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FBIS 50th Anniversary Note

To Our Consumers:

This year the Foreign Broadcast Information Service observes its 50th anniversary.

The service, first called the Foreign Broadcast Monitoring Service, was established in 1941 prior to the U.S. entry into World War II. At the time, a number of U.S. Government officials were concerned about the content of foreign radio broadcasts—a relatively new means of conveying information and propaganda across borders. On their advice, President Franklin D. Roosevelt in late February 1941 allotted money from his emergency fund to institute the recording, translating, transcribing, and analyzing of selected foreign broadcasts for the U.S. Government. During World War II the service demonstrated that monitoring was a fast, economical, and reliable way to follow overseas developments.

Today the Foreign Broadcast Information Service provides its consumers throughout the federal government, according to their diverse official interests, with information from a broad range of foreign public media. FBIS information also is available to readers outside of the government, through the National Technical Information Service. Objectivity, accuracy, and timeliness are our production watchwords.

We members of the current staff of FBIS extend our thanks to consumers for their interest in FBIS products. To past staffers we extend our thanks for helping the service reach this anniversary year. At the same time, we pledge our continued commitment to providing a useful information service.



R. W. Manners
Director

Foreign Broadcast Information Service

East Europe

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CZECHOSLOVAKIA

KGB Residences in Prague Identified, Described

91CH0278A Prague FORUM in Czech No 38, 90 p 4

[Text] There are thousands of people in Prague who have no place to live. Applications for apartments have reached tens of thousands. Hundreds of nascent private businesses have no place to operate from, dozens of institutions, schools, important new government offices, as well as hospitals, lack working space. One foreign firm, however, does not suffer from this problem, namely the KGB.

Not far from the Soviet Embassy in Prague 6, in Bubenec, Dejvice, and Letna, you can in the course of a Sunday stroll admire the stylistically pure architecture of the twenties. Houses and villas with gardens, quiet streets. On closer examination of the firm's premises, we find no children of tenants romping on the well-manicured lawns. What we do find are platoons of representatives of such firms as Masimport, Filmexport, and Maspriborexport. The tenant Russian firms have stereotype Russian names, the gardens lit by standard lamps made in the USSR, while the cars stopping and parking in the area do not carry civilian license plates, but rather the SPZ of the diplomatic corps adorns most of these blue-yellow vehicles. This is rather curious for trade representation, but let us be generous. The Soviet Union obviously shields its salesmen with a diplomatic passport.

This protection, however, goes even further, as we determine when we look up at the roofs, for all these "business premises" are equipped with a system of antennas which we are accustomed to seeing only on buildings occupied by counterintelligence. These businesses clearly feel the need to be in constant touch with their home offices, at the least through shortwave transmitters.

Those who recall prerevolutionary days, will also remember that prior to 17 November, this area was perfectly safe. You couldn't even find an ordinary hooligan. The reason is simple—the StB [State Security] carefully guarded the premises of its sister organization. No one could get anywhere near the KGB villas, what if someone wanted to harm a fraternal agent?

Before November, the presence of a KGB-type organization was perhaps excusable and understandable. Today, however, the occupation of such desirable housing is by no means justified. We do not know whether these premises are rented under cover identities or quite openly as Soviet residenturas. If they are not camouflaged, I see no reason for the continued presence of spies for a potentially hostile superpower.

As information for those who consider this article devoid of specifics, the following is offered: Among others, the exact addresses of the KGB residenturas are the following: Na zatoce 11, 12, 13 14, 19, 26; Romain Rolland Street 1, 4, 6; Pod kastany 18, V orliku 320. This list is

obviously not complete. In one of our future issues we shall return to this question and expound on it.

Personal View of Havel's Background, Routine

91CH0287A Poznan WPROST in Polish No 49,
9 Dec 90 pp 22-24

[Article by Leszek Mazan: "The Scooter-Riding President: Havel in Private"]

[Text] Next to the typewriter on which I am pounding out this story there lies a box of matches bearing the picture of a smiling—like some Mona Lisa, but with a mustache—reddish-haired man in his fifties: Vaclav Havel. The same picture can be seen through the windows in the vitrine of an empty office with the shattered plaque "Agitation Center, KPCz [Communist Party of Czechoslovakia]." The countenance of Mr. President can also be seen on three photographs in today's issue of just one newspaper.

He has been building this portrait carefully, like an old troupier and a world-class playwright, which does not mean that at some moment he may not have lost control of painting his own visage for the benefit of the public. At times, touch-ups with a brush have been needed owing to considerations of the public image. The press has been publishing a lot of reports about him: the president is tired; he does not sleep; he does not eat well; he smokes incessantly. Consequently, Hradcany has issued a total ban on photographing the head of state with a cigarette in his mouth. What if someone asks about the freedom of press? Heh, heh, heh. It used to be that at editorial meetings we glanced furtively at each other when hearing the principled declaration that there is no independent press. Hah, perhaps it does exist, but not on the Vltava, and not nowadays.

About Havel as a person the nation had known for 20 years only that he was a dissident, the scion of a bourgeois family which had collaborated with the Gestapo, a dissident who accepted money from the CIA and, as a cofounder of the Charter '77, aspired to topple socialism. The information on Havel provided by the mass media was as primitively naive as it was rare. He was not, despite the efforts of "Free Europe," a well-known personage. Hence the authentic amazement of the so-called broad masses of the society when the cries "Dubcek to Hradcany!" soon became shouted by the calls "Havel for President!" "Havel?" people asked? "Who is Havel?"

Nowadays all children learn in school that he was born in 1936 in Prague to an extremely rich and influential bourgeois family. His maternal grandfather was a miller and his paternal grandfather an architect. Subsequent generations speculated in building lots and an uncle built and managed the famous "Czech Hollywood"—the film studio in Barrandov.

Owing to his origin Vaclav Havel had a difficult youth. He was barred from access to the higher studies he had

dreamed of, and he began to do menial work in a theatre. He began to write and finally achieved success—abroad—as a playwright. On 10 December 1976 in his apartment on 78 Engels Quay in Prague was held the founding meeting of the Charter '77. This was followed by a series of arrests, sentencings, conditional releases, foreign protests, and—new literary awards. From the vantage point of time, Havel had no competitor in the race to Hradcany.

He made his acceptance of the presidency contingent on his wife's decision. "Impossible," said Mrs. Olga, "because then how will he find the time to quaff his regular evening beer at the Karlak or wine in his favorite restaurant around the corner!" Havel likes beer. He can even be encountered in the evenings in small beer taverns on Karol Square. He has not altered the apartment inherited from his father. It is located on the fourth floor of a now dilapidated building that lacks an elevator. It is a large, functional apartment with a view of Hradcany Palace and with a dog that keeps getting under the visitor's feet and whose great-grandmother was obviously not held tightly on the leash. In the same building lives Vaclav's brother Ivan and the first husband of the second wife of the Deputy Premier and Minister of Foreign Affairs Jiri Dienstbier.

The buildings address is no longer Engels Quay. That bearded classic's name was the last of the names of communists removed from the roster of the patrons of Prague streets. The plaque with the street's name was personally removed by Mr. President.

Vaclav Havel returns home at night, always dons the same striped dressing gown, drinks herb tea, and goes to bed. He spends all day in Hradcany Palace. The First Lady of the Czech and Slovak Federal Republic [CSFR], the unusually modest and likable Olga, pursues charitable activities or engages in cooking her husband's favorite dumplings with prunes, walking the dog (sometimes this is done at night by the president personally, to the despair of the gorillas [the Secret Service]), and accepting visits. Once a month Olga's sister and her husband come from Slovakia to visit the Havels. The brother-in-law of the head of state totes a briefcase with petitions by neighbors for such favors as admitting a child to a special school, granting a construction loan, etc. According to comments by the brother-in-law published recently in the Slovak press, this tends to make Havel apoplectic.

When at home he parades around in his dressing gown, and when in his office in Hradcany Castle he wears a sweater and jeans and puts on a dress suit only at the last minute before receiving official guests. Hence also he greeted our Prime Minister Mazowiecki while wearing the prescribed black coat and blue trousers that were worn at the knees. He arranges to hold less official meetings in the Vikarka Wine Tavern in a small alley to the left of the St. Vit Cathedral at Hradcany. As I was driven away by the gorillas (who sit at a small table near the entrance and sip tonic with an evident expression of

disgust on their faces), I saw the president there having dinner with the Ambassador of the United States in the Prague Shirley Temple-Black (yes, that was she, all right), with Andrzej Wajda, with Czeslaw Milosz, with our Ambassador to the CSFR Jacek Baluch, and with Adam Michnik.

"Adam was the first to tell me, as early as in July of that year, that I was going to be the president," said Vaclav Havel when I was interviewing him during a Polish-Czechoslovak Solidarity ball at the Polish Embassy. The president danced the mazurka with panache, wolfed down the bigos, and genially concealed his terrible fatigue.

On 23 October of this year the press spokesman in Hradcany officially declared that the favorite song of Mr. President is "The Oven Will Collapse."

Havel claims that ever since 17 November, ever since the outbreak of the "November Revolution," he has not written a line of literary text. He works more than a dozen hours daily and dozes in cars and planes. He is trying, unsuccessfully, to stop smoking. One of his advisors, the all-time gymnast Vera Czaslavska—the press is rumoring that Mrs. Olga is jealous of her—provides him with a special herb tea. It was this Czaslavska who had bought him the now-famous scooter on which the president rides through the castle's hallways. It was precisely during one such ride that he had accidentally discovered—incredible but true—a nuclear shelter extending under nearly the entire castle and the cathedral. The telephone providing a direct link to the Kremlin is nowadays located near the sarcophagus of Emperor and King Karl IV!

These Hradcany corridors are being watched by special bodyguards: the castle guards, whom Havel had wear special—extremely criticized—uniforms designed by an Oscar winner as costumes for the film "Amadeus." The first muster of the newly uniformed bodyguards was held in the so-called Third Castle Courtyard by the president himself—who, let us bear in mind, is the commander in chief of the entire army. That happened even before his presidential inaugural, before 29 December 1989. The ceremony was a great tailoring scandal, because the new president forgot that he had no formal suit. A hastily summoned tailor sewed together for him trousers whose legs were 10 cm too short, and moreover a photoreporter—not a Czechoslovak one—succeeded in photographing the president while he was being measured for the pants. The resulting photograph was simply ineffable.

At his—increasingly rare—press conferences Havel shows interest only when the most original questions are asked. Clearly, he dislikes the press; besides he has reasons for it. Whenever he can, he flees Prague; he flees Hradcany Castle, which he has largely opened to the public, for his old "hut" in Karkonosy or for a castle in Lany where, like his great predecessor Jan Masaryk, he is learning how to ride horseback.

Reasons for Use of Referendum Discussed

91CH0306A Prague LIDOVE NOVINY in Czech
23 Jan 91 p 10

[Article by Petr Brodsky: "I Support the Referendum"]

[Text] If a group of citizens of a state decides to consider the agreements, made within that group, to be superior to the laws of the state, if, on the basis of this decision, it actually violates a law, then it is the obvious duty of the competent institutions of the state to ensure that the law is observed and to use all necessary means at their disposal for this purpose. The same holds true even if the group is made up of noted state or other public officials.

However, some situations are so exceptional that the mere mechanical implementation of legality cannot resolve them in a satisfactory way. Such a situation, for example, occurs if the legitimacy (authority) of an independent state, of its institutions, and of its laws is challenged.

In such cases, the restoration or clarification of this legitimacy becomes the primary problem.

If the ultimatum given by the president of the Slovak Government were realized and the SNR [Slovak National Council] truly proclaimed that its laws are superior to the federal laws, all institutional officials, including the president of the Republic, would undoubtedly have the immediate duty to ensure through legal means that the constitution is upheld.

However, from a longer term perspective, it is necessary to support legality with legitimacy. If this is not done, nationalist feelings may continue to escalate and the crises repeat themselves with increasing intensity.

In this context, a referendum is being suggested more and more frequently as the most natural solution, since mere reference to agreements from the World War I period are no longer very convincing.

However, a referendum should be an exceptional, one-time act of legitimization, and kind of rebirth of the state (as long as the outcome would be positive), not a permanent institution, that is, a periodic process, which would be repeated regularly until the state would finally cease to exist.

In an interview with LIDOVE NOVINY, the president of the Czech Government, Petr Pithart, mentioned the problem of the referendum. He stated (I quote): "Therefore even the question of the referendum is irrelevant, because all it can do is decide whether we wish to have a unified state or not, but it will not tell us what kind of federation we want."

I believe that P. Pithart is mistaken, and I will try to explain why.

A referendum will give us the citizens' answer to whatever question we pose to them. There is no rational reason why this question should not deal with the long-term complex issue of all controversies concerning

state law, that is, the question whether we wish our federation to have an elected federal parliament as the supreme body of legislative power.

Both the advocates of total disintegration and those who, under the term "authentic federation", imagine a de facto confederation or other similar inanimate conglomerate can give a negative answer to this question.

The feasibility of suitably phrasing the subject of the referendum is so obvious, that it is difficult to believe that a person with such intellectual abilities as the Czech president could overlook it.

In this context, one must realize that the strategic goals of the governments of both republics (or at least of their presidents) are basically the same. Both are striving to replace parliament with a "roundtable" of representatives of the republics. The differences are of a tactical nature.

While P. Pithart, by patiently gathering precedents, is attempting to gradually accustom the public to the idea that everything depends on reaching or not reaching "consensuses" between the governments, V. Meciar, in keeping with his temperament, so to speak plunged straight in, and openly and explicitly demonstrated his opinion on the role of parliament.

However, from both presidents' point of view, a referendum presents a serious potential threat to their strategic goals, and therefore it is understandable that they will try to prevent it in any way they can, including feigning lack of comprehension, as P. Pithart was probably doing in the above-mentioned interview.

The disintegration of our state seems to be the pessimistic alternative for our political future. Nevertheless, I believe that there is an even worse possibility. This possibility is long-lasting death throes, a kind of vampire-like pseudolife in the form of an authentic confederation.

If we use a homespun allegory, introduced by M. Gorbachev, and picked up by M. Knazek and V. Meciar, we could compare this alternative to two divorced spouses living together under the same roof with a divided kitchen, but a shared line through the kitchen.

I am afraid that if a referendum is not held soon, the tenacious "consensus" activity of the Czech president, aiming at precisely this model, will, in the end be successful, irrespective of the gross error made by his more emotional colleague.

Greater Czech-Slovak Communication Urged

91CH0305B Bratislava NARODNA OBRODA in Slovak
9 Jan 91 p 8

[Article by Ota Plavkova: "Withhold Information—And Conquer?"]

[Text] The premier of the Czech Government, Mr. Petr Pithart, said at the press conference in Piestany that the totally inadequate availability of Slovak newspapers in Bohemia and, conversely, of Czech newspapers in Slovakia, is a serious mistake. And I add that it is also one of the serious causes of the turmoil that lately has been affecting our republic. Even though at first glance it seems unbelievable, it is believable at the second glance that during the past 50 years both our nations have been very poorly informed about each other. The Slovaks were perhaps better informed, particularly through Czech culture. It is quite common that a Slovak does not know, does not remember, in which language (Czech or Slovak) he read a given book. And as far as translated literature is concerned, he has always preferred a Czech translation if he had a choice. By which I do not mean to detract from many excellent Slovak translators at all. But a fact is a fact.

But that is only a small detail of our mutual "lack of understanding," which, I think, has not been as accidental as it seems. Divide and conquer applies in this instance as well. It is not necessarily just frontiers, oceans, or bars that divide. Divisive could have been also the "propaganda campaign" of the former prototype of Slovak politicians in Prague (credit be to the exceptions) during the entire forty, and especially the last twenty years, although let us admit that the "Czech prototype" in Prague was no more intelligent and wise, and no less high and mighty. And they did not rob their people any less (and gave them a bad name) than our "Slovaks in Prague" robbed their Slovak nation (and gave it a bad name).

For the entire four decades, the Slovak Communist team maintained with great subtlety somewhere deep in the Czech subconscious the time-honored image of "Slovak tinkers," that is, the image of an uneducated, dumb, inferior element. And a certain Czech wariness that resulted, sometimes even subconsciously, about Slovaks and all that is Slovak necessarily had to come up for some rethinking during the time of reassessment and turmoil; during the time of a total (I hope) change in the political situation. We are discussing what for half-a-century we were not allowed to discuss, and that is good. Well, to a great extent it is again being done "asymmetrically": We in Slovakia know a little more about Bohemia and the Czechs than the Czechs in Bohemia know about us.

When we look a little closer at the channels through which information flows back and forth, we stand aghast: There are no newspapers, no journals, and so the dissemination of information is actually limited to radio and television, and through them also to the expositions of the Slovak deputies in the Federal Assembly. We have the kind of deputies we elected; well, I doubt that knowing whom we were electing (in many cases), we would have done the same today. But at the time the elections were held, we were just taking the very first steps of democracy, and we did not know then nor do we know now too well what it is. Fortunately, new elections

will be held in two years, and let us hope that by then we, the voters, will also be two years' wiser.

However, the information which we lack about the Czechs and they in turn about us is not only information that informs, but also information that distorts. All Bohemia (but Slovakia as well) listened with horror in April to a direct, live broadcast of the demonstration of a handful of Slovak separatists in Bratislava, and only when they started to curse Presidents Masaryk and Havel did the radio station (after 22 minutes) stop the broadcast. But before doing so they switched the broadcast to the station Czecho-Slovakia, and we, the alarmed and tax-paying citizens at both ends of the republic could only wonder whether they did it intentionally or by accident. And so the "information" (one of the first) that the Slovaks want an independent nation entered the Czech consciousness. The opposing (majority) view was, as it soon became evident, represented only by objections from the listeners. There was very little reaction at that time (in contrast to the present) from Slovak politicians. True, most of the Slovak press reacted very strongly. And not only to the mentioned separatist demonstration, but also during the visit of President Havel in Bratislava. And also to the furtive unveiling of the nostalgic memorial plaque to Jozef Tiso and the Ludak-like efforts [Ludaks: members of Hlinka's Slovak Populist Party] in Ruzomberok, noted more for decibels than arguments, declaring an independent Slovak state.

All these events were broadcast extensively by television and radio, mostly without appropriate commentaries. But the Slovak press brought enough commentaries, and most of them, written by Slovak historians and publicists, put matters in the proper perspective. In a well-informed and factual way they demonstrated and commented on the views of that "silent," and large, part of Slovakia which stands by our common state with equal conditions for both nations.

