Circle of Cluj, actually calling them "traitors," "assimilationists," and "Romanian sellouts." Of course, the UDMR has managed not to split up since the general problems of the Hungarian community still remain prevalent. But compromise is achieved at the cost of strenuous effort and some significant vagueness in the texts of the platform.

The Congress of the UDMR at Brasov had to come to a decision on two major questions, otherwise closely interconnected.

On the one hand, a new leadership had to be chosen after the retirement of Mr. Geza Domokos from the presidency of the UDMR. The open position was coveted by Bishop Laszlo Tokes—until recently a charismatic personality among Hungarians—but considered by Romanians (and not just the nationalists) to be a real extremist. Second, a platform had to be adopted in which certain formulae such as "territorial autonomy"—which had appeared back on the occasion of the Declaration of Cluj—had stirred up serious reservations in advance of the congress, even among the allies of the UDMR. A victory by the Tokes-Szocs wing over the moderates of various stripes (Gyorgy Frunda, Gyorgy Tokay, etc.) would have signalled the withdrawal of the UDMR into ethnic isolationism, the aggravation of the conflicts with the Romanians and their organizations, and, very seriously, the compromising of the position of the Union within the framework of the Democratic Convention as well as compromising the latter from behind in the eyes of the Romanian electorate, which would have considered it responsible for supporting Hungarian extremists for so long.

Appreciating the danger, the Convention mobilized in a massive way. Almost all the important people of the CDR

[Democratic Convention of Romania] were present at the Brasov Congress, to which they brought greetings. While addressing different concerns, the message of Msrs. Emil Constatinescu (who also interrupted an important meeting in Italy), Corneliu Coposu, Stelian Tanase, Gabriel Andreescu, Sergiu Cunesco, Horia Russu, Simina Mezincescu, etc., had a common thread: "You are not alone, you do not have to isolate yourselves, we have to carry on a common struggle." The sustained applause by the delegates that greeted the first two people in particular on the above list proved that the message was well understood, which, of course, strengthened the position of the moderates.

On the other hand, it was not difficult for some delegates from the moderate camp to point out the conceptual inadequacy and ambiguities of some key terms such as "territorial autonomy" or "national community" (that are meant to designate the Hungarians of Romania) and that the radicals would have wanted kept in the final platform. According to what Mrs. Gyimesi told me, the terminological and conceptual deficiencies are to be explained by the fact that, all too often, the Union's official texts were drafted by "agronomists and engineers". A round table at the GDS [Group for Social Dialogue], also devoted precisely to "territorial autonomy," seems to have contributed somewhat to the justification of the criticism levied by an elite of Hungarian intellectuals against some members of the Union leadership.

Finally the radicals also committed a tactical error before the congress. Furious attacks appeared in Hungarian publications against some respected people such as Mrs. Eva Gyimesi of Cluj, a former dissident and Gyorgy Tokay, a very popular senator. These attacks, as unfair as they were trivial, infuriated the moderates, frightened the undecided and, in general, created the impression that a victory by the radicals would also mean a victory of intolerance that would severely jeopardize the very unity of the UDMR.

We know the result: After prolonged discussion, inflammatory protocols were removed from the platform. Mention will be made only of local autonomy (a term approved by the Constitution) and personal autonomy (which suggests the possibility of deriving specific minority rights from the rights of man, without invoking so-called "collective rights"). Hungarians will continue to be called a "national minority" and not a "national community," a term that is more appropriate for the Kurds or the Basques, that is, ethnic groups that do not have a "mother country" at their disposal.

Mr. Tokes, finally convinced that his image among Romanians remained very bad and that his presidency would be detrimental to the Union, withdrew his candidacy. Mr. Bela Marko, a writer, senator from Mures and a moderate, was elected president.

Thus Brasov saw a victory for political realism, for the spirit of collaboration with Romanians, for the policy of "small steps," extolled by Mr. Geza Domokos in his speech. It was an important victory for the CDR, which managed to swing the balance to the party of moderation.

It was, finally, a victory of the true Romania, of tolerance, open dialogue, the firm rejection of nationalist extremism and radicalism. Under the gaze of numerous foreign delegates and some ambassadors, the behavior of these Romanians was clear, decisive, without the shadow of a doubt. Also at the UDMR congress there was denunciation of the stupid isolation of the government and the country's president which had nothing to send, nothing to say. The attitude of these institutions, that were absent from the event, is synonymous with the conceptual disorder and irresponsibility that characterize them. But the true Romania is to be found in Brasov, among the Hungarians.