Manipulation by information (and manipulation by non-information) is probably as old as the cuneiform. The old structures and their bureaucratic apparatus are functioning marvellously well not only in enterprises, offices, and institutions, but also in the press, radio, and television. Some even made advances in their careers. They keep on working as they have been for decades with only one difference: Whereas for 20 or 40 years they did not have to use their brains too much, now they are using them. Wolves were transformed into lambs, who cleverly inform or cleverly noninform with one goal: To keep themselves (and not only themselves) in their cushy jobs. The calculated, spiritual (as well as nonspiritual) association of the turncoats with the newly exploding separatists does not necessarily have to be calculated. We are witnessing a postrevolutionary (and prerevolutionary) chaos, when almost everything has to be changed. But we are also witnessing a disparity in weaponry. Against noblemindedness and efforts to stop causing harm and injustice and taking revenge, they (those whom we do not wish to do harm) pulled out crude and cruel weapons. They shoot down those who put their life on

the line, they even shoot down those who prevented them from being shot. Against arguments and words they pulled out their axes. How many of the men and women of 17 November have already been thrown out or demoted by the old structures?

This is what causes people to harbor doubts about our movements and parties to whom they gave their votes with the hope that they will rid them of the old and let in the new.

Everybody knows that governments and representative bodies need time. But facts do not lie. Until now, our political representatives, even if they did not want to, allowed, besides a brutal elbowing into new leading positions in the economy with the help of property stolen from our two nations, problems to be caused in the coexistence of the Czechs and the Slovaks in our common state by tolerating the disinformation given out by a part of the former-present "mass communication media."

Lately, a considerable number of Slovak newspapers and journals published articles written by some of the Slovak intelligentsia, stating their unequivocal positions on the question of a common state and condemning the separatist trends which suffer mainly from a lack of arguments as well as intellect, even an obvious inability to formulate positions in cultural terms.

But how much of it did they read in Bohemia? Almost nothing.

I therefore think that the priority of our government institutions should be to initiate an "information blitz" by Slovak media to Bohemia and vice versa. It will probably be difficult to accomplish through the all-powerful Postal Newspaper Subscription Service (VPN), but I see here a unique opportunity for an ingenious entrepreneur who can understand the opportunity to kill three birds with one stone: Take away the monopoly of the VPN, contribute to our mutual understanding, and cement the efforts of our fraternal nations by providing two-way information, and contribute to a slow but sure withering away of the monopoly on information (currently) of radio and television.

The need for such an outcome was also made evident by the representative of private entrepreneurs, who said on Bratislava television (unfortunately, only within the Slovak radius) that when he wants to be well informed about what is happening in our country, he switches to Radio Free Europe.

POLAND

President Signs New Legislation Into Law

91EP0233B Warsaw ZYCIE WARSZAWY in Polish
7 Jan 91 p 4

[Polish Press Agency report: "President Has Signed Laws"]

[Text] The Press Bureau of the president released a list of laws signed by Lech Walesa. These are the following documents:

- Law dated 14 December 1990 on the cost-of-living adjustments in retirement benefits and annuities for people over 80 and on amending certain regulations on retirement benefits—signed on 27 December 1990.
- Law dated 29 November 1990 on passports—signed on 28 December 1990.
- Law dated 14 December 1990 on amending the law-enactment regulations for the law on territorial self-government and the law on self-government employees—signed 28 December 1990.
- Law dated 20 December 1990 on amending the law on state enterprises and amending certain other laws—signed 29 December 1990.
- Law dated 20 December 1990 on repealing the law on innovation and implementation units—signed on 29 December 1990.
- Law dated 22 December 1990 on taxing the growth of remunerations—signed 29 December 1990.

Rural Solidarity on Potential Farmer Revolt

91EP0233A Warsaw GAZETA WYBORCZA in Polish
16 Jan 91 p 2

[Article by (kana): "Janowski Speaks Badly About the Government"]

[Text] The NSZZ RI "S" [Independent Self-Governing Trade Union of Individual Farmers Solidarity—Rural Solidarity] expects considerable disturbances in rural areas. The composition of the government of experts appalls Chairman Gabriel Janowski. Rural Solidarity is weak, but despite this it is the strongest organization in rural areas. Gabriel Janowski, chairman of Rural Solidarity, announced at a press conference on Monday: "A revolt is a threat in rural areas." In his opinion, a revolt will come about unless the expectations of farmers, raised in the course of the election campaign, are met. However, the union will prevent demagogic forces (Tyminski's gang) or senseless outrages ("Szelism" [Jakub Szela was the leader of the bloody 1846 peasant revolt]) from gaining control in the rural areas.

The chairman of the union found declarations by the government and the prime minister on a new approach to agriculture to be grossly inadequate. Janowski stated: "A lack of extemporaneous crisis management measures may facilitate the exacerbation of the crisis and dissatisfaction in rural areas. However, the union will not remain passive. We will represent and defend the proper aspirations of the farmers."

In addition, Janowski believes that the new prime minister does not appreciate the gravity of the situation in agriculture. The chairman finds the composition of the government appalling. "Leaving peasants on the sidelines amounts to political suicide. It is impossible to govern responsibly without farmers."

Piotr Dabrowski from the Bureau of Rural Solidarity added that the new minister of agriculture does not enjoy trust and prestige in rural areas; for this reason, the union cannot support him—"professional expertise alone is not enough."

Asked about the numerical strength of Rural Solidarity, Janowski described the union as "perhaps, a weak organization, but the strongest in rural areas."

Liberal-Democratic Congress Party Profiled

*91EP0233C Warsaw TRYBUNA in Polish
10 Jan 91 p 3*

[Article by (DAR): "Liberalism Polish Style"]

[Text] The Liberal-Democratic Congress was registered as a political party on 9 October 1990. However, it has existed formally since June of last year.

Among others, Jan Krzysztof Bielecki, the current prime minister who has previously acquitted himself excellently in the capacity of chief of the consulting company Doradca, Andrzej Zawislak (candidate minister of industry), Andrzej Machalski, Andrzej Arendarski, and Zbigniew Rokicki belong to the KLD [Liberal-Democratic Congress]. Adam Glapinski, yet another candidate for a government post, is also a KLD member. Janusz Lewandowski is chairman of the congress. Donald Tusk also holds a leading position in the party.

The KLD is headquartered in Gdansk. The phenomenon of new entrepreneurship is the foundation for the marvel of Gdansk liberalism. Many representatives of the Gdansk business community have Solidarity backgrounds. They supported yet another protest action financially during the strikes of 1988.

The First Congress of Liberals was held on 19 December. On 24 February 1989, an application to register the association "Congress of Liberals" was filed. The association promptly established contacts with similar groups inside the country and abroad, as a result of which the Club for Entrepreneurs and the Club of Economic Juniors became affiliated with it.

Members of the Congress frequently advised Walesa on economic issues.

"There is no freedom without property" is the slogan of the KLD. The Liberals were in opposition to the Mazowiecki government, but accepted the stabilization program of Balcerowicz without major reservations. It may be assumed that the powerful representation of the Liberals in the government will prompt certain revisions of both the schedule of privatization and the program, the structure of which did not take into account all KLD postulates. The slogan of the Liberals is an expression of a certain hierarchy [of priorities] in the program. In their opinion, one's privacy needs to be respected and [favorable] conditions should be created for enterprising individuals who should not be interfered with. Secondly,

there should be no deviations from the principles of Christian morality. Finally, the Liberals recognize the incorporation of the Polish economy into worldwide circulation to be their goal.

Dariusz Filler put the KLD creed in a laconic statement: "Freedom over equality, the individual over the masses, law over force, evolution over revolution, property over alienation."

The KLD supported Lech Walesa in presidential elections. It favors a strong presidency, rapid reforms, and a return to the tested methods of ruling and managing the economy.

The KLD is a cadre party. It has the support of a segment of economic associations. Many individuals who handle Solidarity's interests subscribe to liberal views or altogether belong to the congress. Youth, initiative, and pragmatism are their advantages. A good economist is the one who manages to make enough money for his needs. Many members of the KLD, the party which has gained the most after the elections, are rich or very rich.

ROMANIA

Iliescu Regime Termed Monarchophobic

*91BA0265A Bucharest DREPTATEA in Romanian
17 Jan 91 p 4*

[Article by Lucian Tudorancea]

[Text] In today's Romania we indubitably have a symbol that resisted the communist onslaught for 43 years: the symbol of the monarchy.

Without exaggerating the royalist sentiments of the Romanians and without lectures on national history, although some of the "new type" parliament members could do with such lessons, let's say that in its 80 years of existence that political institution was involved in the progressive processes that decisively marked our destiny as a European nation: the finalization of Romania's modernization, winning state independence in 1877, the proclamation of the Kingdom in 1881, World War I crowned by the Sacred Unification of 1 December 1918, the general development of Romanian society during the period between the two world wars, the 1923 Constitution, and the bold act of 23 August 1944. All these realities belonging to Romanian national history cannot be denied and those who nevertheless do so thereby demonstrate ignorance, bad faith, and lack of patriotism. Obstinate negation of historical dates and facts out of "higher" party considerations that are necessarily transitory serve to disqualify any person or political party.

It has become obvious that the current Romanian regime is opposed to this symbol because of ulterior motives having to do with the wish to stay in power at any cost.

The events of 25 December 1990 fully verified this assertion, as well as the fact that the NSF [National

Salvation Front] leaders have added a new syndrome to the array of serious social, economic, and political illnesses of which they suffer, namely monarchophobia. We noted its symptoms in the at once desperate and rash actions of the communist authorities that culminated in the shameful expulsion of King Michael I from Romania. We're also thinking of the demagogical and antinational attitude that the NSF parliament exhibited when, with an arrogance typical of dictatorships, it dared to denigrate the institution of the monarchy and practically our history in the grossest possible manner.

In reality, such a position was to be expected when we consider the fact that the parliamentary majority is quite obedient to communist practices and ideology. An undeniable example along this line was the fact that Interior Minister Doru Viorel Ursu cited in Senate a decree issued by the Petru Groza government under which King Michael was "stripped" of his Romanian citizenship. The king's recent visit to Romania generated genuine tremors among the ruling team. Andrei Plesu's subsequently withdrawn resignation (?) highlighted two aspects that many of us had guessed: Prime Minister Petre Roman's authoritarian working style and the lies ingenuously displayed by the rulers. In connection with the latter aspect we want to recall that General Valeriu Rozoleanu, head of the Passports Directorate (and thus a representative of the executive branch) lied to the public when he gave his word of honor that King Michael's expulsion had not been ordered from "above." Note the interior minister's statements to the contrary in the Senate.

We must state that the symbol of the monarchy that in our country is identified with that of authentic democracy to this day remained in the consciousness of tens and hundreds of thousands of opponents of the communist regime who survived the death camps of Pitesti, Gherla, Aiud, Canal, etc.

Artful devisers of the regime's ideology of the ilk of comrades Brucan and Birladeanu (actually, why don't they go back to their original names?) may reflexively reply that the monarchy is "historically obsolete," "an anachronism, comrades, for the 20th century when mankind's golden dream is communism..."

Let us not forget that monarchies continue to exist in many civilized European countries with a real democracy. They are not directly involved in the government process but constitute an important element of political stability in society. As far as we know the peoples of those countries never in any way denied the constructive role of the monarchy, nor do they have political or apolitical antiroyalist organizations.

These truths, however, cannot be absorbed either by our rulers or the press that serves them. The attitude of Ion Iliescu's regime to date continues to present a small-big

puzzle, at least to some of us: When Romania's president, desperately seeking political alternatives to legitimate his rule, cited the Swedish model, we wonder whether he was also thinking of that country's ancient royalist tradition.

Anyway, one thing seems very clear: The NSF and its leaders are afraid of any pretender (real or otherwise) to the country's leadership. It should, however, be known, that from a constitutional viewpoint we cannot talk of ex-King Michael, only of King Michael I with all the natural consequences devolving thereof. The fate of the monarchy must be decided by the Romanian people themselves, not by a clique of communist traitors who fraudulently seized power, some of whom had been directly implicated in the 30 December 1947 abdication.

The Iliescu regime has begun to passionately hate the monarchy, too, not just the opposition. As we said before, this hatred with its chronic disease symptoms is called in very precise terms, monarchophobia.

YUGOSLAVIA

Croatian Intelligence Service Discussed

91BA0270A Zagreb START in Serbo-Croatian 2 Feb 91
pp 20-22

[Article by Fran Visnar: "The Croatian Intelligence Community"]

[Text] The Croatian prime minister had just taken up from his desk a yellow folder whose title was printed in heavy red marking ink: SOS [Central Intelligence Service] HIGHLY SECRET Journal No. 1921221/91 Originator: Director in chief of the SOS.... He read the report for the second time. The wrinkles on his forehead became deeper, and his eyebrows dropped a few centimeters lower. He untied the covers and withdrew three sheets. He clasped them together with a paper clip and drew another folder from the drawer. This one was white. He slowly brushed with his hand its front cover, which had red, white, and blue lines with the crest of the republic in the middle. The title of the folder stated: "Daily Intelligence Report. Only for the Eyes of the President of the Republic...."

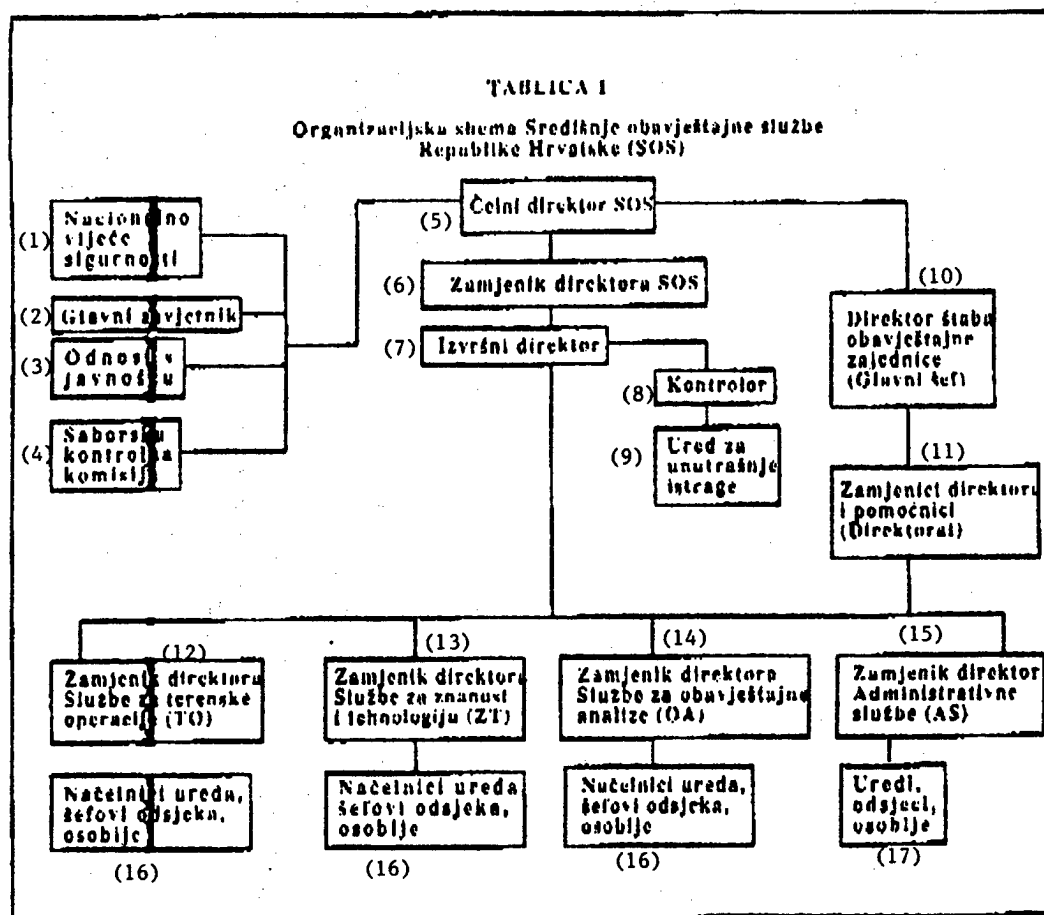
The principal task of every present day intelligence service is to alert the domestic and foreign policymakers of their country promptly about dangers and secure the necessary information on the condition and intentions of adversaries. But a politically unstable country always needs more time to take appropriate countermeasures than a politically stable state. The same is true of the economy and technology. A less-developed country needs more time to get moving than one that is technologically advanced, agile, and prepared. Croatia, for example, if it had a completely independent defense mechanism of its own—an up-to-date police and superbly equipped and trained army—would, in protecting its national interests, have to take into account

geopolitical circumstances, the extent to which the national interests can in general be advanced in terms of force, and then all the external factors, the internal balance of power, or the combination of external and internal factors. And in order to cover all those areas effectively, the Republic of Croatia must have its own intelligence service, that is, an information system that would help in the framing of domestic and foreign policy with timely and quality information and regular reports and would reduce to a minimum the time necessary for making key government decisions. Croatia certainly does not need a totalitarian intelligence system (the class approach). It even should carry out—gradually, professionally, and discretely—de-Sovietization of the present services which it inherited from the communist regime. It might be said that it is neither the time nor the place for such undertakings. And it must be admitted that there are sound arguments to support that—a great number of them. But, just as an omelet cannot be made without breaking eggs, radical undertakings of this kind have to be undertaken at some point.

One extremely important thing at the outset of creating an independent and completely autonomous Croatian intelligence service is demythologization of the term "intelligence service." In a democracy, it is no longer that conventional espionage, nor again a secret political police. As a matter of fact, it must have no connection whatsoever with the police. Thus, an intelligence officer is to a policeman what a tennis player is to a hammer thrower. Likewise, the intelligence service also should not be a (state) security service, which, if it exists, can perform mainly counterintelligence functions prescribed by law. A present day intelligence service is a concentration of highly sophisticated intelligence; it is an intellectual enterprise, a firm, a company, an agency. It must above all have a large capability of collecting all types of data at various levels. If it is to function and be successful, as an agency or company it must respect the four fundamental principles of any effective organization. These are: recordkeeping, monitoring, analysis, and synthesis. Accordingly, then, two codes are inviolable in the intelligence service: rules of behavior that are beyond reproach, and an extremely strict discipline. And above all—a respect for education as the most important thing. At the same level is the affirmation of the pragmatic principle, also worthwhile from the standpoint of status, that high-level intelligence officials, and incidentally this also applies to those at the lower level, cannot be bribed if they are extremely well-paid because they could lose everything through betrayal and a lack of professionalism. As soon as it is formed as an information and intelligence system after the model in other countries of approximately the same size (Austria, Sweden, Switzerland, Israel), the Croatian intelligence service should make greater use than it has up to now of highly advanced information systems and their results. That is, because of the ever greater openness of most countries in Europe and the world and the liberalization of security

regulations, including liberalization of the criteria concerning secrecy, because of the increasingly heavy communication traffic and mutual cooperation on this or that basis, the opportunities for collecting the data desired from completely legal sources have grown to incredible proportions and scope (the press, books, magazines, all kinds of publications, the public media, TV, radio, the film, cultural and social contacts, and so on). For example, in 1950, the level of legally gathered information of the leading world intelligence services was 70-75 percent; 25 years later this percentage climbed to 80 percent, and today it amounts to even 90 percent in the advanced intelligence services. When we add to this the several times greater opportunities to gather and process data by technical means and methods (automatic data processing, electronic reconnaissance, remote detection, cryptanalysis, etc.), Croatia has important prospects for guaranteeing its national interests with subtle and well-thought-out action and of protecting its national security from those who intend to achieve some kind of tactical or strategic surprise. It should be borne in mind here that when it comes to intelligence operations that side has the advantage which plans surprise because it is in a position to choose and determine the factors of surprise (the type, time, means, place, manner, etc.). To be able to meet the requirements of frustrating a planned surprise, Croatia should assess as soon as possible its own real capabilities and eliminate all possible oversights and mistakes. Without a modern intelligence service (the reference is exclusively to European and American standards), and relying solely on the defensive force of the police and the army, no one in Croatia can guarantee that in all cases it will be possible to provide appropriate information in good time and an objective assessment of the situation and intentions of the adversary who plans a surprise. This particularly applies to military and political surprises because of the relatively short time from the taking of the decision to its realization, and also because of the secrecy of the preparations. Our up-to-date intelligence community would accordingly be a specialized "information" system of the Croatian state producing (gathering, analyzing, and distributing) information for its needs, that is, the needs of government bodies and agencies competent to make decisions pertaining to domestic and foreign policy and the country's general security. In addition to the increased requirements of a political and military nature, decisionmakers at the highest level of the top Croatian leadership have also been showing a heightened interest in monitoring economic factors in international relations because it has been shown that this factor (finances, energy, natural resources, food) is being used more and more to achieve certain political goals. For the reasons mentioned, Croatia's intelligence security community should consist of civilian and military services. At the center of the intelligence security service is the main civilian information organization, the Croatian Central Intelligence Service—SOS (see Table 1 on its structure). Its heads, the director and the chief of the directorate (deputy directors and assistants), are members of the National Security Council of Croatia, presided over by the president of the republic.