**\* Participants Interviewed ["22" 21-27 Jan 93]**

93BA0542B Bucharest "22" in Romanian 21-27 Jan 93  
p 8

[Interviews with Gaspar Miklos Tamas, Gyorgy Tokay, Eva Gyimes, Toni Niculescu, Peter Banyai and Peter Eckstein, by Andrei Cornea; place and date not given]

[Text]

**Gaspar Miklos Tamas**

[Cornea] Mr. Tamas, how do you view the current congress of the UDMR? Will it bring about essential modifications in the strategy of this party?

[Tamas] The official attitude of all those on the outside and, of course, of the party to which I belong (the Free-Democratic Alliance), is that we would be happy if the unity of the UDMR were to be maintained. Still, the political tendencies within the UDMR seem to be getting stronger. From one point of view that is gratifying because it is a natural democratic process, the way to political organization within a modern society. On the other hand the political and logistic interest of the Hungarians of Romania is to preserve this bloc of votes that gives them much more political influence than, for example, the Hungarian minorities in Slovakia have, where there are four Hungarian political parties. I believe that the differences within the UDMR movement—which is not the same as a parliamentary party—will become more powerful. The problem is that the UDMR brings together a corporate organization representing the interests of all the Hungarians in Romania and, at the same time, is a political party. It is, of course, a political paradox. This double character creates tension, which is why this gathering does not seem to me to be as enthusiastic or as united as in the past.

[Cornea] The concept of ethnic autonomy is a kind of bone of contention, not only between Romanians and Hungarians but also between the democratic part of the Romanian political spectrum and certain elements of the UDMR. How do you view this question? Are you familiar with the Declaration of Cluj?

[Tamas] Of course I am familiar with that declaration. Still, in my capacity as a foreign politician I will refrain from giving any opinion about that declaration. I believe that the ideal form of coexistence between Hungarians and

the Romanian majority in Romania will have to be worked out by the political forces in Romania via a dialogue. The concept of internal self-determination, which is an exact translation of the concept proposed by the Declaration of Cluj, is an unusual concept, but I do not see any reason why a conceptual innovation should be rejected. It may be necessary to change the traditional liberal ideas of constitutionalism and a state of law, since in classical liberal legal doctrine, sovereignty is indivisible and the loyalty of the citizen to the state is indivisible. There is no such thing as loyalty to your ethnic group.

[Cornea] It seems to me that in this sense it is a step backwards. It is reversion to a corporatism reminiscent of the Middle Ages. The Declaration even made reference to the old community of Transylvania.

[Tamas] References to tradition are always part of rhetorical strategy and neither impress me nor convince me. But I believe that the traditional doctrine of a constitutional, liberal, national state as exists even today in Western Europe does not offer a satisfactory solution for the multi-ethnic states of Eastern Europe. New solutions must be found. I feel we must all look with trust at what is happening. It is a search, a proposal, an intellectual project that has to be discussed, but only by you, I do not feel it has to be discussed between Hungary and the Hungarian minority of Transylvania, but rather between Transylvanian Romanians and Hungarians. Perhaps this new, somewhat provocative idea will prompt a useful discussion.

**Gyorgy Tokay**

[Cornea] Mr. Tokay, what do you expect from this Congress?

[Tokay] A clarification, a new and efficient structure and the elimination of some polemics that have gone far beyond the limits of admissibility and supportability.

[Cornea] What, exactly, are you referring to?

[Tokay] Some absolutely personal polemics that have nothing in common with political polemic and lately, especially in the period prior to the congress, have assumed absolutely unjustified proportions that, I would say, are unworthy of the political maturity of this organization, which, for three years, has consistently demonstrated coherence and cohesion in its actions. To put it bluntly, I was unpleasantly surprised by the way in which even some members of the UDMR leadership let themselves be drawn into purely personal polemic. The problems are much more serious than personal problems. In fact, here, both you and the entire country are present at an attempt to nail down this political proposal—I will also use the form introduced at the present time—as we characterized our declaration with respect to internal self-government based on the principle of community autonomy. It is a new concept that has to be more precisely specified, and a way must be found—I mean a scientific way, not just a political one—to fill this new notion with content, to clarify the legal means—I would stress—within the Romanian legal context, to be able to do something in

this direction. What would be the first step? If we want real democratization, we must first democratize our own organization.

[Cornea] How you feel about the future of relations between the UDMR and the CDR?

[Tokay] I want to be very precise. I believe that the UDMR has not been and will not be a one-cause party. That is, it is not and has not been an ethnic party or organization concentrated exclusively on resolving problems of the Hungarian minority. Nor should it be so. It is profoundly interested in the process of democratization. I have provided evidence for this assertion for three years and am happy with the results of analyses done by some respected analysts, who have recognized the consistency with which, in any problem or key moment, we have opted for a democratic solution. It must continue to be that way in the future.

#### Eva Gyimesi

[Cornea] Mrs. Gyimesi, what is your situation within the UDMR? I know that you have been subjected to some attacks. Why?

[Gyimesi] Keeping in mind the fact that in Romania democracy is still very fragile, I have often expressed the opinion that we must establish harmony between our national goals and the process of democratization within the entire country. Since I believe that in this Romanian context in which the society has brought forward a mentality accustomed to state paternalism, with certain authorities, with ignorance of personal initiative, and keeping in mind the fact that democracy is not yet established in Romania, I believe that any demand for our collective rights will provoke certain suspicions in Romanian society. We have not done everything we need to do to orient Romanian society, to show what we Hungarians, in fact, want in Romania. I believe that besides our platforms, which, as you see, are updated from year to year, and which are understandable to Hungarian-speaking society, we must still explain all the things we want for ourselves in public, in forums, in the press and on radio and TV. Because Romanian extremists can base their arguments on this ignorance of our cause and can manipulate the Romanian masses against us. This is what is happening now, for example, in Cluj. I have felt that our organization will be one in which internal pluralism would be a natural thing. I have always lived in the belief that my opinions—somewhat different from the opinions of the current leaders of the UDMR—would meet with arguments and not labels. I have analyzed our situation in the context of Romanian society in this post-Stalinist phase and have also analyzed the situation of the Hungarian populace, the different groups and social strata that have somewhat different interests than the national ones. Thus despite the fact that we are discriminated against from a national point of view, we have the same concerns as Romanian society as a whole. Therefore, I believe that we must be concerned with all the individuals of this community. I believe it is not good to think only in collective terms. My philosophy is personalist—I say personalist

because it is closer to Christian personalism. My creed is equally Christian and liberal, which is somewhat contradictory, but I believe that the values of Christianity and of liberalism can be harmonized. My life represents a proof that these two ideologies, these two beliefs, can be combined. Now, when I analyzed our problems from this perspective, formulating certain criteria for our leaders, I met with extraordinary intolerance that I feel was undeserved. I was sometimes hard in my argumentation, lucid and very categorical, but instead of counter-arguments I got labels such as: "she is a Romanian sell-out," "she is a traitor, a coward," "she is a stooge of the Iliescu government."

[Cornea] Who told you that?

[Gyimesi] I would say the intellectual elite. First of all Andras Suto, a well-known writer in the Hungarian community. Today MAGYAR SZO printed the article by Bishop Tokes. There are certain facts that preceded this article. I wrote personal letters to the bishop, very friendly letters, because we have a lot of things in common. For example, I was among the very few who came out in solidarity with Tokes at the time of the pre-revolutionary actions. And you may know that I also participated in the Hungarian opposition. Alluding to the fact that I have had ties with Mrs. Cornea and with those of the Romanian opposition, they have reproached me for getting along better with the Romanian opposition than with the UDMR elite. But, keeping in mind that any kind of extremism is very alien to me, I feel that I cannot see much difference between extremists like Eugen Barbu or the writer Istvan Csurka of Budapest. My liberalism now inclines more and more to the left. I do not say that Mr. Tokes or others are extremists. But there is impatience and recklessness in the way that we sometimes put together certain programs without bringing the Romanian opposition into what we are undertaking. I do not see where the Hungarian opposition would treat the Romanian opposition as true partners whom they would always inform of our wishes. I do not say that we desire permission from some Romanian personalities or parties for what we do, but we have to explain certain things so as not to get into a situation in which, in the journal "22," for example, when someone asks Zsolt Szilagyi or Attila Varga what really is meant by internal autonomy or collective rights, clear responses cannot be given. I believe that the responses that appeared in "22" were not formulated clearly enough, and it is bad that we are unsuccessful in making ourselves understood.

[Cornea] Is it not really that some unclear responses are due to the fact that different people actually understand things very differently but, in order to put on a facade of unity, they express them with the same terms?