Table 1. Organizational Chart of the Central Intelligence Service
of the Republic of Croatia (SOS)



Key:

1. National Security Council
2. Chief Councillor
3. Public Relations
4. Parliamentary Monitoring Commission
5. Chief Director of the SOS
6. Deputy Director of the SOS
7. Executive Director
8. Controller
9. Office for Internal Investigations
10. Director of the Staff of the Intelligence Community (Chief of Staff)
11. Deputy Directors and Assistants (Directorate)
12. Deputy Director of the Field Operations Service (TO)
13. Deputy Director of the Science and Technology Service (ZT)
14. Deputy Director of the Intelligence Analysis Service (OA)
15. Deputy Director of the Administrative Service (AS)
16. Chiefs of offices, chiefs of sections, personnel
17. Offices, sections, personnel

In the civilian structure, there is the Office for Counterintelligence Activity and Protection of the Constitutional Order (UKD-ZUP), which is at the same time the only civilian Croatian counterintelligence service. There must unfailingly be a military national security service. It is made up of: 1. Military Intelligence Service of Croatia, VOS, consisting of the following: the Office for Military Intelligence Activity (UVOD), the Office for Defense Research (UZOI), the Military Psychological Service (VPS); 2. Military Security (VOSIG) (which brings together the military police, special military units, and the military counterintelligence segment). The Croatian military intelligence and security services operate exclusively within the military system, and their activity is not permitted outside the military except under wartime and extraordinary conditions. At the same time, the civilian police security and intelligence jurisdictions extend to the entrance to the military base. The military chiefs participate in the work of the

National Security Council (NVS), and liaison with the civilian intelligence and counterintelligence services is provided by the Group for Intersector Coordination and the Group for General Coordination. The civilian and military chiefs, however, create separate bodies under the jurisdiction of the National Security Council. They meet regularly or occasionally, as necessary. They are the following: the Group for Extraordinary Events (crisis staff) and the Group for Forecasting Crises, whose functions have to do with planning protection of Croatia's vital national interests, defense, military intelligence operational reactions, methods of imitation and simulation, and so on. The entire system is overseen and used by the president of the Republic through the president's Council for Intelligence Activity (the chief councillor of the Croatian Central Intelligence Service is a member of that body) and the Office for Oversight of Intelligence Services (the Parliamentary Monitoring Commission, for example, maintains constant scrutiny of the activity of the Central Intelligence Service (SOS), and its members also take part in the work of that office).

Likewise, the Croatian intelligence services must systematically monitor the following at the domestic and external levels (see Table 2, A, B, C, for additional criteria): 1. The conduct of military exercises and maneuvers by potential

aggressors which have shed the features of normal exercises and have become above all a means of pressure, intimidation, and blackmail; 2. Political pressures which are achieved through deliberate attacks on the system of government by presentation of territorial claims and attempts to atomize the integrity of Croatian territory; 3. Economic pressures; 4. Internal aggression which is emphasized through the use of refined and rough-and-ready forms of psychological warfare, including terrorism; 5. Creation and use of a hostile network of agents on Croatian soil, various illegal groups, and local puppet regimes which at a certain moment are supposed to carry out a revolution in the country.

The situation in which tense intergovernmental and interethnic relations persist for a long time (from a few months to several years) and when Croatia and its democratic system face constant uncertainty because of possible surprise actions by those who wish to bring it down, is extremely delicate and sensitive for the Croatian intelligence security system. In such situations, the adversary is usually quite well-known, and in rough outline the degree of danger he represents is also known. But the extent of that danger and whether it exists at all on an alarming scale can be best indicated by an alert intelligence service, which has these rules as its motto: trust no one, believe in nothing, everyone is prepared to do anything if he must.

Croatia cannot indefinitely maintain a constant state of alert because of the potential danger that war will break out or other surprise actions will be taken against it on, say, economic, political-psychological, or similar grounds. That is why every Croatian civilian and military information service must be expected from the very outset to provide a very detailed and precise warning as to the kind of action that is being planned and anticipated. Bureaucratized, lazy, technically sluggish, and unimaginative intelligence services lose the battle in advance and are not able to furnish even the elementary routine quantity of quality support for a real and rapid political decision, much less can they recognize and evaluate the disturbing signals. If Croatia is to live and function, nothing must be impossible to the Croatian intelligence community. Incidentally, nuclear war seems impossible today just as much as Hannibal's elephants crossing the Alps seemed impossible to the Romans.

Table 2
Criteria Used To Evaluate a Country's Intelligence Service

A.	Integrity of Service
	Opinions of those on inside
	Views and positions of other professionals
	Reception of defectors
	Ability to conduct effective operations
	Counterintelligence capabilities
	Ability to detect phony defectors
	Ability to capture spies
	Success in preventing treason
	Status of cooperation and connections with allied counterintelligence services ("sisterly" and "kindred relations")
B.	Operational Skill and Technical Capabilities
	Political environment
	Sanctioning of murders
	Consent to covert operations
	Permission for black propaganda
	Handling of those enrolling in service
	Treatment of defectors
	Planting of moles (placement of concealed agents)
	Wealth, financial funds
	Tactical capability
C.	Exploitation of Product
	Prompt dissemination of knowledge
	Reputation of service as a reliable source
	Relation with signal agencies (services for electronic monitoring and eavesdropping)
	General role in development of intelligence assessment

Report on FEC Assessment of Slovene Memorandum

91BA0231A Belgrade BORBA in Serbo-Croatian
17 Jan 91 pp 1, 6

[Text] Should the measures contained in the memorandum of the Executive Council of the Assembly of the Republic of Slovenia be carried out, this would result

directly in blockage of vital functions of society, above all the unified Yugoslav market, the fiscal and tariff system, and especially the monetary system. This is emphasized in the FEC [Federal Executive Council] assessments of the memorandum of the Executive Council of the Assembly of the Republic of Slovenia on Positions Concerning Regulation of Economic Relations in Yugoslavia. In its assessments, the federal government insisted that it refrain from taking the measures envisaged in the memorandum.

The complete text of the FEC assessments reads as follows:

In its 111th meeting, held 10 January 1991, the Federal Executive Council took up the Memorandum of the Executive Council of the Assembly of the Republic of Slovenia on Positions Concerning Regulation of Economic Relations in Yugoslavia.

The Memorandum states that the Federal Executive Council, federal authorities, and the National Bank of Yugoslavia did not take prompt measures to guarantee conduct of the economic reforms and that the Yugoslav market and fiscal and monetary systems have disintegrated. The Memorandum contains views on the taking of unilateral measures by the authorities of the Republic of Slovenia in the area of the tax system, financing the Federation, the tariff and monetary system, and a demand that the Federal Executive Council immediately prepare demarcation of financial resources and also of the domestic and foreign debt.

The Federal Executive Council has from the outset aimed at carrying out integral economic and political reforms on the principles of the market, pluralistic democracy, and openness to the outside world. In doing this it has enjoyed support of the domestic public, and the world public is also aware of it. The activity of the Federal Executive Council has consisted of taking steps to devise and carry out reforms making it possible to carry out changes in the economic and political system, including the area of human rights. However, simultaneously with the constructive processes which the reform has initiated in all areas of social and economic life and the results achieved, resistance to conduct of the reforms has also emerged. Resistance has emerged in all quarters, especially when the multiparty elections were being prepared and conducted. Political tensions were created which worsened relations in the country, and other measures and activities were undertaken which resulted in erosion of the system and blockage of the reform processes, and they led to collapse of the system. The assertions of the Executive Council of the Republic of Slovenia, then, to the effect that the Federal Executive Council did not take steps to carry out the reforms, do not correspond to the truth.

The bodies of the Republic of Slovenia have themselves contributed to this situation in the country through their measures and activities. In Slovenia, constitutional changes have been made which have unilaterally altered the status of the Republic, the Law on the Plebiscite was enacted, and a plebiscite was conducted concerning Slovenia's independence and self-sufficiency. The primacy of the republic constitution and republic legislation over the federal constitution and federal legislation has been proclaimed, a sizable number of federal laws and other enactments have been suspended, the discharge of Slovenia's obligations to the Federal Fund for Development of the Economically Underdeveloped Republics and Provinces has been halted, execution of decisions of the Constitutional Court of Yugoslavia has been refused, enforcement of federal legislation has been frustrated in the field of national defense, especially those regulations that pertain to the military obligation, and so on. The Assembly of Slovenia has blocked the proceedings for adoption of amendments to the Yugoslav Constitution whose adoption would have created the prerequisites for further changes in the system, including changes in those federal laws whose application has been simply suspended within Slovenia.

The positions contained in the Memorandum, whereby the Republic of Slovenia as a whole has taken over the system of the turnover tax, customs and customs charges, and whereby it would pay into the federal budget only an assessment that would ensure its participation in the minimum operation of the federal administration and the Yugoslav People's Army, and that for precisely defined and evaluated tasks, are resulting in further blockage of society's vital functions. This also applies to the measures announced in the area of the monetary system which the bodies of Slovenia would undertake independently, regardless of the consequences for the country's monetary system and for the other republics, and in spite of the fact that the Federal Executive Council reacted quickly and decisively to breaches in the monetary sphere in order to prevent their inflationary effect and interrepublic redistribution of income, of which the public has been informed.

Most of the issues raised in the Memorandum will be taken up during the talks on future relations in the country. However, unilateral changes and the prejudicing of solutions in the manner envisaged in the Memorandum cannot be otherwise assessed than as a further step toward creating anarchy and chaos in the country. Not only does this objectively stand in the way of normal development of the future talks and agreements concerning the country's system, but it makes it more difficult to hold them.

As is well-known, the Federal Executive Council has not committed itself on the form of future relations in the country, taking the view that agreement should be reached on the content and quality of the system and relations which we are building and which we want to have in the country, and the forms and shape of future relations will follow from that. Of course, if an agreement is not forthcoming, and the Federal Executive Council feels that an agreement is possible, the option of separation always remains, but even this must be done democratically and in a civilized way, but with an awareness of the price of that separation. Time is indispensable to such talks and agreements, at least between six months and one year. During that time, the system must function, and the reforms of society must continue, because otherwise chaos and anarchy will by their own logic impose solutions which neither the authorities of Slovenia nor certainly the Federal Executive Council desire.

That is precisely why the Federal Executive Council favors a peaceful, civilized, and democratic outcome of events and of the destiny of every part of the entire country. It proposes and demands that all partial moves and solutions, as well as all measures and acts, be halted, and the unhindered performance of those tasks in the country which must ensure performance of society's vital functions guaranteed.

Precisely because of all this the positions contained in the Memorandum essentially signify the same thing as the measures referred to as the pretext for undertaking them. If those measures should be carried out, that would directly result in blockage of society's vital functions, and above all the unified Yugoslav market, the fiscal and tariff system, and the monetary system particularly.

Consistent with its authorities and responsibilities, the Federal Executive Council will undertake all steps to prevent behavior of that kind and correct the material consequences that follow from it because no one can be allowed to derive gain from unlawful activity or from inflicting damage on others.

With all this in mind, the Federal Executive Council insists on restraint from taking the measures envisaged by the Memorandum.

Because relations in the country have reached a culmination and have become tense, the Federal Executive Council points once again to the need to ensure a peaceful, legal, and democratic exit from the crisis. That is why the Federal Executive Council considers it essential that the assemblies of the republics and the SFRY Assembly reach an understanding as soon as possible concerning the minimum conditions and prerequisites

necessary for the functioning of the Yugoslav community in the period until an agreement is reached on the new relations in the Yugoslav community. Without committing itself concerning the specific form of future relations in the Yugoslav community, the Federal Executive Council, as its contribution to resolving the crisis in the country, has set forth assessments and positions

and has proposed the minimum conditions and prerequisites for getting out of the crisis and for preparing an agreement on the future regulation of relations.

The Federal Executive Council has resolved to make its assessments known to the SFRY Assembly, the SFRY State Presidency, and the Assembly of the Republic of Slovenia.

POLAND

Restructuring of Troop Training Reported
91EP0220A PRZEGLAD WOJSK LADOWYCH
in Polish No 11-12, Nov-Dec 90 pp 5-11

[Article by B.Gen. Julian Lewinski, deputy chief of the Main Administration for Combat Training of the Polish Army: "The Essence of Change: Updated Training Programs"]

[Text] On 2 November 1990, the Armed Forces began using updated programs to train forces on an abbreviated, 18-month cycle.

The training program in effect until now was used as the point of departure for the updated program. The following general principles which have withstood the test of time were retained:

- The qualificational scope of training responsibility.
- The directions and methods of conducting methodological-training work.
- The planning of the training-educational process.
- The departmental structure and the subjects of training.

It was assumed that the new programs should make it possible for forces to attain combat capability at a level which does not fall below the current level, to achieve comprehensive cooperation with subunits of branches of the armed forces at the particular stages of training, and to fully take into consideration the requirements linked with the humanization of military life. This assumption resulted in the need to preserve approximately the same number of hours in the training cycle (despite the shortened training time), while at the same time designating an indispensable number of hours for combat training so as achieve the amount of combat training that corresponds to the amount of such training in other armies.

As a result, in the updated programs for training infantry and tank subunits, the distribution of hours for the particular areas of training is the following:

- Civic training and informational-educational work—6.4 percent (formerly 23.9 percent).
- Combat training—65.5 percent (formerly 52.1 percent).
- Technical training—12 percent (formerly 13.7 percent).
- General military training—13.1 percent (formerly 13.7 percent).

It was decided that the basic part of training would be implemented during service hours. Thus, all passages regarding the organization of compulsory afternoon activities were eliminated. An exception in this regard is the period of experimental range training and integrated training as well as systems training exercises conducted several times a month. In the implementation of these training exercises, subunit commanders should make use

of the options to which they are entitled and they should make the appropriate revisions.

Former programs have been changed in the following areas:

- Training structure for soldiers in basic military service.
- Principles of conducting basic training.
- Reduction in the time designated for training-production activity, exercises at higher levels of command and inspections and tests.
- The distribution of hours in individual departments and the number of hours in the training day.

The updated training programs have been adapted to the 18-month basic military service period. Tasks implemented in noncommissioned officers training and training centers during the first half year of service and in the line unit during the final period of service are exceptions.

Given that the major training task during the first half year of service is preparation for commanding a troop (crew) and for performing basic specialist's tasks emanating from ordnance-operator's duties or from the duties of a combat vehicle driver, it was decided that during the next period of training (service), basic military subunits should attain full combat capability to perform their designated tasks. For this reason, this period must be a kind of continuation of preliminary training in noncommissioned officers schools and training centers. In conjunction with this, depending upon when teamwork training with the graduates of noncommissioned officers schools and training centers is begun in the line unit, the process of training soldiers who have not been trained in these schools and centers (but who have served in the line unit for 18 months) must be subordinated to the 12-month structure of the cycle of training commanders and specialists. It follows from this that this group of soldiers will necessarily have to repeat part of the material and perfect their skills.

Taking into consideration circumstances emanating from the need to implement tasks associated with servicing equipment, instructional methods activity, from discharges into the reserves and the incorporation of recruits into the 18-month training cycle of infantry and tank subunits, there has been set aside:

- Five months for training in noncommissioned officers schools and junior specialist training centers.
- Three preparatory months.
- Nine months of training.
- One month as a unit commander's reservist.

Shortening the period of basic military service has impacted on the need to change obligatory tasks during the particular years of service. In conjunction with this it is assumed that the first year should conclude with the attainment of the full capability of subunits to perform tasks within the framework of the troop and the platoon

and with the teamwork of companies and battalions (teamwork exercises). Five months have been reserved to implement these tasks in the updated training structure. The remaining 4 months are designated for preparing subunits to perform tasks within the company and battalion framework, to improve the specialist skills of soldiers and to attain to qualificational classes.

Moreover, the time designated for training production activity and for participating in exercises at higher levels of command, inspections, and checks (defined as the unit commander's reserve) has been reduced to an indispensable minimum (one month).

The training structure for soldiers in basic military service is presented in Table 1.

Table 1
Training Structure for Soldiers in Basic Military Service

Length of Time	Task	Military Personnel
5 months	Training in noncommissioned officers school/training center; preparation to perform service tasks in the given specialty	Noncommissioned officers and junior military specialists
5 months	Training in basic specialty in area of performing tasks on field of battle	Other soldiers
1 month	Servicing of equipment	Noncommissioned officers, junior military specialists and other soldiers
5 months	Preparation to perform tasks within troop and platoon framework; teamwork in executing basic company and battalion tasks	Noncommissioned officers, junior military specialists and other soldiers
1 month	Servicing of equipment	Noncommissioned officers, junior military specialists and other soldiers
3 months	Preparation to perform tasks within company framework; perfecting of individual skills to fulfill basic military service	Noncommissioned officers, junior military specialists and other soldiers
2 months	Preparation to perform tasks within battalion framework; participation in regimental (or higher level of command) exercises; attainment to qualificational classes	Noncommissioned officers, junior military specialists and other soldiers
1 month	Servicing of equipment	Noncommissioned officers, junior military specialists and other soldiers

While there is no question about the scope of tasks implemented in noncommissioned officers schools and training centers and during the period of teamwork training within the subunit framework, the problem of utilizing the month designated as the unit commander's reserve requires a new interpretation.