[Gyimesi] It may be that some disagreements originate from that fact. I believe it is very important for terminology to be unambiguous and in accord with the documents referring to those rights or to autonomy. Now I observe a dilettantism among the present leadership, to wit: Those who make the platform and ideology of the

UDMR are not social scientists, rather, they are agronomists and engineers. Now, when an agronomist or engineer addresses social problems, it is natural for the political and social terminology to be applied incorrectly. I am certain of one thing: At the end of the 20th century intellectuals should no longer have messianic pretensions they are acting for the benefit of the people. Eastern Europe's intellectual messianism can no longer help. Intellectualism seems to be just as paternalistic toward civil society as the state is toward society in socialism. Thus when intellectuals no longer pay any attention to civil society and do not sincerely ask society's individuals what they want formulated, they are acting in vain. We do not have to formulate society's interests, rather society must have autonomy while we must help it achieve the ability to consider its own fate. In short, until the mentality changes, no autonomy will function. Autonomy functions only when individuals can really live with it, if they have courage and initiative. It should not be an empty framework but one in which we can develop an adequate content.

[Cornea] Do you not think that a discourse of this kind—liberal, rational, moderate but rigorous from the point of view of its logic—is a rare bird in this gloomy end of the century so strewn with extremism, fanaticism and fundamentalism?

[Gyimesi] Certainly, I sometimes feel very alone and have very few friends who feel this way, especially those who have the courage to state the fact that they are liberal. There are some who think that way, but because liberalism has become a "curse" in Eastern Europe, they consider it shameful to be liberal. I suffer a great deal on account of these attacks, which put into doubt my loyalty or national sentiment. But I feel that in the second half of our century, after so many wars provoked by nationalism, we need to consider that no kind of nationalism will lead to peace. Peace will only result from a much more intimate activity on the part of everyone, a more careful activity undertaken with much more patience, so that society can achieve democracy. Consensus among very different people with different ideologies cannot be achieved through ex cathedra declarations but rather through dialogue.

**Toni Niculescu**

[Cornea] Are you a radical?

[Niculescu] No. This division into radicals and democrats seems a bit simplistic to me. Within the Liberal Circle I know plenty of members who, if you listen to them, cannot be included in this group of radicals. In broad terms, our goals are the same: For example, in the problem of education in the Hungarian language, there are no differences except with regard to strategy. The press has written about the strategy of "small steps," and that of the radicals who want to demand some rights as quickly as possible. I, if I have to be pigeon-holed, would put myself somewhere in the middle.

[Cornea] There has been a great deal of discussion of this concept of local autonomy or local self-government.

Would you not agree that the UDMR drafts were insufficiently clear, which caused a lot of confusion?

[Niculescu] It is true that these terms were not clarified in international fora either. But as a goal it seems to me normal that our desires be enunciated. And after they were heard from this rostrum, many more international fora are now occupied with the clarification of these notions.

[Cornea] I want to read you a phrase from the draft of the platform (meanwhile greatly amended): "The assurance of self-organization of national groups, in the sense that all problems having to do with the internal life of the group will be decided by the group itself." This is the phrase. Let us suppose now that you have to have a civil trial that involves two members of the community. Then what does "the community will decide for itself" mean? Does it really imply that the laws in force throughout the land are no longer valid?

[Niculescu] No. Certainly not. You have distorted the interpretation of this text. I am not a specialist. What we want is that in legal cases or in local administration where the Hungarian population is the majority, we can use the language and can decide ourselves with regard to the country's laws.

[Cornea] You see, the problem is that these phrases are open to a lot of interpretations, which has created agitation, not only in the ranks of the enemy, but even among friends. In this connection I would like to ask you if you do not think that a radicalization of the UDMR, possibly by the use of such formulae, could not but add grist to the mill of the Romanian nationalists and make them feel justified?

[Niculescu] That is so. But first I would like to tell you that there is confusion even within our own organizations. These terms are not clear even for everyone within the UDMR. First, specialists should be consulted. You should speak with Mr. Frunda or Mr. Tokay. I am convinced that it will provide grist for the mill of the Romanian nationalists, but, at the same time, I think that it is normal for us to formulate our aspirations into a platform.

[Cornea] But I would like to give you a few examples. Thus there is a phrase referring to the UDMR: "Make no unprincipled compromises with the government or with any other political forces." Would you agree that this phrase is poorly written and poorly thought out? But it already appeared today in mass circulation. That is the problem.

[Niculescu] There is no politics without compromise.

[Cornea] Finally, what does "the government" mean? I know the current government, but this government could change. Are you all making a platform for the long term?