In former programs, a combined total of two months of training was allotted for training production work, participation in exercises at a higher level of command, and inspections and checks. The need to prepare subunits in a shorter time period to perform their designated tasks has impacted to limit the time to implement these tasks to a month. Moreover, taking into account an April 1990 order from the MON [Ministry of National Defense] Team, it was established that this training month ought to be used for the following:

- Participation of battalions in regimental exercises or in exercises at higher levels of command, with the degree of frequency established by separate regulations (normative documents).
- The conducting of training production activity in an average two-week time frame within the 18-month period of military service.

Meanwhile, it should be pointed out that those subunits which will train in the Central Urbanized Center [COZ] are not indicated here. At the same time, subunits whose participation, during the period of basic military training, is not anticipated in regimental and higher level exercises, or in training in the COZ, may be utilized (planned) for training production activity for a period longer than two weeks, but not longer than one training month.

Training in the COZ has been adapted to the requirements of the 18-month period of military service. This training has been shortened to 15 days and troop training has been dropped (it is to be implemented under garrison conditions). An order from the chief of the WP [Polish Army] GZSB [Main Administration for Combat Training] dated 5 June 1990 set up terms whereby every reinforced infantry, storm landing, and coastal defense battalion and every reconnaissance battalion (once every three years) may train in the COZ.

The complex of experimental range issues is now being treated in a different way. According to the new assumptions, subunits are to be taken out to the experimental range twice during their training period. By the end of their first year of service, they are to have been taken out on the range for a period of up to 12 days, primarily in order to conduct firing training and T-5 teamwork exercises in tactical training. The second time they are to be taken out for 18-20 days during their final period of

service. During this period it will only be possible to implement the program training of subunits, since the indispensable time for implementing other tasks such as participation in regimental exercises and exercises at the higher level of command has not been factored in. The experimental range training period will be about 10 days longer in the case of those subunits which cannot implement specific training plans under garrison conditions (in divisional training centers). For this reason, when experimental range training is planned, the real training needs of subunits ought to be the guiding factor. Taking these circumstances into account, the updated program has established a minimum time for conducting experimental range training over the 20-day period (training month) with a nine-hour training day. At the same time, military unit commanders must define the real training needs of armies with regard to experimental range training.

Problems of integrated training must likewise be clarified. According to the training programs in effect until now, integrated training was usually conducted with the entire detachment at one time and not with battalions. In line with this, a demonstration-type method was used, which did not yield the expected training results. For this reason, the updated programs stipulated that training by this method should be conducted with every subunit for an appropriate length of time. This means reducing the frequency of such training for individual subunits. At the detachment level, frequency will be increased in practice; it will continue to be one to two times a week and the rotation of subunits will continue.

Basic training has also been modified in various ways. Basic training should be conducted for a period of 32 training days, roughly corresponding to six training weeks. Despite the shortening of this training period by two weeks (by comparison with the principles in effect thus far), the updated programs have preserved the content and the tasks of the previous programs. Moreover, time has been saved to prepare for taking the oath and for the inspections following this training, a total of two training days of seven hours each.

One of the goals of the updating of training programs was to arrive at a number of training hours comparable to the number in the previous programs, despite the shortening of the total time of performance of basic military service, while at the same time allotting the maximum possible number of hours for combat training. Thus, the following training cycle was adopted: eight months of training in the garrison (18 training days of seven hours of lectures each)—1,008 hours, as well as integrated training twice a month (additionally for two hours during the afternoon)—32 hours; one month of experimental range training (20 training days of nine lecture hours each)—180 hours.

Table 2 describes the breakdown of training days during the 18-month service period.

Table 2
Breakdown of Training Days

Item	Number of months	Number of days	Remarks
Noncommissioned officers school (center for training junior specialists)	5	105	Includes 5 days for exams (during the month-long preparatory period)
Training in the garrison	8	144	32 additional hours for integrated training
Training on the experimental range	1	20	Training day lasts nine hours
Joint subunit training	9	164	—
Troop commander skill-upgrading training	—	22	9 days of skill-upgrading training; 9 days for Noncommissioned Officers Day; 4 days for instructional-methods courses
Unit commander's reserve	—	—	8 hours of physical education
Preparatory months	—	—	18 hours of physical education; 12 hours of civic education

The following were established as permanent and unchanging:

- The number of hours of civic education is set at eight hours in the training month and four hours in each preparatory month.
- The subunit commander will conduct informational-educational work for four hours during every training month.
- Combat readiness training will be conducted for seven hours (one training day) once each quarter.
- Technical Day will be conducted for seven hours (one training day) at least once a month, with the exception of the preparatory months and the unit commander's reserve month.
- Physical education will be conducted for 10 hours in each training month and for eight hours in the unit commander's reserve month, as well as for six hours during each preparatory month.
- The length of the training day is seven hours during training in the garrison and nine hours in experimental range situations and on integrated training days.
- A lecture period lasts 45 minutes.

When revisions were made in the distribution of hours by department and training subject, the number of hours designated for general military and technical training continued to approximate this distribution in previous

programs. Meanwhile, combat training time, especially tactical training time, was increased, while civic education time was diminished.

The differences in the distribution of hours by department and training subject are presented in Table 3.

Table 3
Differences in Training Hours in the 18-month Training Cycle
(Subunits of the Infantry-BWP [Infantry Combat Vehicle] Officer)

Training Subjects and Other Plans	Number of Training Hours				
	1986 Training Program—Noncommissioned Officer Schools and Military Units	In Updated Training Program			
		Noncommissioned officer schools—5 months	In Line Units		
			Subunit training—9 months	Preparatory training—3 months	Unit commander's reserve—1 month
Civic education	428	40	72	12	—
Informational-educational work	—	20	36	—	—
Combat readiness training	84	7	28	—	—
Tactical training	310	160	321	—	—
Reconnaissance and foreign armies	54	28	35	—	—
Firing training	421	132	307	—	—
Engineer's training	36	20	50	—	—
Antichemical training	32	16	22	—	—
General anti-aircraft defense training	18	9	15	—	—
Communications training	33	18	15	—	—
Health training	23	11	12	—	—
Topography training	22	10	12	—	—
Combat training total	1,038	411	817	—	—
Equipment construction and utilization	84	53	40	—	—
Driver's training	49	26	20	—	—
Traffic safety and regulations	—	10	—	—	—
Technical Days	96	7	63	—	—
Equipment servicing after tactical exercises	—	21	28	—	—
Technical training total	229	117	151	—	—

Table 3
Differences in Training Hours in the 18-month Training Cycle
(Subunits of the Infantry-BWP [Infantry Combat Vehicle] Officer)
(Continued)

Training Subjects and Other Plans	Number of Training Hours				
	1986 Training Program—Noncommissioned Officer Schools and Military Units	In Updated Training Program			
		Noncommissioned officer schools—5 months	In Line Units		
			Subunit training—9 months	Preparatory training—3 months	Unit commander's reserve—1 month
Regulations	117	62	56	—	—
Physical education	168	50	108	18	8
General military training total	285	112	164	—	—
Total subunit training hours	2,220	700	1,248	30	8
Examinations	30	35	—	—	—
Troop commander skills-upgrading training	186	—	154	—	—
Totals	2,196	735	1,402	30	8
	2,196	2,137		30	8
	2,196	2,175			

In tactical training the former number and subject scope has been retained; however, the time designated to implement this subject has been increased by an average of 30 percent. An increased number of hours has been designated to update defense subject matter, which emanates primarily from the increased scope of defense-related tasks by comparison with offense-related tasks. Twenty-eight hours of tactical training have been designated for cadre-preparatory group activities preceding tactical activities and exercises from the platoon level up (one to two activities within the framework of the hours set aside for the given subject).

The unifying of organizational structures of all military regiments, taking into consideration the conditions under which warfare of the future will be conducted, has resulted in the need for strict cooperation among all branches of the military, particularly tank infantry subunits. In conjunction with this, the programs have precisely defined the manner of participation of tank subunits in infantry subunit tactical exercises and vice versa (T-13).

In the new training programs, no basic changes have been made in the part of the programs related to firing training. However, we ought to expect that the the updating of target practice also now underway, which will systematize the cycle for preparing soldiers, especially in noncommissioned officers schools and training centers, will ensure improved

circumstances for preparing soldiers and subunits to implement firing tasks, primarily by T-72 and T-55 mechanized army tank crews.

The number of hours of engineer's training has been decreased significantly. This emanates from the need to demonstrate engineering development tasks in combat training.

In terms of the needs of the armed forces, given the limited training at civilian centers for recruits who hold category B driver's licenses, the subject "Traffic safety and regulations" has been introduced in the technical training of student infantry and tank subunits. This will enable the attainment of a category M driver's license and will permit combat vehicle student drivers to drive on public roads. Likewise, a specific time period has been designated in this department for servicing equipment after exercises.

In general military training, an attempt has been made to adjust the number of hours and the subject matter to the needs and possibilities for implementing such general training. In conjunction with this, training on regulations covering the individual soldier's preparation for military service will be conducted primarily within the framework of basic training. In the remaining period of service, depending upon the stage of training, the updating of tasks related to subunit teamwork and to

conducting a limited number of inspections is anticipated. Moreover, the majority of training hours are designated for preparing soldiers and subunits for guard duty and service during service time. It has been established that the basic method for deepening knowledge of regulations should be the observance of these regulations in the everyday course of life and service.

In summary it should be stated that the new program structure allows military unit commanders the flexibility to

choose the manner and time frame for updating individual subjects, corresponding to the level of training of subunits and taking into account the tasks confronting the unit. Experience in the training process has shown, however, that commanders make use of these options too infrequently, being satisfied with the strict implementation of programs. This matter, however, must be discussed separately on the pages of PRZEGLAD WOJSK LADOWYCH during the new training year.

CZECHOSLOVAKIA

Prague Offers Aid to Foreign Investors

91CH0276B Prague MLADA FRONTA DNES in Czech
7 Jan 91 p 3

[Interview with Dagmar Kratka, Foreign Programs Section, Prague Municipal Council, by Pavel Barock; place and date not given: "Do We Allow Them To Go Into Business?"—first paragraph is MLADA FRONTA DNES introduction]

[Text] Among the tasks of the Foreign Programs Section of the Prague Municipal Council is ensuring contact with foreign firms desiring to invest in Prague. We discussed the current situation in this area with Section chief Dagmar Kratka. Questions posed by Pavel Barock.

[Barock] How interested are foreign firms in current investment in Prague?

[Kratka] Interest is constantly on the upswing. We already have more than 500 foreign firms in our computer register, a spectrum reaching from the largest concerns down to small enterprises. Together they offer enormous amounts of investment funds. Understandably, their interest focuses on hotels, international trade centers, and administrative buildings. In a long-term relationship, however, this activity may extend even into the areas which Prague needs urgently, namely, the construction of a transportation infrastructure, sewage systems, water purification, incinerators, health and social equipment, etc.

[Barock] When a foreign firm expresses interest, how will you deal with it henceforth?

[Kratka] We have prepared written information and guidelines to which the firms respond. This system has been accepted without reservations by the interested organizations. They recognize that every metropolis must carefully protect its interests, and are anxious to go along in this respect. First, we ask the firms to present their financial and professional profile. Second, to outline their concrete interests. Third, to provide their ideas of the financial arrangement. We must, of course, be able to determine whether the foreign entrepreneur perhaps holds unrealistic visions of a quick and easy return on dollar investments.

[Barock] Have you had any attempts at cheating on the part of potential foreign investors?

[Kratka] Some, even among the largest, have exhibited tendencies not exactly conducive to our confidence. Some, for example, were led primarily by potential tax advantages in their own countries, others considered exploitation of the illegal oil market. In addition to basic national policy, we certainly do not wish to be regarded as unreliable partners.

[Barock] How was the recent controversy on competence between the Czech and Slovak Republics reflected in dealing with foreign firms?

[Kratka] Naturally, this sort of thing is not helpful. However, I personally do not believe that this conflict seriously affects the interests of foreign investors. They are more troubled by the continuing uncertainty and admission on our part that legislative and property rights questions have not yet been firmly resolved. There is no doubt that if we hesitate too long with the signing of contracts, foreign interest may wane. Moreover, there are virtually no installations or buildings in Prague whose present owners we are fully certain of. Before the completion of the privatization process, a foreign partner with grandiose projects may have to deal with literally hundreds of potential owners. We are in a global recession and investment in large cities is down. Consequently, visiting mayors of big cities envy the flow of investment bids we are getting. I must add, however, that even now about 20 percent of potential investors have reconsidered, citing contemporary lack of guarantees.

[Barock] We are often compared with Poland and Hungary. Do those countries face similar problems?

[Kratka] I have heard that foreign firms praise the speed and flexibility of contract ratification in Hungary, and this often affects their decision of whether to invest here or there. In Poland too there is a good atmosphere for foreign capital, yet in this case if the foreigners have a choice, they pick us without hesitation.

[Barock] What do you think of the idea to allow our production enterprises to pick their own partners?

[Kratka] We do not actually assign foreign partners to our producers. Neither do we prevent them from dealing without us. Yet, those of them who come to see us state that they depend on us in the selection of foreign partners, since we are able to establish the foreigners' reliability, as well as the desirability of any enterprise with respect to overall municipal interests. We always recommend several possibilities to our clients, thus in time we could become a sort of central clearing house.

Expected 1991 Economic Conditions for Enterprises

91CH0256B Prague HOSPODARSKE NOVINY
in Czech 2 Jan 91 pp 3-5

[Unattributed article under the rubric "Document": "II. Information for Enterprises on Economic Conditions in 1991"]

[Text] Initial information was offered to our enterprises in the [series] "Preliminary Information on Economic Conditions in 1991," published in HOSPODARSKE NOVINY on 16 and 18 October 1990. We now submit to our readers in commerce an additional document prepared by the Federal Ministry of Finance, and update the previously published information.

I. Financial and Currency Policies

1. Directions and Objectives of Financial Policies in 1991

We expect about a 5 percent drop in our economic growth in 1991. Nevertheless, with the coincidence of unfavorable circumstances, especially with the markedly aggravated situation in the oil market, an even greater economic decline cannot be precluded. A low dynamism of our economic development together with the implementation of structural changes will go hand in hand with unemployment. It is presumed that next year unemployment will not affect more than 300 to 400 thousand persons, which is about 4-5 percent of our able-bodied population.

Powerful inflationary impulses may be expected in 1991. Despite the restrictive direction of our financial policy, about a 30-percent increase of the price level should be anticipated. This level of inflation may be maintained under the condition that the approved surplus in state budgets will be achieved, credits will be granted according to the plan, wage control in the state sector will be effective, and good stewardship successfully implemented. The price level will not follow a steady course. It may be expected that prices will mark a faster rise over the first three months, but in the following months a limited demand should slow down the price movement considerably (up to 5-10 percent).

The development of oil prices will affect the development of the balance of trade, or as the case may be, of payments, to a decisive extent. Furthermore, the development of prosperity in the world and the speed with which the adaptation of Czechoslovak manufacturers can proceed will show their effect. We project an up to \$2.5 billion deficit in the current account of the balance of payments, which will be covered with foreign credits. In addition, Czechoslovak holdings of hard currency must be reinforced as a prerequisite for the introduction of internal convertibility of Czech korunas [Kcs].

2. Taxes and Levies

In 1991 the rate of taxes on profits paid to the state budget will be reduced. The rates stipulated by individual laws will apply; a 55-percent general rate for vital economic subjects registered in the enterprise register irrespective of the form of ownership. For organizations of the agricultural and food production complex, the 50-percent tax on profits remains in effect. For financial and insurance organizations the tax on profits also amounts to 55 percent. Enterprises with foreign capital partnership are subject to a 40-percent tax rate.

In 1991 there will be no changes in the rate of taxes on the volume of wages, where the basic rate remains 50 percent of accrued wages accounted for disbursement, with variations stipulated by laws. Thus, the regulations on deductions from the income tax in the service sector, and on exemptions for employees with altered work ability continue to apply. There is some possibility that for newly founded organizations taxes (payments) on

profits will be reduced for at most a two-year period; however, there is no plan to exempt from taxes new subjects created by the restructuring or transformation of the existing state enterprises. Private entrepreneurs as well as those parts of state enterprises (operational units) that will be privatized and not registered in the enterprise register will pay the national income tax. As the previous announcement to enterprises noted, the tax rate for the income tax is reduced, and tax exemptions are expected particularly for beginner entrepreneurs.

As of 1 January 1991, sales taxes will be considerably simplified by the establishment of four basic rate categories and by maintaining higher rates for some types of consumers goods (gasoline, alcoholic beverages, tobacco products, automobiles, etc). The sales tax tariff which contains a list of sectors in relation to appropriate rates is now being distributed.

3. Subsidies

The volume of noninvestment subsidies for 1991 is limited by approved budgets and as compared with 1990, it about 15 percent lower. On principle, abolished were all subsidies with which the economic result of organizations was enhanced, with the exception of limited subsidies for ore mining and for the conversion of arms producing industries. In the first quarter subsidies will be lower than those that would correspond to a quarterly share of the volume of subsidies for the whole year.

A special category consists of organizations directly related to the state budget (Czechoslovak State Railroads) and other recipients of noninvestment subsidies based on differences in prices between the price for the population and expenditures for these operations (MHD [expansion unknown], Czechoslovak Autobus Transport, housing management). According to their actual need and always after proven loss for the preceding month, these organizations will draw subsidies until the limits stipulated for the whole year are exhausted. Conditions for the drawing of these subsidies will be specified in an agreement between the appropriate ministry of finances and the recipient of the subsidy so that other financial resources, including bank credits, may also be utilized concurrently with the grant of subsidies.

Releases of noninvestment subsidies in the framework of the resources for federal programs will be stipulated in cooperation with the federal ministries of finances and economy.

The budgets of both republics, the Czech Republic [CR] and the Slovak Republic [SR], provide funds for selected ecological programs. In financing such programs, the ministries of finances of both republics will cooperate with the appropriate agencies of each republic.

The procedure in granting of noninvestment subsidies is amended by "Directives for Granting and Receiving Noninvestment Subsidies from the State Budget After 1985" which in general will also remain in effect in 1991 (except for the agrocomplex which constitutes a separate

part of that information). The time table for the drawing of the subsidies will be supervised by the ministries of finance.

Investment subsidies will be granted to enterprises for specific purposes to underwrite specific building projects in the sectors of transportation, and water and forest economy, while in other sectors only to implement the plans of the state ecological policies.

Until more detailed instruction is issued, the following applies for grants of individual investment subsidies:

- Subsidies will be granted to state enterprises only from the appropriate state budget and from the founders' budget in an amount whose maximum does not exceed the amount stipulated by the appropriate state budget;
- Pursuant to Article 375 a) par. 5 of the Economic Code, advance payments to contractors of investment projects will be granted only with the approval of the agency that has granted the subsidy;
- Subsidies will be granted in advance payments over the whole period of the construction with the proviso that their final amount will be contingent on the fulfillment of obligations. If obligations are not fulfilled, it will be reduced or as the case may be, completely withheld.

Investment subsidies will not be used to support private entrepreneurship.

4. Currency Policies

The aim of our currency policies for 1991 is to maintain harmony between the growth of the volume of money, changes of the price level, the projected decline of production, and the requirements of the balance of payments.

Until the time when classic currency mechanisms become more efficient, the mechanism of our currency policies will consist of restrictions on credits, stipulated for individual banks and supported by our credit policies. Interest rates will serve as main mechanisms of credit restrictions. Interest policies will promote the development of deposits, and support efficient allocations of credits. Discount rates of the State Bank will rise to 10 percent. If need be, this discount rate will be adjusted in the course of the year. Increases of the discount rate will also raise to 24 percent the maximum limit for interest on credits.

In 1991 about 50 to 70 percent of the credit volume may be expected to rise. A fixed rate, generally on a relatively low level, has been set for the rest of credits.

5. Credits for Steady Turnover of Supplies (TOZ)

The existing credits for the TOZ will be divided into a part that will be regularly credited, and a part that will be only temporarily eligible for credit. Such a division will be made by negotiations of the enterprise with the appropriate bank. In case of negotiations concluded

already in 1990, both appropriate new credits as well as the extended credit for the remaining part, payable on 30 June 1991, will be granted as soon as 2 January 1991. This procedure does not exclude the possibility that by agreement of the enterprise with the bank, some of the credits may be paid up.

If the negotiations have not been concluded by 31 December 1990, an extended credit to the extent of credits for the TOZ, payable on 30 June 1991, will be granted. Its installments will be negotiated by the enterprise with the bank before 31 March 1991.

Credit rates will be determined by agreement between the banks and the enterprises.

6. Capital and Currency Market

The law on bonds which will be effective as of 1 February 1991 amends the conditions for the issuance of all types of bonds, particularly their requirements, the method of determination of the yield, repayment of bonds, and the licensing procedure. The issuance of bonds of juridical and physical entities (authorized to engage in entrepreneurship) will be approved by the appropriate ministry of finances with the consent of the Czechoslovak State Bank. An essential condition for the licensing of their issue is the certificate of competence to guarantee the return of the requested issue.

The law permits various methods to determine the yield of the bonds, namely:

- By fixed interest rates;
- By fixed interest rates and profit sharing;
- By the difference between the nominal value of the bond and a lower course of its issue;
- By redeemable premiums or premiums contingent on the term of maturity of the bond;
- By flexible credit rates, or as the case may be, by the development of the foreign exchange rates contingent on the course of the credit rates or of the rates on the financial market;
- By a combination of the above-mentioned methods.

According to regulations applicable to national income tax and to the tax on wages, the yields from bonds are subject to 25-percent taxation.

The requirements for bonds issued after the law had become effective can not be amended after they had been approved. Therefore, when determining the type of yield, the issuer should select a method that can react in particular to fluctuations of interest rates, or possibly, of interest on deposits in all of our national economy.

The law enables the issuers of bonds issued before the law has been in force to request the appropriate ministry of finances within one year from the date when the law

had become applicable to amend the approved requirements, especially in view of the introduced increase of interest on citizens' deposits in savings institutions and banks, and thus, to keep the bonds attractive.

The technical presentation of negotiable bonds must conform with the legal regulations issued by the Czechoslovak State Bank.

A prerequisite for the further development of the capital market is the creation of opportunities for the trade in securities. In cooperation with the Federal Ministry of Finance, banks and savings institutions, the Czechoslovak State Bank will organize a secondary provisional market of securities beginning in the first quarter of 1991. Through banks or other juridical entities licensed to trade securities, owners of securities will be able to buy and sell stocks and bonds approved for trading in that market. Their trading will comply with the regulations of the Czechoslovak State Bank which will stipulate conditions for the admission of securities for trading as well as the method of trading, mutual accounting and transfer of the securities, and other requirements.

The law on securities exchange is now being drafted. Depending on the progress of privatization, it may be expected that the securities exchange will be established already in 1991.

The economic code in force makes it possible to use the mechanism of commercial bills of exchange to cover business credits. All requirements and conditions for the bills of exchange are stipulated by the Law on Bills of Exchange and Checking of 20 December 1950. Individual commercial banks and savings institutions are planning to support the development of this mechanism by means of discounts on commercial bills of exchange and possibly by rediscounts from the central bank. The Czechoslovak State Bank is currently planning to issue fundamental rules for the rediscounting of commercial bills of exchange.

The money market will be affected by the grants of individual credits from the central bank to commercial banks and savings institutions at stipulated interest rates (redistribution credits, refinancing credits, and credit advances on securities are planned).

II. Financial Management of Enterprises

1. Cancellation of Funds

Effective on 1 January 1991, the basis for the changes in the financial management of state enterprises and certain other organizations is the cancellation, or as the case may be, a substantial restriction of financial management of securities. The decree of the CSFR government of 17 December 1990 (prior to its publication in the Collection of Laws the governmental decree was published in HOSPODARSKE NOVINY on 27 December 1990) amended the changes in the financial management. This decree also abolished the management of securities for all types of enterprises of foreign trade. The

banks and savings institutions established as state financial institutions, the Czechoslovak State Railroads and insurance companies (insofar as they are not joint-stock companies or enterprises with foreign capital partnership) will proceed in their financial management in the same way. The new amendment also abolished the increment of capital assets and investments, the working capital, the securities fund, and the development fund, and furthermore, the special-purpose funds created from sources other than profits. Only the contingency funds will be mandatory as a long-range source to cover the fluctuations in the financial management of the enterprises, and next to capital assets, as a source to cover their capital. Up to the time of liquidation of state enterprises and transfer of their assets to joint-stock companies or introduction of other forms of entrepreneurship, state enterprises and other organizations so designated by the governmental decree will continue to maintain their cultural and social services fund.

Depreciations of capital assets cease to be a specific source of financing. Financial assets stemming from depreciations of capital assets, along with all other financial means, may be used to finance any needs of the enterprise, be they investment or noninvestment requirements. In general, the only duties the enterprise will have is to meet its payments, to pay the taxes and to observe accounting principles.

When a state enterprise is liquidated and its assets transferred to a joint-stock company, the organization thus established will proceed pursuant to law on joint-stock companies No. 104/1990 of the collection. It will have the option to establish a cultural and social services fund and possibly also other funds created exclusively from its profits after taxes.

2. Estimating the Value of Inventories

The methodological directive of the Federal Ministry of Finance [FMF] on financial settlement of differences from new appraisals of inventories after price adjustments (Act No. 1/17 798/88 published in FINANCIAL HERALD No. 10-11/88) will cease to apply as of 31 December 1990. That directive allowed for capital compensation for the differences in prices stemming from central adjustments of the MOC, VOC, MC [expansions unknown] and commercial reductions. As of 1 January 1991 all juridical and physical entities who keep accounts of their inventories will proceed according to applicable accounting regulations when projecting the consequences of price changes. This means that any change of prices will affect the profitability of that particular subject. It is up to the decision of the organization whether to overvalue or not to overvalue its inventories.

For the marketing and supplier organizations and cooperative consumer organizations, the CSFR government approved an emergency measure for the first quarter of 1991, whereby differences stemming from price changes may be balanced. The government made an exceptional allowance for those organizations so that for a limited period of three months they may use capital—their fixed

assets—to compensate for differences ensuing from price changes (also in view of the fact that the original plan to furnish those organizations with working capital did not materialize). This measure will partly mitigate the impact of the anticipated increase of the price level on the financial situation of those enterprises, which otherwise would mean the necessity to increase operating credits.

These enterprises will also follow accounting regulations in balancing differences in prices stemming from the price changes that will take place on 1 April 1991.

Capital compensation of differences from overvaluation of inventories may be made only by organizations with the status of state enterprises. If they turn into joint-stock companies, they will not have that option because capital assets of joint-stock companies are not adjusted according to the effects of price changes (the differences stemming from price changes are accounted with economic results).

3. Depreciation of Capital Assets

A new decree by the Federal Finance Ministry on depreciations of capital assets will become effective in the beginning of 1991. It is another temporary but important step toward the implementation of the economic reform. In the end it will be markedly affected by the implementation of tax reforms which presuppose that the new tax system will become effective from 1993.

In addition to the new decree on depreciation of capital assets, the depreciation policy is formulated in the section on depreciation contained in law on national income tax No.389/1990 of the collection, as well as in amendments to directives on the accounting system that will resolve problems of nonmaterial assets as well as define the concepts of acquisition price and of acquisition price of replacement of capital assets.

Because decree on financing of replacements of capital assets No.162/80 of the collection was rescinded, the definition of capital assets, investments and other material property is included in the decree on depreciations.

The new decree continues to classify capital assets according to sectors as in the heretofore structure, because many organizations maintain it in their computers mostly for statistical purposes and less so because of the need to record depreciations.

For depreciation the following principles are applied:

In agreement with our economic reality, depreciation rates are raised by 61 percent for sectors of machinery capital assets. Annual depreciation rates for sectors of capital assets are stipulated as a maximum but organizations may always state a lower rate. Machinery capital assets of sectors not included in the list of sectors will be depreciated at the maximum annual rate of depreciation which amounts to 12 percent. The option to apply a lower depreciation rate than that stipulated as the maximum rate may be advantageous

for many organizations because they will be able to continue filing their depreciation without changing the program in their computers.

Cooperatives, enterprise with participation of foreign partnership over 30 percent and private entrepreneurs are able to depreciate their capital assets rapidly. Rapid depreciation is implemented so that for example, in case of capital assets in the form of buildings, 50 percent of their acquisition price is depreciated over the first ten years (30 percent over the first five years, 20 percent of their acquisition price over the next five years, and the rest as stipulated by annual depreciation rates). As for capital assets consisting of machinery, 50 percent may be depreciated equally over the first three years and the rest according to the stipulated annual rates.

The new legal amendment for private entrepreneurship offers the best opportunity for rapid depreciation because its new decree on depreciation of capital assets permits, on the one hand, the taxpayers to promptly deduct the national income tax, in accordance with the amendment directly included in this law, and on the other, the private entrepreneurs-payers of income taxes.

Organizations with up to 100 employees may use simplified depreciation according to a uniform depreciation rate which amounts to 2 percent for building capital assets and 12 percent for machinery capital assets.

The organizations itself may decide whether to avail itself of rapid depreciation or depreciation according to a uniform depreciation rate, of course, only if it belongs among organizations which are permitted to use this kind of depreciation.

The limit of the acquisition price of capital assets remains at the level of Kcs 5,000 and organizations with more units of the same type but acquired at different prices may treat, in the interest of uniformity, supplies worth up to Kcs 10,000 as a single unit.

Where capital assets are transferred free of charge to another organization, the transferring organization settle the current value with a profit after taxation. Organization obligated by legal regulations to hand over their capital assets free of charge will make a one-time deduction of the acquisition price in the costs, and transfer them free of charge as fully depreciated. The organization which receives them will not depreciate them.

Profits will be reduced by the undepreciated current value of capital assets that have been sold or removed by disposal, damage or loss.

4. Accounting

Changes and amendments of the accounting system for economic organizations and directives concerning them will be in force as of 1 January 1991. In principle they proceed from the amendments to legal regulations which will become effective on the same day.

The main directions of the changes and amendments were listed in the preceding "Preliminary Information."

The above-mentioned changes are accompanied by amendments prompted by the new price regulations. The price regulations are no longer defined as wholesale prices, retail prices, procurement prices and purchase prices. Therefore, the accounting system will use the term "acquisition price" from the standpoint of the consumer and the term "sales price" from the standpoint of the supplier. This approach is evident in the directive on accounting for inventories, especially in accounts of goods, in sections of the directives dealing with appraisals of inventories. In wholesale, goods will be appraised according to their acquisition price, or as the case may be, according to their storage price with specification of the price differential as compared with their acquisition price. In retail, goods will be appraised according to their sales price; the price differential between the acquisition price and the sales price will be listed in accounts of price differentials. Prices of goods and semi-finished products made by the enterprise itself will be set by the enterprise according to calculations of the plan and operations, or as the case may be, in actual costs. Direct marketing costs—marketing overhead—cannot be included in the pricing of goods in those instances where in agreement with the stipulated pricing method, the share of that overhead is included in produced goods. Materials manufactured by the enterprise and investments at its administrative costs will be rated production and distribution costs. Procured materials continue to be priced according to their acquisition price, or possibly according to their inventory price with price differentials accounted in costs.

Accounting statements for 1991 will essentially retain their current form but will reflect the changes introduced in the accounting system. The abolition of the management of budgetary funds is reflected in the cancellation of the statement "Funds Acct. 3A-04."

State enterprises with up to 100 employees, or as the case made be, with up to 200 employees if granted exception pursuant to Article 18 of governmental order No.208/1989 of the collection, will continue to use simple accounting up to the time of their privatization.

"Accounting Principles" for citizens engaged in private enterprise were further specified in September 1990. No amendments to the "Principles" are planned for 1991. Entrepreneurs who must keep double-entry accounts will submit a budget and an income statement as appendix to their income tax returns. Entrepreneurs not obligated to keep double-entry accounts may keep such accounts if they consider them is more appropriate for their needs than simple accounts.

In addition to the changes in accounting valid as of 1 January 1991, measures for the transition from 1990 to 1991 are being drafted. Instructions for the closing of annual accounts for 1990 will outline the procedure for

that transition; an aid (conversion span) for the transition between the accounting for 1990 and the accounting for 1991 will be issued.

5. Insolvency and Bankruptcy of Enterprises

In dealing with insolvency, enterprises cannot count on balancing their claims and obligations with the funds from state budgets. Certain favorable results may be expected from partial credits for mutual claims and obligations, provided for by the banking system. In general, however, it is imperative to make enterprises pay more attention to their liquidity and to measures that serve their own interest. In essence, this means to provide the best possible conditions for liquidity in supplies, production and marketing, to take steps to improve the situation of their inventories and the development of costs, and to be in constant contacts with the bank.

Enterprises must proceed with far greater caution when selling their goods on credit or when choosing their costumers (debtors).

It is possible that some enterprises will be unable to find their place in a market economy and therefore, their creditors need greater protection. A failure (bankruptcy) of the enterprise will lead to bankruptcy proceedings. Legal regulations of such proceedings will be listed in an amendment to civil court procedures; however, it will become effective only in the course of this year and therefore, a separate bankruptcy law may be announced in the early months of 1991.

Declaration of bankruptcy signals the termination of operations of the enterprise. Until the method of bankruptcy proceedings is specified in greater detail, the elementary principle always applies that the management of the enterprise loses the right to manage the assets of the enterprise; that right is transferred to the receiver of the bankrupt property. Creditors' claims will met from the principal of the bankrupt property. The danger of bankruptcy will threaten both private or denationalized enterprises as well as state enterprises and other state organizations.

III. Prices

In accordance with our transition to price decontrol, price control and decisions related to the heretofore system of management in that area have ceased to apply. The only measures that have not been rescinded are assessments of taxes on prices and assessments whose further application for price control purposes will be determined by pricing authorities in a separate decision.

As of 1 January 1991 the legislative basis for price policies for the private and state sector will be stipulated by the law on prices adopted on 17 November 1990 and published in HOSPODARSKE NOVINY on 29 November 1990, and furthermore by decrees of the Federal Ministry of Finance [FMF], the Ministry of Finance [MF] of the CR and the MF of the SR, which introduces the law on prices, and by assessment of the FMF, MF of the CR and the MF of the

SR No.01/91 which lists price-controlled goods. These legal standards will be gradually supplemented with additional price measures and decisions whose purpose is to reduce to a minimum the risks of the initial period of price decontrol, and to help create an efficiently operating market mechanism.

The principle will apply that the price is an amount of money negotiated during purchases and sales of goods, which means that all prices are the result of agreement between the seller and the buyer. Price agencies may regulate price-setting in accordance with the law only if the market is endangered by the consequences of inadequate economic competition or if some market emergency so demands. The law specifies the following methods of price control:

- a) Determination of the highest, the lowest, or fixed prices (most often officially set top prices);
- b) Control of the price development on the basis of acceptable reflection of costs in prices (objective price control);
- c) Control of price movements on the basis of the obligation to announce increases of prices of goods above the stipulated range (timed price control);
- d) Price freeze.

This control will be used only for a narrow scope of products and always in such a way that despite certain restrictions, the price of goods may be able to react to changing market conditions.

Price control is the result of the current situation in Czechoslovakia's economy. Therefore, in accordance with the development of a market environment, it will be gradually phased out.

The development of prices after 1 January 1991 will proceed from the prices valid up to 31 December 1990. The price valid on that date is regarded as the price that was stipulated or contractually adopted in 1990 and that reflects the changes of inputs, including changes stemming from surcharges and deductions which could be applied in 1990, for example, in accordance with appropriate decisions by pricing agencies:

- Decree by the FMF, the MF of the CR and the MF of the SR No.015/90 on dealing with the consequences of changes in the rate of exchange of the Kcs as of 15 October 1990, and the change in the system of price control of imports and in the pricing of controlled items as of 1 November 1990;
- Decree by the FMF No.8199/XVI/90 on the projecting of increased wholesale prices of fuels, electric power and heating into wholesale prices of products of the sectors of ferrous metallurgy, nonferrous metals and basic chemical products;
- Decree by the FMF No.8180/XVI/90 on dealing with the impact of the change of the wholesale price of oil as of 15

November 1990, and the subsequent decisions by the federal and republic pricing agencies.

These decisions on pricing permitted the introduction of the following price changes:

- The announced price changes that did not have to be negotiated with the consumers;
- The approved changes of prices where the obligation of agreement with consumers was stipulated, so long as they were implemented in the extent and according to the terms corresponding to appropriate decisions.

Neither the sellers nor the buyers will be permitted to abuse their economic status to gain undue economic benefits. Violations of this principle will be regarded as violations of price regulations.

The prices stated in concluded contracts are regarded as approved and valid for deliveries after 1 January 1991, unless the parties to the contract will make a different agreement after that date.

The controlled price of goods is not a price for which the seller is obligated to sell. It is merely the highest price which cannot be exceeded in price negotiations between the seller and the buyer. If according to contracts concluded prior to 1 January 1991 prices which do not correspond with price control are effective for deliveries after that date, the parties to the contract must negotiate within three months their change in agreement with price control.

In cases where the parties to the contract do not agree on price changes, the method according to temporary and final stipulations of the law on prices applies.

Conditions for objective price controls of selected types of goods are specified in decree of the FMF, the MF of the CR, and the MF of the SR No.01/91. In the initial stages of material price controls, organizations will have the opportunity to eliminate their potential losses and to factor appropriate profits into their prices.

Decree of the FMF No.5216/XVI.3/90 stipulates the method of control of the prices of construction, building projects, operational systems, of construction and assembly works, and machinery and equipment delivered after 1 January 1991 on the basis of contracts concluded prior to that date.

Timed price controls are aimed at sellers who have a monopoly or a dominant position in the market. They will have the obligation to report in writing their planned price increases (i.e., over the permitted limit) pursuant to Art. 8 par. 3 of the law on prices to pricing authorities, using a standard form whose specimen was published together with the above-quoted decree No.01/91. The pricing agency will notify the seller about any possible suspension (at most by 2 months) of the effectiveness of the announced price increase and publish that decision in the Pricing Bulletin.