[Niculescu] I agree that they are poorly formulated.

[Cornea] Then my question is whether you feel it is the right time for the UDMR to concentrate, along with the other democratic forces, first of all on realizing the minimum of democracy and a state of law which will make it

possible, after it comes into being in this country, to acquire some supplementary rights and, why not, even some "positive discrimination" in favor of minorities?

[Niculescu] You said "first of all." I am convinced that the UDMR has proven in Parliament that it is interested in fulfilling this goal—a state of law, civil society—but things do not have to be classified "first of all" or "second." They can be accomplished in parallel. I am convinced that the UDMR has fought for these ideals in Parliament.

**Peter Banyai**

[Cornea] Mr. Banyai, give me a brief description of the work of the UDMR up till today, Saturday morning.

[Banyai] It was a mistake to have devoted so much time to greetings from various invitees, parties from the country, from abroad, because it took a lot of time away from us. There are very serious and complicated problems to debate. The essential problem is that there are many variants of the future rules. The rules are too long. There is a draft in which every point appears with four or five alternatives. Theoretically they could be voted upon. But in practice an article by article vote would lead to nonsense since, apparently, a given Article 2 might be voted in, where Article 14 might later prove to be contradictory. Thus the proposal has been made to vote on the basic principles of the rules. In practice a kind of leadership body will be chosen—the name of which we do not yet know, nor who the members will be—while the rules and the other things will be left for consideration by commissions of the new leadership. In any case, it is merely a way to gain time.

[Cornea] That is true. Still, do you not attach any importance to the greetings, especially those from the representatives of the head of the Convention?

[Banyai] Of course, keeping in mind that there exists a tendency toward isolation, a feeling of being left alone—from which, apparently, the radical wing of the UDMR profits. Willingly or not, this wing was a bit discouraged to see the favorable reaction of the audience. The applause was strong, especially for Mr. Coposu and Mr. Emil Constantinescu, but also for the others—I also interpret it as a kind of applause against isolationism. This applause made me optimistic. Shortly before, I had been much more skeptical. I interpret this applause as a kind of encouragement for those in the UDMR who do not see a resolution of our specific problems separate from the Romanian democratic forces.

[Cornea] I would like a very brief comment on those notions that trouble a great many people, in connection with territorial or local autonomy. In the platform draft that I received with everyone and that may be discussed, there still remain a series of uncovered, vague notions, into which anything could be introduced, including something normal and reasonable, or a bomb with a delayed explosion, as they say "the event of the day." How would you explain these questions?

[Banyai] In two days these things will no longer be subject to explanation. They will have to be explained by a much more restricted group of professionals—lawyers, political scientists and sociologists—who will give a very explicit explanation. Let me give you an analogy. If there is an orchestra, I understand that their director will be chosen by the musicians and not by a bureaucrat from Bucharest.

[Cornea] Our system of local administration, on the French model, present in the constitution and in law, functions on two levels. On the one hand, commissioners are sent from the center while on the other, mayors and councils are elected locally. Is there not a conflict?

[Banyai] The problem is that in this country we are tied up with a lot of laws, with the Constitution, but neither the laws, nor the Constitution are respected. One example is [Cluj Mayor] Funar. But the problem of Funar is not political-ideological, that he detests us, that he is a chauvinist, etc. etc. He clearly broke very concrete laws, which, in fact, have no connection with national problems. No one took any measures. Thus the essential problem for me in this country is not the laws or the Constitution as such, but the fact that they are not applied. But we exaggerate the importance of the lacunae in the Constitution instead of yelling about what is not respected even as it is.

[Cornea] Thus the normal way to fight would be, first of all, to see to it that the laws are applied and that we become a state of law.

[Banyai] All of us, Romanians and Hungarians, have diverse goals, diverse wishes, but we have to state them very clearly. We will see which can be resolved in a short time, which will take years, and which are our dreams that will require decades. If I wish Romania to reach the level of European civilization, it should be very clear to me that this is a problem that will require decades. But if I am talking about applying existing laws, then that is something I could ask for this week and hope to get in a year. At a time when, as a political body, I enumerate a list of grievances, I must specify those that I believe realizable in the short-term that I really fight for now and those that are long-term goals. If I do not do that, I generate confusion. This confusion also exists within the Romanian opposition: They shout "Down with Iliescu." I, too, with all my heart want "Down with Iliescu." But clearly this will not happen for a number of years, so that it makes no sense for us to concentrate on that sort of thing; rather we should put together a "small steps" kind of tactic. This does not mean, in my opinion, collaborationism, cowardice or I do not know what, but rather, realism.