Planned price increases will not be announced for goods listed among the timed price controls, so long as they do not exceed the set rate of increases calculated from prices effective until 31 December 1990.

In timed price controls the buyer may be offered a proposal for planned price increases above the level decisive for the obligation to report it no sooner than 1 January 1991.

Records which the sellers must maintain about their asking prices for sales pursuant to Art. 11 of the law on prices, must show the following data: The title of the goods and their digital code; the characteristics of the goods to which the price relates; the price; the dates of the beginning and end of the effectiveness of the price.

IV. Foreign Trade Relations

1. Consequences of the Foreign Exchange Law for the Management of Enterprises

The new law on foreign exchange (No 528/90 of the collection), published in HOSPODARSKE NOVINY on 6 December 1990, introduces in Czechoslovakia's economy the principle of the so called internal (limited) negotiability (convertibility).

The new law on foreign exchange guarantees the entrepreneurship subjects an access to foreign currency funds, whether they themselves earn such funds or not. The principle of internal convertibility of the Czechoslovak currency applies to all juridical persons and private entrepreneurs registered in the enterprise register. As of 1 January 1991 all those persons will gain the right to obtain essentially unlimited amounts of funds in foreign currency to cover their import of goods and services. If these persons own sufficient funds in Czechoslovak currency to fulfill their obligation, they may assume contractual obligations of financial payments to foreign subjects from hard currency areas.

Free access to funds of foreign currency does not apply to capital transactions, i.e., above all to purchases of real estate abroad, procurement of foreign securities, and acceptance of credits in foreign exchange from foreign subjects from hard currency areas. Such transactions require foreign exchange permits from foreign exchange authorities (from the Czechoslovak State Bank, or as the case may be, from the appropriate ministry of finances).

Hard currency funds earned from export and other transactions will be sold to Czechoslovak banks in accordance with the market principles, i.e., at the current market rate. Foreign currency accounts may be established only on the basis of individual permits from the Czechoslovak State Bank on the premise that it will be granted only to major exporters whose sales in freely convertible currencies in 1990 amounted to at least US\$ 50 million and whose exports exceeded imports (this does not apply to organizations engaged mostly in foreign trade operations).

Furthermore, foreign currency accounts may be opened:

- By enterprises with foreign capital partnership for deposit and use capital assets in freely convertible currencies;
- For special transactions in hard currency (for instance, re-exports of assembly units paid by foreign customers);
- By Czechoslovak subjects abroad, for instance, to keep funds for assembly work.

Banking and technical information concerning the settlement of hard-currency relations in 1990 and the transition to a system of internal convertibility as of 1 January 1991 was announced by the Czechoslovak State Bank [SBCS] in HOSPODARSKE NOVINY on 14 December 1990.

Neither the principle of internal convertibility nor full obligation of tenders will apply to citizens and those Czechoslovak entrepreneurs who are not registered in the enterprise register. On the contrary, for those physical persons the law on foreign exchange explicitly stipulates the right to establish an interest-bearing foreign currency account in a Czechoslovak bank, to manage its balance in this country and to transfer it abroad practically with no restrictions.

2. Customs

As a founding member of the General Agreement on Tariffs and Trade (GATT), the CSFR applies customs duty for imports on the basis of adopted and internationally negotiated customs tariffs.

In the CSFR all goods are subject to import duty, except for those explicitly listed either in tariffs or in the international agreement. Customs rates listed in tariffs for commercial goods apply to commercial goods; special rates are stipulated for noncommercial goods (individual imports).

Czechoslovak tariffs include two kinds of customs rates, namely, one general and the other contractual. General rates are applied only in cases where no contractual rate for given goods has been set or when the CSFR has not negotiated an international agreement on mutual customs advantages. In all other instances import duty is assessed on the basis of contractual customs rates.

Imports of commercial goods to Czechoslovakia are subject the average customs rate which amounts to 4.5 percent. Most (97 percent) Czechoslovak customs rates are internationally set by GATT agreements, which means that the CSFR has only the autonomy to reduce customs duty but not to raise it.

3. Import Surcharge

By its order No.569 of 12 December 1990 the Federal Finance Ministry introduced an import surcharge for imports of consumer goods and food. The range of items for import, which are subject to the import surcharge, is listed in the supplement to the decree published in HOSPODARSKE NOVINY on 21 December 1990. Thus, the surcharge does not apply to imports of raw materials and goods designated for consumption in production and to imports of noncommercial goods.

Import surcharge amounts to 20 percent of the customs value of specified goods in transit over the Czechoslovak border. It is assessed and collected by the customs administration and invoiced, paid and accounted together with the assessed customs duty. It is added to the invoiced price as part of the price of the goods. A participant in the customs process, usually the initial importer, pays the import surcharge under the same conditions as those for the payment of customs duty.

Import surcharge applies to imports of items enumerated in a list enclosed to the text of the announcement—in other words, to all territories—with the exception goods from Finland with which an agreement on mutual elimination of obstacles to trade was signed.

Furthermore, imported goods retailed for hard currency or for Tuzex coupons will also be exempt from import surcharge.

The introduction of import surcharges is a temporary measure to protect our domestic market and to maintain Czechoslovakia's balance of payments; it will expire on 31 December 1991. However, it is presumed that with a favorable development of our balance of payments this measure may be terminated earlier in the course of 1991.

4. Export License

As a temporary measure dictated by the need to protect our domestic market and Czechoslovak manufacturers from shortages of essential inputs, export licenses will be required after 1 January 1991 for specified categories of goods. In the course of 1991 the list of items subject to export licenses will be gradually reduced. In general, licensing proceedings will be required only for items where protection of security and health so demand, and furthermore, for goods whose export is restricted by bilateral agreements (textile goods, steel products, live animals, and meat products).

A list of items whose export will be subject to licensing proceedings after 1 January 1991 appears in the supplement to this information.

Individuals who applied for licenses according to original lists will obtain licenses only for items included in the abbreviated list published in this supplement. Licenses will be assessed in agreement with the economic criteria and mailed no later than 15 January 1991 to applicants who have submitted proof of their payment of official fees.

The request for customs proceedings must include the number of the issued license.

5. Payments in Relations With the CEMA States

The multilateral accounting in convertible rubles by the International Bank for Economic Cooperation in Moscow, conducted according to the international multilateral agreement of 1963, will be terminated on 31 December 1990. The convertible ruble as a clearing unit

ceases to exist, and mutual bilateral claims and obligations of states are transferred to special liquidation accounts (negotiations with certain non-European states have not been completed).

Enterprises will obtain instructions concerning specific methods of settlement of payments and receipts for 1990 directly from the Czechoslovak Commercial Bank.

As of 1 January 1991, transactions with all CEMA states will be made in freely convertible currencies. Instead of prompt payment, conditions customary for payments in world trade will be observed.

Accounting for contracts which were concluded according to the "Protocol Between the Government of the CSFR and the Government of the USSR on Deliveries of Goods and Payments for 1990" of 1 December 1989, and whose delivery term was 1990, will be made in convertible rubles and under conditions stipulated by those contracts; their point of departure is the necessity to close this accounting before 31 March 1990.

Pursuant to the "Agreement on Payments Between the Government of the CSFR and the Government of the USSR" of 28 December 1990, in the period of transition mutual accounting of payments for deliveries of goods and services will be made on the basis of contracts concluded in the framework of indicative lists of commodities, in special accounts opened for that purpose by the Czechoslovak Commercial Bank, joint-stock company, and the Bank for Foreign Trade Operations of the USSR. Czechoslovak deliveries in the framework of the indicative commodities lists will be assigned to enterprises mostly on the basis of competitions (the Federal Ministry of Economy will announce their conditions in detail). In a directive the Czechoslovak Commercial Bank will stipulate special instructions concerning invoices for deliveries of goods and services in the framework of indicative commodities lists in relation to the USSR or to its individual republics.

Clearing payments (in freely convertible currency) will continue for some time in our relations with Albania and the People's Democratic Republic of Korea.

For the time being internal accounting for deliveries to the VIA program in the USSR will follow the heretofore method.

6. Input of Foreign Capital Into Czechoslovak Enterprises

Participation of foreign capital in entrepreneurship in Czechoslovakia was amended by law No.173/1988 of the collection on enterprises with foreign capital partnership, in the version of law No.112/1990 of the collection.

Czechoslovak organizations may invest part or all of its capital assets in a new enterprise with foreign partnership. The share of the capital invested by the foreign partner is not limited; even enterprises fully owned by foreign investor may be established.

The point of departure for negotiations to determine the shares in long term assets (capital) of a newly established joint enterprise is the assessment of capital inputs, including nonmaterial assets, such as goodwill, according to international customs.

Enterprises with foreign capital partnership operate in accordance with all Czechoslovak laws and regulations. As compared with domestic enterprises, they have advantages in terms of taxes (the rate of their income tax is mostly 40 percent) and depreciations.

Foreign investors from states with which agreements on mutual protection and support to investments will be concluded will be guaranteed the right to transfer some of their capital in freely convertible currencies and in particular, to transfer profits or dividends and other proceeds from their investments. These agreements are being gradually concluded with all advanced states, including the USA and Japan.

If the foreign partner contributes capital in material form (technology), he will not be subject to any import duty and import surcharges.

Enterprises with foreign capital partnership will conduct their financial transactions with suppliers and costumers on the Czechoslovak territory exclusively in Kcs.

Management of hard currency proceeds according to the law on foreign exchange. Enterprises with foreign capital partnership may apply to the Czechoslovak State Bank for a permit to establish a foreign currency account as well as for a permit to accept credit from a foreign bank.

The Agency for Foreign Investments and Development, with branches on the level of the governments of the CR and SR, was organized at the CSFR Ministry of Economy. The Agency will provide counseling and coordinating services to interested enterprises in the CSFR and abroad.

V. Employment and Wage Policies

1. Employment

The Law on Employment and the Labor Code stipulate fundamental conditions for employment of personnel. The employer may hire employees in necessary numbers and structures by his own choice or through the labor bureau on the entire CSFR territory. By permit from the appropriate labor bureau, the employer may fill vacancies even with foreign workers, but only if he cannot fill the vacancies with Czechoslovak citizens, particularly with some of the applicants for jobs listed in the files of the labor bureau. Foreign citizens may be employed only on the basis of a permit issued by the state labor agency and of a residence permit issued by an agency of the Interior Ministry (passport service).

The hiring of colleges and high school graduates is not mandatory. The obligation to hire additional categories of persons (for instance, individuals returning from

correctional institutions, etc.) also ceased. Under consideration are opportunities for economic incentives to employers to create jobs for citizens who should be given greater care (for instance, juveniles).

If the employer plans structural, organizational or rationalization changes which will lead to layoffs of employees, he must inform the appropriate labor bureau in advance, as a rule, three months ahead. With the assistance of the labor bureau, the employer must mitigate the impact of the layoff on his employees as much as possible.

The employer has the duty to report to the appropriate labor bureau any vacancies within five calendar days after their development.

The term of notices of dismissal due to organizational changes is extended by one month, i.e., to three months. When terminating a job for organizational reasons, the employer will provide the dismissed employee with severance pay amounting to twice his average one-month gross wages, or as the case may be, with other severance pay on the basis of collective contracts. Payments of wages pursuant to decree No.195/981 of the collection are no longer in effect.

All legal regulations on contributions and compensations given to employees hired by recruitment are cancelled as of 1 February 1991. Claims predating that date will be considered in accordance with the heretofore regulations.

2. Wages

The transition to a market economy demands changes of the whole wage-setting mechanism and its gradual liberalization which will make it possible to adapt wages according to the value of work. This will replace the authoritative control by the state with a mechanism of collective bargaining by trade-union organizations (employees), entrepreneurship associations and the state when it concerns problems of wages and other labor and social conditions; the state will participate to a limited extent.

Wages will be gradually decontrolled, beginning with small, mostly private enterprises. For all large enterprises (no matter what their form of ownership) certain wage controls will apply until an environment for competition is created. This control will proceed in 1991 from the following principles:

- Standard targeted development of average nominal wages will be stipulated;
- Penalties will be applied if the volume of nominal wages exceeds their intended growth; penalties will be uniform for all enterprises.

It is presumed that as concerns wages in entrepreneurship sphere in 1991, penalties will be exacted as follows:

Wages payable will continue to be divided into wages (and similar compensations) included in the costs, and into wages paid from profits after taxes (levies); two penalties will be in effect—the tax on excess wages and

other personal costs, and the tax on increase of wages payable over the initial year.

The tax for excess wage and other personal costs will be paid for individual quarters, and the tax for increase of wages payable over the initial year will be paid every six months.

All subjects engaged in entrepreneurship will be taxed, with the exception of those with no more than 25 employees.

Taxes for excess wage and other personal costs are calculated from the amount of the difference between the actual volume of such costs for that particular quarter and their tax-exempt volume taxation for the same period. The tax-exempt volume is the amount of tariff wages paid for that particular period, increased by the share of nontariff components of wages derived from the data for 1990, and the percentual increment of nominal wages stipulated by the government (directional wage increase); the actual and the tax-exempt volumes of wage and other personal costs are reduced by selected decontrolled items (for instance, royalties according to regulations on authors' rights, for use of inventions and improvement plans, compensations for wages, etc). The targeted growth is stipulated by the government; in the course of 1991, it will be adjusted, although not in the full extent, to increases of living costs.

The tax for excess wage and other personal costs will be applied only at the level over 3 percent, in order to enable organizations to activate certain partial plans for entrepreneurship, which necessitate, for instance, temporary increases of overtime, emergency output increases, etc.

The basis for taxes for increases of wages payable over the preceding year is the amount of the difference between the actual volume of such funds for the six months in question, and their tax-exempt volume for the same period; the tax-exempt volume is the actual amount of wage and other personal costs increased by an amount equal to 20 percent of the tax-exempt volume of wage and other personal costs over that particular period. Thus, the basis for taxation corresponds with the tax-exempt increase of the volume of wages paid from profits.

Tax rates for excess wage and other personal costs are supposed to hamper the development of such costs and stop it at a predetermined level. The rate of taxes for increases of wages payable over with the preceding year is supposed indirectly to set the range of wages paid from profits.

From the beginning of 1991 all economic sectors will follow the heretofore wage systems (regulations) and their stipulations of tariffs, surcharges or other fulfillment. From the second quarter it will be possible to begin gradual replacement of applicable wage regulations with agreements (collective contracts) of social partners, i.e., enterprises or as the case may be, entrepreneurs and trade unions.

To protect fundamental living needs of employees, a universally mandatory regulation will stipulate the minimum

wage to which they are entitled regardless of job classifications and economic achievements of the organization.

VI. Structural Policies

In 1991 the market environment and ecology will create generate for cutbacks:

- In coal industry (Ludvik Mine; Fucik Branch Works; Koblov Mine; Odra Branch Works; Svinov Mine; Sverma Branch Works; Novaky Mine - II Mining Sector; the Osvobozeni [Liberation] Mine; and selected parts of the Dukla Mine);
- In uranium industry (in Okrouhla Radoun; Mine No.III in Pribram; Hamr-Krizany; Vitkov II);
- In power units with 770 MW total output (3 units in Tusimice I, 2 units in Prunerov I, 2 units in Tisova II);
- In the mining and processing of nonferrous ores (Nova Stubna Mine in Spisska Nova Ves; Harrachov Mine in Semily; Krasno Mine Processing in Sokolov; Celina Mine in Pribram; Radetice-Vrancice Mine in Pribram; Medenec Mine Processing in Chomutov).

Moreover, the conversion of arms manufacture will continue (Heavy Engineering Works [ZTS] in Martin; ZTS in Dubnica; Turec ZTS Machine Works; Podpolana Machine Works in Detva; ZTS in Prakovce; ZTS in Hrinova; EVU ZTS in Nova Dubnica).

With the exception of budget organizations and enterprises beneficial to the public, there will be no direct intervention into the structure of investments. State structural policies will selectively promote the development of new entrepreneurship ventures either by sharing the risk of the venture or as a direct investor. The 1991 state budget for 1991 will set the extent of financial resources for this item. This applies also to the completion of unfinished investment programs which are under construction and which were included in the 1990 state plan, if the investors submit before 15 February 1991 to the Federal Finance Ministry and the Federal Ministry of Economy or similar central authorities of the republics their economic justification stating the prospects for the return of invested funds or other legitimate reasons for the need to complete the investment programs in question.

On the basis of expert opinion and competition, assets from special-purpose contingency funds of the 1991 state budget of the Federation may be used in support of selected structural changes of supranational importance. The CSFR government will make decisions concerning specific releases of such resources, with the exception of instances under 50 million Czech korunas where decisions will be adopted after agreement with the Federal Finance Ministry and the Federal Ministry of Economy.

Nonrefundable financial assistance will no longer be granted in 1991. When using budgetary funds, instalment payment of interest on credits granted (domestic and foreign) will be the preferred form.

The finance minister is authorized to approve the amount of state guarantees as well as of the returnable financial assistance from the state budget whose maximum in individual cases may be at most Kcs 500 million.

In addition, the following will be used to a limited degree to support entrepreneurship during structural changes:

- Transactions on the money market to benefit the investors-entrepreneurs (purchase of shares, obligations, etc);
- Specific kinds of subsidies (free-of-charge transfer or preferential sale of the results of the fulfillment of state orders, achievements of scientific research programs, marketing research);
- Other specific mechanisms of licensing, customs and pro-export policies and technical normalization.

Participation of the state in ongoing research tasks for 1991 will be ensured in accordance with a certificate of change of economic contracts. New research programs in which the state participates will be launched on the basis of competition.

Policies in power engineering of the state in 1991 will endeavor to raise the share of electricity and natural gas in our fuel and energy balance, to conserve liquid fuels for purposes of power generation, to cut exports of power, and to mitigate negative effects of power generation on the environment.

The current as well as projected economic situation will demand in 1991 that the heretofore control of deliveries of electric power, heating gases and heat remain in effect.

Consumers who do not agree with control regulations and who thus far failed to conclude economic contracts required for such deliveries are risking jeopardy.

In the fuel area export licenses for 1991 will apply to the following supplies:

- Bituminous coal for power generation;
- Bituminous coal for coking;
- Lignite;
- Coke from metallurgical and mining coking plants;
- Electric power.

VII. Agro-Food Complex (APK)

General principles and regulations for economic operations apply, with certain differences, to the agro-food complex.

1. Privatization and Conversion of Agricultural Enterprises

Next year independently operating farmers will be subject to the amendment of the code on private enterprise of citizens currently under discussion in the Federal Assembly. It will not involve any changes for farmers who operated independently already in the past; for

farmers who are now beginning independent operation it only means the duty to report and register for tax purposes, social security, etc. The certificate of registration will serve the farmers as proof in case of need (for instance, purchase of goods for agricultural production exempt from sales taxes according to the specification).