**Peter Eckstein**

[Cornea] Mr. Eckstein do you see in the present congress of the UDMR a turning point in the evolution of this movement and even of the democratic movement of Romania?

[Eckstein] I believe there can be no talk of a drastic turning point at this congress. I would like to see a turning point with regard to the democratic organization of the Union,

because the new draft rules have provisions that create the premise that internal democracy will develop within the UDMR. I am referring to the separation of powers within the Union, the possibility that the ideological platform will be fully realized and accepted in the rules of the UDMR. I see these questions as a matter of a step forward and not as a turning point of the organization.

[Cornea] What is your interpretation of the notorious problem, so disputed lately, of local autonomy?

[Eckstein] Certainly I see in this a problem of democracy that must interest every community, not just the Hungarian. In practice I see that the elected bodies, the local

councils, in many places have only formal activity and am convinced that they are sometimes led by the nose by the executive.

[Cornea] Is it not then time for these things to be well defined in the documents of the UDMR so as to generate no further endless discussion that through the agency of local autonomy the Hungarians are pursuing who knows what shady goals?

[Eckstein] It is true that we are not and have not been clear enough. The problem arises of local autonomy where I, at least, do not agree, nor do the members of the Liberal Circle, with the demand that territorial autonomy be included in the platform. Decentralization should be a common point among both Romanians and Hungarians.

**\* Independent Nation Takes First Difficult Steps**

93CH0344A Hamburg DER SPIEGEL in German 1  
Feb 93 pp 141-142

[Unattributed article: "Cramped Heart: The National Exultation After Independence Has Given Way to Anxiety About the Future"]

[Text] Bratislava? The blonde with magenta-colored lips looks up with an expression of irritation. The private busline for which she is selling tickets in the hall of the Slovan Hotel in the eastern Slovak city of Kosice, goes from Brno to Prague. There is no bus to Bratislava. "Why should there be? After all, no one wants to go there."

The inhabitants of Kosice, with about 250,000 inhabitants the second-largest city of Slovakia, even after separation from the Czechs still feel more tied to Prague than to their own capital of Bratislava.

Many Slovak intellectuals, who fear danger for the young republic's democracy under the authoritarian Prime Minister Vladimir Meciar, now place "all hope on Kosice," says Slovak author Martin Simecka, who until the end was one of the champions of the common state. "If the Meciar regime can be effectively resisted, then in Kosice, which is located far from the center of power."

The election of a new mayor two weeks ago confirmed Simecka in this hope: The candidate of Meciar's "Movement for a Democratic Slovakia" (HZDS) lost against the representative of the opposition alliance.

For Meciar, the nationalist thus far accustomed to victory, the set-back was a first warning sign. How big the doubts of the Slovaks are about the new course in the meantime also became clear during the presidential election in Bratislava: The candidate of the HZDS, Roman Kovac, failed at the first two ballots. For the third ballot—probably in mid-February—the Meciar party must offer a new man. The failed presidential election increases the uncertainty and augments the fears which since independence casts a gloom on the mood in Slovakia. New taxes are driving up prices; a currency reform, which appears to be inescapable, could deprive many citizens of a part of their savings.

Originally, the Czechs and Slovaks intended to hold on to the common korona for at least six months. But the Czechs now would like to uncouple themselves from the economically much weaker Slovakia as quickly as possible.

In Kosice, the city in the country triangle of Slovakia, Ukraine, and Hungary, the citizens do not think much of the Slovak nationalism that is now being elevated by Meciar to reason of state. Many national groups have lived here since ancient times: Slovaks, Hungarians, Roma, Rusins, Ukrainians, Czechs, Germans, and Poles. The cosmopolitan tradition was not totally lost: There still is a Hungarian bookstore; clubs of the Carpatho-Germans, the Poles, and the Rusins; and for a year also a theater of the Roma.

"The only thing missing is state support," says Frantisek Myska, who five years ago came to Kosice from the Czech Republic. The one-time bicycle race driver opened a private bicycle store, with which, however, he soon ended up in bankruptcy. Still, Myska does not think of returning to the Czech Republic. "In Kosice I don't feel that I am a stranger, in Bratislava that is quite different." Myska wants to hold on to Czech citizenship. His wife remains a Slovak.

"When I think about the fact that now I have to show my passport, like a foreigner, I get a cramp in my heart," he laments. Everywhere else in Europe, he notes, the borders are being torn down, only the Czechs and Slovaks are putting up new ones.

The private entrepreneur Matej Pampurik, who in addition to his construction firm also runs a ski center in Jahodna, 15 kilometers from Kosice, and owns a construction firm in Germany, has come to terms with the new state. "Now we know at least for whom we are working."

But Pampurik, too, harbors the suspicion that the capital of Bratislava intends to put other regions, first of all the Kosice district, at a disadvantage. "The centralism in Bratislava is no better than that in Prague," the entrepreneur says.

Pampurik, therefore, long ago started to look for new business partners. Through a joint venture he has invested in Ukraine, where trading in wood, oil, ore, and chemicals is quite profitable. In his Slovak construction firm he employs 40 Ukrainians, who "are cheaper and not so demanding as the Slovaks."

The largest plant of Kodice, the East Slovak Steelworks VSZ, cannot replan so quickly. The industrial giant, with 24,000 employees, was divided into approximately 120 companies to be better prepared for the future.

During the existence of the CSFR (Czech and Slovak Federal Republic), VSZ delivered approximately 65 percent of its production to the Czech Republic, especially sheet-steel. "We hope that there will not be any change in this," says company speaker Jan Baca, "a trade war between our two states could be deadly for us."

Besides steel production, the company intends to concentrate on machine building. The fate of Kosice is inseparably linked with that of the company. The prospects are dim: In the district of Kosice, the unemployment rate is 16.5 percent, far higher than the country's average of about 11 percent.

This is due, last but not least, to the high share of the gypsies. An estimated 30,000 Roma live in the city, most of them in poverty and misery. Soon there will be increased pressure: The authorities in Prague want to expel all the Roma from the Czech Republic who come from Slovakia.

## Macedonia

### \* Ecological Cost of More Thermoelectrical Energy

93BA0552A Skopje VECER in Macedonian 26 Jan 93  
pp 8-9

[Report by M. Ivanova: "The REK Generates Light and Pollution"]

[Text] *The cost of the record output of this facility is the high volume of gas emissions, which causes great harm to the environment;*

*According to ecologists, the only justification for the award presented to the Bitola REK [Republic Electric Power Combine] is its recent efforts to make the situation less damaging;*

*The Bitola Thermoelectric Facilities stand between record production of power and negative impact on ecology.*

Last year, the three REK Bitola turbines generated 30 percent more electric power than planned. Actually, the amount of electric power generated was the equivalent of the work of a theoretical fourth unit. With this, the contribution of the REK to supplying the Republic with electric power exceeded 75 percent. The cost of generating this otherwise ecologically adequate energy was the emission of about 3 million cubic meters of exhaust gasses daily. Nonetheless, despite this emission, which is a major threat to the environment, the Bitola REK was given the Kliment Ohridski Award for ecology.

The publicity which this generated led essentially to negative reactions, particularly among the supporters of the Green Movement. The only justification for the award, according to the ecologists, is the efforts which have been made of late by the REK to turn a bad into a less bad situation.

### Ecological Investments

The REK personnel are saying that the life of that giant could be divided into two parts: before 1988 and after 1988. Actually, for the past five years the REK management has dedicated a great deal of its efforts to correcting the consequences of the previous period, when the pollution of the environment by that combine was much higher.

According to Engineer Boris Rutevski, assistant general director of the Bitola REK, "since 1988 the 'statute' governing our work has been the following: production of electric power, but not at all costs. This means generating healthy, technically reliable, and ecologically clean power. We believe that this production method is our commitment to civilization."

Electrostatic filters manufactured by the British FLEKT Company, which guarantee 99.8 percent mechanical purification of gasses, were installed at the three REK turbines. Recently 80,000 Deutsch marks were invested in procuring equipment for tracking the emission of exhaust gasses. Equipment was purchased from one of the best

producers, the German SIK Company, to track the emission of sediments, sulfur dioxide, nitrogen oxides, smoke, and so forth. The installation of these facilities is in its final stage. According to Engineer Rutevski, their purpose will be preventive: to assess the work of the thermal-power process and develop a data bank that will be used as the relevant parameter for future investment improvements of the production process and for environmental protection.