Legal normalization of the ownership of land and other agricultural property will above all encourage independently operating farmers to expand their agricultural production, and stipulate essential requirements of privatization and reprivatization of agriculture. The CSFR Government submitted a law to the Federal assembly for discussion.

Normalization of ownership of agricultural lands and other agricultural property will affect the financial management of agricultural cooperatives. Cooperatives will continue to:

- Use the land and other agricultural property of their members who voluntarily merged this property with the cooperative;
- Use the land and other agricultural property belonging to other owners (nonmembers), including the state, on the basis of lease and rent contracts;
- Use their own land and land bought from private owners or from agricultural land resources which will manage state lands and related properties.

The value of the land will affect costs of agricultural products. The law will not stipulate a single form of conversion for cooperatives. Today's agricultural cooperatives will be converted into cooperatives whose members are co-owners by sharing their property on the basis of capital investments (land and other assets) and on the basis of labor partnership. In the course of the year a general amendment of the commercial code will replace the law on agricultural cooperatives.

When a cooperative is divided into smaller independently operating units, it may proceed according to government-approved principles for division of assets and obligations.

Conversion of state agricultural enterprises will proceed pursuant to the law on transfer of state properties to other entities for entrepreneurship purposes. Appropriate programs of privatization will use the opportunity to establish on the land of state farms private, self-sufficient management by farmers and other economic subjects (cooperatives and other commercial associations).

Processing enterprises and enterprises of services of the APK will also be privatized in accordance with the above-mentioned law. Agricultural enterprises may also plan privatization programs. Thus, they may propose that, as in the past, persons engaged in agriculture become co-owners of trading and procurement cooperatives, dairies, starch factories, mills, sugar factories, slaughterhouses and other

enterprises that process and market agricultural raw materials and food, and that they enter wholesale and retail business with their food products.

2. Price Decontrol in the APK

Liberalization of prices in our national economy will affect our agriculture by decontrol of prices of production assets and prices of agricultural raw materials and food that agricultural enterprises supply for the market. Projected market prices which agricultural enterprises may earn for sales of their products (orientation prices) were published in ZEMEDEL'SKE NOVINY on 22 November 1990. These prices are not binding.

Price control will proceed in agreement with the law on prices and price assessments. The prices of selected agricultural products, food and agricultural means of production will be subject to regulations.

A consumer goods inventory fund will be established to control the domestic market of agricultural products and with intervention procurement and sales to maintain prices of vital agricultural raw materials above the level of guaranteed prices.

In no instance do guaranteed prices represent prices that help make up the difference between the average market value and this price.

3. Economics of APK Enterprises

Financial management of state and cooperative enterprises complies with general regulations. In 1991 a temporarily contingency fund may be created in agricultural enterprises from the costs rather than the original and rescinded mandatory insurance of crops and livestock paid from the costs. Agricultural enterprises may conclude with the insurance company contract to insure losses.

As of 1 January 1991, enterprises with predominantly agricultural production will be subject to the amendment of the law on agricultural tax and to the amended announcement of that law. Joint agricultural enterprises engaged in predominantly nonagricultural production will not be subject to it (they will be taxed pursuant to the law on income tax).

In agricultural taxation a standard schedule per hectare of agricultural land at the amount of Kcs 1,200 will be stipulated as the minimum deductible from the basis for the income tax.

Regulations for grants of subsidies are under the jurisdiction of the republics. Subsidies will be granted mainly to promote:

- Privatization, construction of farms of independently operating farmers;
- Conversion of cooperatives and state farms and their adaptation to market conditions;

—Commercialization of the APK enterprises (services, trade, and processing of agricultural products) in conjunction with their privatization, science and technology, information systems and education.

Assistance to APK enterprises and independently operating farmers will be granted in the form of direct subsidies, loans from the state budget through the ministries of agriculture of both republics, with subsidized interest and guaranteed buyback of shares issued by the APK enterprises to supplement the capital.

Funds for ameliorization of land will continue to be organized in 1991.

List of Items of Goods Requiring Export License for 1991

I. Arms, Ammunition, and Their Components

9301, 9302	Military weapons, revolvers, and pistols
9306	Bombs, grenades, mines, torpedoes, guided missiles, etc.
8710	Tanks and other armored vehicles

II. Items Restricted by Importing Country (European Community, United States, Canada, Norway)

According to agreements on	Textile goods
	Steel products
	Live animals and meat products

III. Selected Basic Inputs for Domestic Industry, Agricultural Products, and Similar Items

Part A. Items Subject to Control Throughout 1991

Tariff Schedule No.	Item
0102903	Horned cattle on the hoof
0103918, 0103926	Live hogs
0201-0203	Meat and meat products
02007390	Chickens and chicken parts
0402	Powdered and condensed milk
0406902	Hard cheeses
0505	Beef sausage casings

Vegetable Products

1001-1005, 1104	Cereals (no restrictions on millet and buckwheat)
1107	Malt
1205-1207	Oleaginous seeds (except poppy seeds)
1210	Hops

Products of the Food-processing Industry, and Beverages

1701	Raw and refined sugar
2304-2306	Fodder mixtures
2207	Ethanol

Mineral Raw Materials and Products

2701	Bituminous coal for power generation and coking
2702100	Lignite

**List of Items of Goods Requiring Export License for 1991
(Continued)**

2704005	Coke
2704003	Electric power
2507	Kaolin
2505	Natural sand
2517108	Pebbles, gravel, broken or crushed stone
2620308, 7404	Scrap copper
2620405, 7602	Scrap aluminum
2523299, 2523906	Grey cement
Timber and Wood Products	
4401212	Barked evergreen chips
4403207	Coarsely hewn timber
4407105	Pallet dimension lumber and coniferous softwood
4407911, 4407920, 4407997	Deciduous timber
Raw Hides and Leather	
4101, 4102, 410	Cowhide and sheep, lamb, and pig skins
4107-4107	Leather for shoe uppers
Textile Materials and Products	
5101	Wool
Common Metals and Products Made from Common Metals	
7201, 7206	Iron and plain carbon steel, including ingots
7204	Scrap iron and steel
7207-7209, 7210-7214, 7216, 7218-7221, 7223-7227, 7229, 7301-7302, 7215207, 7215304, 7215491, 722203, 72228503	Rolled material and steel
7217	Pulled wire
7304-7306	Steel pipes
Precious Metals	
7106	Silver
7108	Gold
Part B. Items Subject to Control Until May 1991	
Pharmaceutical Products	
2936-3004	Vitamins, antibiotics, other drugs
Medical and Surgical Instruments and Equipment	
9018310	Dispensable syringes with needles
9021400	Aids for hearing impaired
Cellulose, Paper and Products Made From Them	
4702000	Celluloses for chemical processing
4703, 4704	Unbleached celluloses
4703219, 4703294, 4704215, 4704291	Bleached celluloses
4707	Paper for recycling
Vegetable Products	
1101, 1102, 1103	Flour

Slusovice Agricultural Enterprise Disintegrates

91CH0276A Prague LIDOVE NOVINY in Czech
8 Jan 91 p 3

[Text] Slusovice—Managers of the MOVA Cooperative Agrocombine yesterday issued a statement on the strike held outdoors in Zelechovice on Friday. Another demonstration is planned for 8 January in front of the cooperative headquarters. In its statement the management notes that at a preliminary membership meeting in December, a majority approved splitting the agrocombine into seven enterprises, and prescribed the division of property, effective 1 January 1991. The document further states that in accordance with paragraph seven, section two of the Law on Cooperative Agriculture, the original cooperative ceased to exist without formal liquidation. The ensuing agreement on the establishment of new cooperatives has to date been honored only by MOVA, SYMAZ, and DAK Slusovice. MOVA has been registered since 29 December 1990.

Representatives of the latter stated that MOVA would provide employment for all 4,200 accepted members, including 450 enterprise employees assigned to another cooperative. A list of openings, job descriptions, and opportunities for retraining is under preparation.

POLAND

Denmark To Build Wind Power Plant Near Gdansk

91EP0154A Copenhagen BERLINGSKE TIDENDE
in Danish 6 Dec 90 p 10

[Article by Uffe Gardel: "Denmark Gives Poland a Mill"—first paragraph is BERLINGSKE TIDENDE introduction]

[Text] Danish wind mill plant and technology center will build Poland's first wind power plant near Gdansk.

Poland received its first wind power plant as a gift from Denmark.

The plant will be set up in Swarzewo at the end of the Hel Peninsula, where a breakwater stretches out many kilometers into the Baltic Sea north of Gdansk. The wind is stronger here than anywhere else in Poland.

The vital components of the windmill come from the Hanstholm-Mollen windmill factory and it is now being put together at an assembly shop in Hurup, Thy, where the Northwest Jutland Center for Renewable Energy is located. The center is also being visited by four engineers from the power agency in Gdansk. They will learn how to carry out everyday operation and maintenance.

[Passage missing, as published] center. "There are great possibilities for exporting Danish technology in this area," he says.

With its 95-kilowatt output, the plant can supply power for only 50 households, but the people behind the project hope that this, as Poland's first wind power plant, can attract more orders. For this same reason, the Danish Energy Ministry is paying the 750,000 Danish kroner cost of the mill.

"We are trying to put Danish technology in a prominent position so that, in the future, the Poles will ask for Danish companies and Danish technology," Klaus Sorensen of the Northwest Jutland [passage missing, as published]. The Northwest Jutland Center is a private institution with about 20 employees and the center receives 5 million kroner annually from the national budget. Last April the center opened an office in Gdansk and it later opened an office in the Latvian capital of Riga. Last year the center sent an "energy bus" through East Europe, from Rostock in the then-GDR to Leningrad in the Soviet Union.

The two Poles who work at the office in Gdansk serve as consultants for Polish municipalities and regional power agencies that want assistance in saving energy, setting up decentralized combined power and heating plants, and utilizing energy from the wind, sun, and biogas.

Klaus Jorgensen believes that, in the long run, alternative energy can meet 10 to 15 percent of Poland's energy needs. "But one of the best things Poland can do right now is to save energy," he said, "and for this reason we want to place more stress on energy conservation when we send the energy bus out again next spring."

When Energy Minister Jens Bilgrav-Nielsen (Radical Liberal Party) visited Poland last March, he offered to help the Poles draw up an energy plan without nuclear power. Since then, the Poles have scrapped the country's first nuclear power plant before it was ready for operation and, instead, they have accepted the Danish wind power plant.

Role of Banks in Privatization Needs To Expand

91EP0230D Warsaw *RZECZPOSPOLITA*
(*ECONOMY AND LAW* supplement) in Polish
28 Dec 90 p 1

[Article by Joanna Trepkowska: "Distributor or Partner?"]

[Text] The sale of shares of privatized companies by four banks is merely the first step toward a capital market. This seemingly simple operation is the beginning of changes of fundamental importance for the entire banking system because the banks cannot restrict themselves only to the role of a regular distributor of securities if they are serious about their participation in privatization. They should become modern financial institutions which are in a position to offer various

services to both the companies being privatized and investors, that is, those who have purchased shares or intend to do so.

At present, a candidate capitalist has at his disposal only the prospectus of companies undergoing privatization and access to a bank window where orders are made for securities and money is paid. However, in the future he will begin seeking professional advice, as well as care for his interest, by a specialized financial institution.

We should recognize that at present the banks are the only financial institutions playing the roles of intermediaries in the capital market. After all, there are no brokerage companies, trust funds, underwriting institutions, or exchanges. In principle, only the banks have a chain fit to conduct financial operations and employees who are prepared to observe confidentiality and engage in actions associated with financial responsibility.

All of those who will want to start brokerage companies in the future will have to obtain the necessary qualifications first. Subsequently, they will have to find proper premises and acquire assets which make it possible to operate. In view of the fact that operations in the capital market are always associated with certain risks, considerable amounts of money which secure the operations of brokerage companies are also necessary as deposits in the central bank. Krzysztof Szajek, director of the Department of Securities Trade in the Pekao Bank Limited was somewhat surprised by the fact that only one of the privatized enterprises, with which the bank signed contracts to sell shares on 2 November of this year, took an interest in the further consequences of the decision made. The Exbud management approached them for advice on the kind of bank services which should be associated with the sale of shares and, actually, follow from it. This is proof positive of how basically negligible the knowledge of the capital market is even among those who resolved to go private. Meanwhile, real problems will only surface after the shares have been sold. After all, it will be necessary to keep a register of shareholders, make appropriate changes in it on a current basis, comply with deadlines for informing investors about economic performance, and so on. Otherwise, shares, even if seemingly the most valuable, will lose their value otherwise, if financial institutions do not ensure efficient servicing.

Indications are that in our concept of privatization the banks were to play the role of only the distributor, placing shares in the primary securities market. Meanwhile, they may form an important element of the secondary market.

Boleslaw Meluch, a specialist in securities trading of the Pekao Bank Limited, says: "Insofar as information on the manner in which the capital market operates in Western countries is available to us, we try to communicate appropriate information to our clients and to adapt the operation of a bank to new needs which are just emerging. We have already developed a system of services which we intend to

offer to privatizing companies. We are ready to maintain shareholder registers of individual companies. Among other things, this will make it possible to carry out all actions associated with the transfer of ownership rights. These operations should be recorded quickly. If the banks did not provide such services the existence of a secondary market would be impossible.

"We also offer services associated with sending information on a company to shareholders. Companies which sell their shares have a duty to periodically inform contributors of their financial situation. We may also confirm the credentials of persons who would represent some shareholders at the general meeting.

"As far as the role of the banks in privatization is concerned, to my mind, a system of settlements will be the most significant issue, even more important than creating a technical system which makes trade in securities possible. This has to do with servicing the accounts of individual and institutional investors, servicing the accounts of brokers, and cooperating with the central register.

"The banks should embark right away on activities aimed at preparing properly for carrying out settlements. After all, the smoothness of transactions in the exchange will depend on the smoothness of the entire system. A client who buys or sells securities cannot wait for a long time to have his order filled, as happens now in the process of cashing checks. A situation should not occur in which the unreliability of the banking system would bring about shares ceasing to be an object of trade."

By all signs, the Pekao Bank Limited will become the leader of a group which will initiate the emergence of the needed system of settlements throughout the country. After all, it is noteworthy that in countries where capital markets operate efficiently that the banks themselves have often come to the conclusion that maintaining such a system of settlements is beyond the resources of individual institutions. For example, in Austria, the banks set up a company, with the participation of nine banks, which is the central office for capital settlements. This is precisely where all information on transactions in the exchange goes.

Economic Growth Strategies Advocated

91EP0232A Warsaw *POLITYKA* in Polish No 1,
5 Jan 91 p 5

[Article by Ryszard T. Jurewicz, employee of the Central Planning Office: "The Sin of Desistance"]

[Text] In the final weeks prior to the resignation of the government, new elements appeared in the public utterances of its representatives—probably influenced by the elections campaign. It was underscored that "...the Polish economy needs a growth strategy," but at the same time, the stabilization program, implemented over the last year, was presented in the role of this strategy.

Yet, the stabilization program is not a development program, and when it was announced, no one defined it as such.

A strategic development plan is, by its very nature, long-ranged, and is turned towards the future. Stabilization is a short-range endeavor, aimed at eliminating the effects of the past. In Poland, and in all the other countries of Central and Eastern Europe, the main factor in the rebirth and growth of national economies has to be changes in the system. Balcerowicz's plan is weak in this respect. It is based on the unwavering conviction that the more freedom in the economy, the higher its growth rate. This is a fallacious belief. This is obvious when we look at rents, for example, where the freedom in fixing them froze the development of crafts and small-scale trade. Belief in the vivifying effects of privatization is also exaggerated.

In pointing to privatization as the main method for stimulating development, Balcerowicz's plan places the state enterprises in a queue for the auctioneer's hammer. This has a disastrous effect on the price of their production assets and puts them in an unfavorable situation for foreign, as well as domestic, capital. The foreign experts who are advising us should know that a country's credibility on the capital markets is not built through privatization and systems transformations, but through real dynamic production. That is why Poland ranks 76th on the list of countries in which bankers have confidence, lower than Chile, Kenya, Bulgaria, Uruguay, the USSR, Gabon, Brazil, etc. Instituting a stabilization program and convertibility of the zloty caused only a small growth in our country's credibility. Large capital does not want to buy the legacy of a planned economy and waits until its price falls still further.

Theoretically, privatization should favor the inflow of foreign capital and the activation of domestic savings. Practice is not so unequivocal. That is exactly why our neighbors to the South are so caring about the condition of their state industry. In preventing a recession, they believe that the costs of this policy are lower than the losses caused by the depreciation of production assets, whose price and attractiveness is proportional to the growth rate of production. Let us not even mention the social and political costs of unemployment.

If there is to be any talk now about indispensable corrections to the Balcerowicz plan, they should pertain first of all to the subordination of the economic policy conducted by the government to the requirements of the strategy of the country's development. This is a condition for preserving the achievements of the stabilization plan and giving all of its elements a new dynamic.

In a country in which the national per capita income fell to that attained in 1973, and is a tenth of what the Europeans, whom we would like to join, have, no one needs to be convinced of the need for development as a way of getting out of a depression. We must, however, reach an agreement that first, the state have and conduct

a long-range economic policy, and second, settle the question of what kind of policy this will be.

The first issue, although obvious in everyday practice, arouses doubts and [line omitted] Involvement of the state [is needed] in fixing the directions of development. And this is not acceptable for the representatives of the concept of market economy now in effect.

Meanwhile—despite the fact that after the experience in the Polish People's Republic it is difficult to reconcile ourselves with this—in all developed countries, the responsibility for making it possible for the economy as a whole, and its organizations, to function efficiently lies with the state and its administration. Under Polish conditions today, with the absence of an experienced cadre and developed structure of private business, as well as an organized economic consultation network, the state administration cannot refuse to acknowledge this responsibility. Polish discussions on whether a state should intervene in the economy are quite absurd, because the administration of a democratic state is an integral part of a modern market economy and not something external intervening in an allegedly ideal market mechanism.

How is a growth strategy supposed to differ from a stabilization plan?

Relative balance in the economy was achieved this year mainly due to the consequences of a reduction in demand. But to maintain it, what is now needed is a similar determination to stimulate supply. Also, a growth in domestic production provides an opportunity to maintain control over inflation and the exchange rate of the zloty, now and in the future.

In this situation of system changes, and in particular privatization, the remaining, decisive portions of the economic strategy should be subordinated to the primary goal, which is to come out of the recession. This does not mean that the tempo of system changes should be slowed down, only that their negative impact on the production of state enterprises must be reduced. What is important is that the policy of hard financial pressure on enterprises be augmented, the policy of reforming the enterprises, accomplished with the participation of the state, central, and local administrations. The State Treasury cannot forego its responsibility for the assets which belong to it, both in the state enterprises which have not yet been transformed and in the newly formed companies. As the main stockholder of the national assets, it must have a policy of optimum utilization of these assets and take responsibility for the results. Every success of this policy, for example, the bringing about, in 1991, of a several-percent growth in production, will result in a growth of the market value of these assets and increase their attractiveness to foreign capital. Thus, the policy of development will have a favorable effect on system changes—dependent on the inflow of capital—creating a dependence curve pulling the economy onto a path of growth.