It seems, however, that the worst shortcoming in protecting the environment by the REK is the lack of filters for the chemical treatment of the gasses. The REK claims that this is a huge investment of 40 percent of the cost of the project itself. Furthermore, according to Engineer Rutevski, such filters are used in factories with high-volume sulfur dioxide emissions. According to the REK people, the Suvodol coal has a low sulfur content (0.6 percent), so that there is no need for trapping the gasses.

Still, the results from tracking emissions at the REK indicate that such is not exactly the situation. Due to the fact that the maximally permissible concentration of emissions of this gas is 400 micrograms per cubic meter of air, in the preceding period (last year) as much as 7,500 micrograms were released! However, according to Engineer Rutevski, with the new technological solutions this volume has been reduced to 600-800 micrograms, which, nonetheless, is still 100 percent above the permissible level.

The existence of dust in the gasses emitted by the REK smokestacks also exceeds the maximally permissible level. Some days it is 100 percent higher than permitted. The content of this parameter, recorded simply as dust, is not analyzed. The amounts of nitrogen oxides and carbon monoxide in the emitted gasses, according to REK measurements, are within the permissible level.

### Dust-Covered Villages

The impact of what is described as emission on the quality of the air in the environment was described at the recent meeting of REK power workers, sponsored by the Republic Hydrometeorological Institute [RHMZ], for the 1985-91 period. The results were described in a paper by Ljupco Stojanovski, ecology researcher at the REK, and Blagojka Iloska, engineer in charge of technical safety and ecology at the combine.

We were told, in the course of our discussion with Engineer Rutevski, that the REK rejected these results. It is being claimed that they are not reliable, particularly the way air samples have been taken by the RHMZ. In 1989 the REK terminated the contract on tracking emissions by the RHMZ and since then all measurements have been made by the combine's Technical Safety Service. Its results indicate that no polluting matter exceeding permissible levels has been found in the vicinity of the REK.

Nonetheless, taking into consideration the results of the RHMZ and, particularly, the fact that such results were presented by REK personnel at the Navrovo meeting, we shall include them here.

According to these results, the highest residues exceeding the permitted concentrations are of dust sedimentation. After one of the turbines of the REK broke down (1988-89), the air sediment reached its highest concentration. At the measurement site in Biljanik Village, which is two kilometers away from the REK, the average volume was 1,171 and the maximal daily amount 9,757 micrograms per cubic meter of air. The permissible concentration of sediment in the environment is 300 micrograms. In the other two measurement sites, Gneotino (8 km away) and Dedebalci (6 km away) the sediment concentrations were high. In 1990-91 the highest concentration was found in Gneotino with an average annual volume of 683 and a maximum daily amount of 6,117 micrograms!

In past years there had been a drop in the amount of smoke, although minimal. The REK explains the presence of sedimentation in the air by the fact that this is a very specific parameter and that its existence may be influenced by a number of other factors.

#### **Water and Ash**

Waste waters are treated through neutralization. We were told by Violeta Veljanovska, chief engineer in charge of the chemical treatment of water, that in addition to the chemical treatment (neutralization) there is also a mechanical treatment of the water through sedimentation and filtering. The polluted water, according to Engineer Veljanovska, is not wasted but cooled off and most of it is reused in the production process, so that an insignificant amount of water is released into the environment.

The ash generated by the three REK turbines, collected in the filters, is transported pneumatically to the Jalovo

dump in special containers. Here the land is being comprehensively recultivated. So far, 10 hectares have been recultivated in this manner. The quality of the thus treated land in the Jalovo dump is not being studied but, as we were told by Engineer Rutevski, the intention is to acquire in the immediate future an instrument that will measure the quality of that soil.

"We have major investment plans for all areas of environmental protection," Engineer Rutevski said. "The REK does not have sufficient funds for everything that needs to be done, but we shall do everything possible in the future to justify the award we were given."

Our view is that the Bitola REK is as yet to deserve this award.

[Box, p 9]

#### **Beryllium in the Coal**

[VECER] Macedonian geologists have never agreed on the presence of beryllium in the coal used by the REK. Beryllium is a very toxic chemical element. Nor has the presence of radioactive radium been confirmed.

According to some geologists, beryllium cannot be contained within the coal used for generating energy. The example of Great Britain is mentioned, which has coal with a similar composition in terms of that element to the one in Suvodol, which is used by the REK. However, in Great Britain this type of coal may not be mined despite the huge existing deposits. According to Engineer Rutevski, while the blueprints for the REK were being drawn up, tests were made proving that the beryllium and radium contained in the coal were in insignificant amounts. Specifically, Engineer Rutevski could not tell us what those amounts were.

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