Growth strategy, under our conditions, is a policy of stimulating production by all available means. New

conditions, obtained thanks to stabilization and the convertibility of the zloty, make it possible to expand these means by an effective state industrial and agricultural policy. The division of responsibility occurring between the state and the economic organizations for economic decisions, and the increased ability to make an accurate assessment of production efficiency, facilitates the fruitful cooperation of autonomous enterprises, the financial apparatus, and the state administration, in the selection of the directions of development. The economic organizations themselves have the largest role to play in this collaboration, but the state has a duty to help the old and new firms in achieving success. Our fundamentalists of the liberal stabilization policy shaped their views in opposition to a planned economy and have an allergic reaction to everything which reminds them of it. This is not alleviated even in the example of developed countries, which have nothing in common with a planned economy, plan their development and conduct an active industrial policy. And some of them (Japan, Korea) point to it as the main source of their successes.

At least three considerations speak for the state's ability and need to conduct an industrial policy. First, the need to identify those directions of industrial development which achieve the greatest effectiveness and highest growth rate. Second, the need for temporary protection for the newly arising industries until they can adapt to world market conditions. The development of the entire technical and social infrastructure also requires direct action on the part of the state. And third, the national economy must be adapted to participate in the international division of labor. This means, for example, resistance to the negative effects of the policies of other states and international organizations and the real arrangement of world prices. The markets dealing with farm and food items are an example of this.

Foreign trade is a factor in economic growth which has been proven in practice. This fact, the debt and the country's many years of isolation, means that foreign trade must be given much broader consideration in strategy development than is now the case in Balcerowicz's plan. Last year permitted us to take an extremely difficult step forward, i.e., the internal convertibility of the zloty. The stable exchange rate of the dollar is a great opportunity for the Polish economy, but it is threatened by the shakiness of the balance of payments. Maintaining external balance next year will depend on maintaining a high growth rate of export. Good results this year should not make us complacent. In order to maintain them, we will have to have an active, long-range state policy on the import of alcohol and on the shaping of the commodity and geographic structure of trade, adapting the treaty policy to the realities of the world market, now limited to traditional interstate arrangements, without involvement in the promotion of cooperation with international concerns. Poland has not been able to persuade even one concern from among the top 100 to make a meaningful commitment in our economy. They do not find, in Poland, suitable partners or reliable representatives. Government agencies have no policy on this and the Kowalskis and

Grobelnys are occupied with doing small business, which the duPonts are not interested in.

Our neighbors to the South and the East understood this more quickly and have better results. The German concerns took care of our neighbors on the West.

But we have to begin with developing a growth strategy. It is hard to accuse the outgoing government of doing nothing in this regard. Certainly the stabilization plan alone is a step in this direction, to say nothing of the creation during the past year of the elementary conditions for economic planning. We know from press reports that in mid-year the Economic Committee of the Council of Ministers and the Government Presidium deliberated on the premises of a strategy for long-term development. The need for work in this area was recognized. Unfortunately, six months have passed and the old scenario of dragging out the matter has repeated itself. The argument to the leadership of the government agencies that development must be planned appeared to be too weak to set in motion that which was necessary. In any case this is not surprising when, for example, the minister of industry constantly declares, in public, that his ministry has a passive program on issues of development. If we add to that the deeply rooted unwillingness of the administration to take responsibility for a policy that it was appointed to carry out, it is not at all surprising that there is general apathy in this matter.

The government must have a strategy for the development of the country. Belief that the market will do this automatically does not absolve the government of passivity and desistance.

Poll Views Economic Outlook as Less Optimistic

91EP0230C Warsaw RZECZPOSPOLITA
(ECONOMY AND LAW supplement) in Polish
28 Dec 90 p 11

[Article by Jan Rogala: "Good Times for the Shrewd Rather Than the Hardworking"]

[Text] Employees of enterprises in the socialized sector evaluated the Balcerowicz plan. The situation of their enterprises in the first half of 1990 deteriorated; by the end of the year, it stopped deteriorating. In the opinion of those polled, the situation in the sphere of financing of enterprises, the volume of output, and opportunities for the sale of goods and services deteriorated. However, the operation of enterprises is being streamlined; they adjust increasingly better to changes under way in the economy.

However, the overall situation of enterprises is viewed as being worse than last year. A majority group among those polled believe that the situation of their enterprise will not change in the immediate months to come. There are those who expect their enterprises to go bankrupt in the immediate future.

The level of optimism with regard to the future of the country has been declining consistently. Fewer and fewer

respondents believe that the economy will improve within five years to come. Therefore, the share of those who believe that their own financial situation and standard of living will improve declines. The conviction grows that under the present circumstances strikes will become unavoidable or very likely. Increasingly many respondents are prepared to take part in strikes. Therefore, a growing level of employee frustration may be noted; this is a signal that social manifestations may block the reforms being introduced.

In the opinion of those surveyed, changes occurring in Poland favor the shrewd rather than the hardworking. Most of the respondents do not see a linkage between better, more productive work, and their standard of living and future prospects.

In the opinion of those surveyed, the tenth month of the implementation of the government reform program has not resulted in radical changes in the situation of socialized enterprises, despite showing symptoms of improvement. The indicator of apprehensions associated with the loss of work and the bankruptcy of one's enterprise remains high. The financial situation of households should be considered stable, but at a low level. The high level of prices for staples is one of the reasons for this. In conjunction with this, we should note declining support for the Balcerowicz plan, while a majority of those polled are unable to specify their position on this issue. However, this causes a mood of discontent.

Mandatory Insurance Policies for Farmers

91P0230B Warsaw RZECZPOSPOLITA (ECONOMY
AND LAW supplement) in Polish 28 Dec 90 p 11

[Article by Joanna Trepkowska: "Agricultural Insurance"]

[Text] Not only car owners, but also farmers should take an interest in obtaining compulsory insurance policies. They apply to insuring the responsibility of farmers under civil law by virtue of operating a farm and insuring buildings on a farmstead against fires and other acts of God.

By virtue of insurance for civil-law responsibility, the farmers are entitled to compensation for events which result in death, bodily injury, harm to health, or damage to property, provided, of course, that a farmer or a person working on a farm is obligated to pay indemnities for such injuries. Insurance policies are taken out for one year and are extended for the following year unless a farmer informs his insurer to date of obtaining insurance from another company in writing three months before the end of a calendar year.

As far as insuring buildings on the farmstead is concerned, within the framework of this policy the insurer assumes responsibility for damage caused by a fire, hurricane, flood, hailstorm, a lightning strike, explosion, landslide, subsidence, as well as other elemental calamities. The amount of insurance differs for every building and is established by the farmer and his insurance company. Policies are written to apply beginning on 1

January 1991, for an indefinite period of time. Individuals have a duty to obtain a policy and pay the premium before 15 February, and corporate persons before 15 April of the insurance year.

School Books Delayed Due to Late Production

91EP0230A Warsaw RZECZPOSPOLITA (ECONOMY AND LAW supplement) in Polish 28 Dec 90 p 11

[Article by Antoni Kowalik: "A Monopoly in the Textbook Market"]

[Text] Confusion in the market of school textbooks which we had to deal with this year resulted in a considerable segment of students—about 12 percent in elementary schools and 60 percent in vocational and higher schools—beginning studies without their sets of needed books. This happened due to delays in production (they affected 27 percent of textbooks for general subjects and 78 percent for vocational subjects), as well as the obsolete distribution system of the publishing monopoly, which, in the environment of a transition to market relations, was geared primarily to profits in all intermediate elements of textbook distribution. As the results of the action by the NIK [Supreme Chamber of Control] suggested, this goal was achieved. The profit margin in book production at the beginning of this year amounted to more than 62 percent, despite the fact that at the time most textbooks were not on the market, and they did not get to the students in a timely manner even later. On the other hand, prices for textbooks have changed a lot. For example, [the price for] "Physics for Grade IV" which used to cost 670 zlotys in 1989, this year increased to 11,000 zlotys. In the first half of the year, publishing houses revised prices for the warehoused stocks of textbooks, due to which their total value increased by 215 percent, resulting in a considerable windfall profit for the monopoly without the need to introduce any organizational changes, make savings, and so on.

The inspection showed that in determining the press runs for the books produced they proceeded not only for the needs of students but also, to a considerable degree, the need to ensure desirable financial performance for the publishing houses. The press runs were set too low because this year the cost of paper and printing services increased considerably. The production of the amounts determined in this manner did not proceed on schedule either, which exacerbated the shortage of textbooks even more. In the course of production, fulfillment of the plans fell short by as much as 30 or more percent for various reasons.

Confusion in the market of textbooks, which on many occasions made the acquisition of books altogether impossible or difficult, was also caused by an unchanged distribution system. An obsolete principle continued to apply according to which textbooks printed in more than 30 printing plants all over the country had to be stored in the warehouses of the Book Depository. This monopoly

had five warehouses [located] in Poznan, Wroclaw, Krakow, Rzeszow, and Bialystok for books on general subjects. In turn, all textbooks for vocational subjects were hauled to Katowice and shipped all over the country from there. The principle was inviolable. For example, books printed in Bydgoszcz or Opole could not be sold right away in these cities. They were taken to Wroclaw, Poznan, or Katowice in order to be taken back to Bydgoszcz or Opole after sitting in storage. The depository collected a commission amounting to six percent of retail prices for this mellowing in storage.

The Houses of Books were the next echelon of distribution. In 17 voivodships, they did not sell textbooks until 20 March of this year because they "fought" for commissions which were ultimately set at 24 percent. In Warsaw, these negotiations came to an end as late as the last day of April. After that, they began to deliver textbooks to sales outlets.

Therefore, commissions accounted for 30 percent of the retail prices of textbooks. This gave other economic entities incentive to sell books, but these operations were difficult. Guidelines applied according to which the Book Depository was to supply Dom Ksiazki [name of state-run bookstores] on a priority basis. Their number decreased considerably this year which made deliveries to students even more complicated. The inspection also revealed a good deal of unconcern in the matter of the textbooks on the part of, among others, boards of regents. Some of them were simply not aware of the status of supplies reaching the students or the number of units engaging in the sale of books in their voivodships. Cases were also noted when no orders for textbooks were made. Under the circumstances, many schools undertook, on their own, various activities making it possible for their students to acquire textbooks. This, however, could not compensate effectively for the shortcomings of the entire system of distribution.

These examples show that this system is obsolete and has not by any means been adapted to new conditions. As the findings of the NIK suggested, the necessary changes should create, in particular, conditions for setting publishing plans and printing runs of textbooks in keeping with the needs, printing the books in a timely manner and selling them continuously during the entire year, reducing the number of textbooks in the book trade, and increasing the number of retail outlets where textbooks are sold.

YUGOSLAVIA

Level of Prices, Inflation in 1990 Analyzed

91BA0187A Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 17 Dec 90 pp 27-29

[Article by Egon Zizmond Maribor: "Yugoslav Price Levels in 1990"]

[Text] In past years, the foreign exchange rate for the dinar more or less kept pace with relative inflation in Yugoslavia. That was not the case in 1990. The dinar's exchange rate was fixed with respect to the German mark as early as 18 December 1989, while inflation continued to grow. That caused the level of Yugoslav prices to grow in comparison with foreign prices.

In February 1990, the Institute for Economic Diagnosis and Prediction performed an analysis of the level of Slovene industry's export prices in comparison with direct expenses, full cost prices, and comparable domestic production costs, and in April, an analysis of the level of Yugoslav prices for raw materials and semimanufactures (in comparison with Italy), and the level of retail prices in Slovenia (in comparison with Austria and Italy). Below, we will briefly present the main results of those analyses.

Price Levels of Producers of Basic Raw Materials and Semimanufactures

We determined the levels of the prices of basic raw material and semimanufacture producers in reference to Italian producers' prices.

The analysis covered the lowest and highest prices of individual types of goods. We understand the lowest prices in Yugoslavia to be either administratively set prices or base prices (e.g., in ferrous metallurgy), or the lowest market prices. We understand the highest prices in Yugoslavia to be market prices (e.g., in ferrous metallurgy the base prices increased by the average additional charges, and the same is true of nonferrous metals), or the products' cost prices (e.g., oil and sugar), or the highest market prices. All of the lowest and highest prices in Italy are market prices. Consequently, the differences between the lowest and highest prices in Yugoslavia result from administrative restrictions on one hand, and market relationships on the other, while in Italy those differences are based exclusively on market conditions (periods of purchase, means of payment, minor differences in quality, etc.) In both countries we always compared only one type of prices (thus, only the lowest or only the highest), if not otherwise stated.

The aggregate level of our lowest producer prices declined between September 1985, when the first analysis was conducted, and September 1988 (the third analysis). In September 1985, it was 94 in comparison with corresponding Italian prices. It fell to 88 in September 1987, and in September 1988 it fell to 75. This was mostly a result of the rapid slide in the official exchange rate of the dinar in comparison with the relative growth in the prices of industrial products among producers: Our producer prices, in comparison with Italian ones, increased by 872.2 percent in comparison with Italian ones during the period from September 1985 to September 1988, while the dinar's exchange rate, in comparison with the lira's, increased by 1,368.5 percent.

The price and exchange rate trends from September 1988 to March 1989 were different, however: Producer

prices for industrial products in Yugoslavia grew more quickly (an increase of 175.6 percent) than the dinar exchange rate in comparison with the Italian lira (an increase of 151.4 percent), which also caused a 5 percent growth in the aggregate level of our lowest producer prices included in the sample.

The trends until April of this year were similar: From March 1989 to April 1990, prices increased by 2,030.2 percent, but the exchange rate only increased by 1,552.7 percent. The result of such rates for domestic prices and the exchange rate of the dinar, and for Italian domestic prices, was a growth of the aggregate level of Yugoslav producer prices in the sample.

From March 1989 to April 1990, Yugoslav producer prices grew by an average of 2,030.2 percent, and the dinar exchange rate of the Italian lira by 1,552.7 percent. The result of those trends was also a higher average level of our producer prices in comparison with Italian prices (an increase in the lowest prices from the level of 80 to the level of 85, and an increase in the highest prices from the level of 90 to the level of 101). Those shifts occurred mostly after the dinar exchange rate was fixed and tied to the German mark on 18 December 1989. From then until the end of April 1990, in fact, industrial producer prices grew by 35.1 percent, while the average monthly exchange rate of the dinar in comparison with the Italian lira only grew by 14.6 percent.

Export Price Levels for Slovene Industry

We researched Slovene industry's export price levels in more detail. We can assume, however, that the export price levels for Yugoslav industry as a whole are similar to Slovenia's. We compared the gross export prices (with export incentives) and the net export prices (without export incentives) with direct expenditures, cost prices, and comparable domestic producer prices. In 1990, the sample for analysis covered (depending on the price comparison) from 388 to 460 characteristic export products with an annual export value of \$634-700 million.

In all of the studies to date, we identified a low level of export prices in Slovene industry in comparison with domestic producer prices and in comparison with those producers' cost prices. Consequently, the dinar exchange rate policy, together with other forms of export incentives, did not succeed in making exports more attractive than sales on the domestic market. That is also clearly indicated by the ratios between export prices and domestic producer prices.

The situation in February 1990 also indicates that it was still more profitable to sell within Yugoslavia than in convertible markets, that it was still much more profitable to export to the clearing market than to the convertible market, and that the poorest results were in exports to the EC countries.

If we compare the results from February 1990 to the results from February 1989, we can clearly see the following changes:

- the indices of coverage are lower than in February 1989, and approximate the ones from February 1988;
- the deterioration in the coverage of expenses is more pronounced, while the coverage of comparable domestic prices is at approximately the same level as a year before;
- the difference between coverage with the net export price and coverage with the gross export price has decreased.

The average Slovene or Yugoslav exporter is a producer who bases his export calculation on the coverage of direct costs. The difference up to the full cost price is covered by domestic sales, and that is why domestic prices, as a rule, are burdened by the costs of all the capacities. In view of the relationships between export and domestic prices, we can conclude that the income that the enterprise earns with the full export price has not been the only motive for exports, and that secondary factors in exports were also significant, and more significant than the loss of income that occurred because of exporting at prices lower than the domestic ones.

The Exchange Rate and Inflation in 1990

The foreign exchange rate in Yugoslavia has never been formed by the market, and has instead been the result of administrative and political decisions. That is why the question always arises of how realistic any official exchange rate is. A study of parities in prices from different production sectors, as a rule, gives different results, which is proof of the assertion that the administratively established methodology for defining the official exchange rate (even if it wanted to) cannot take into account all the influences that the market can. Comparison of prices between Yugoslavia or Slovenia and Italy indicates that the ratio between the dinar and the Italian lira can have very different dimensions (let us compare the data from the beginning of 1990):

- a) Comparison of the producer prices shows that in April 1990, the overall level of the lowest prices of the Yugoslav producers of the products analyzed, compared by means of the official exchange rate, was equivalent to 85, which means that, assessed according to the official exchange rate, the Yugoslav products that were compared were 15 percent cheaper than the Italian ones.
- b) The general level of retail sale prices in April 1990 in Slovenia was equivalent to 110 in comparison with Italian retail prices (measured with the Slovene structure of consumption).
- c) If we compare our domestic producer prices with the prices that Slovene exporters obtained in exporting to Italy in February 1990 (net export prices, without export incentives), we even obtain the level of 143, which means that a Slovene producer received as much as 43 percent more for the same product inside Yugoslavia than for exporting it to Italy, measured by calculating the export price according to the official exchange rate. On that basis, we can conclude that Slovene or Yugoslav exporters receive noticeably lower

prices in the Italian market than Italian producers (in view of the different range of products in the two studies, we cannot, unfortunately, calculate the overall relationships of that type).

Those ranges indicate how highly unrepresentative the official exchange rate is as a mediator in comparing prices, and the problem of the "realistic exchange rate policy" being conducted by the Federal Executive Council [FEC]. The policy of a fixed exchange rate for the dinar, which the FEC has been conducting ever since 18 December 1989, was based on the belief that the foreign exchange rate is the aggregate that determines the rate of Yugoslav inflation, and that inflation can be halted immediately by fixing the exchange rate and employing shock therapy. Such assumptions, however, were not realistic, since the basic conditions that could have permitted the success of the shock therapy had not been met in the Yugoslav economy:

1. When the program was adopted, the Yugoslav economy did not have (nor does it have now) all the characteristics of a market economy. Social property is still dominant in it, and there is no labor market, as a result of which the reactions of economic entities to the influences of economic policy are less elastic than in market economies.
2. Because of the nonexistence of private property and a labor market, Yugoslav inflation is essentially consumption-based. Since shocks from economic policy can only eliminate that part of inflation which is derived from inflationary expectations, but not the consumption causes of inflation (Bajt Institute, 1990), shock therapy is not an adequate method under Yugoslav conditions.
3. The Yugoslav economy is still insufficiently involved in the world economy, and too protected from competition.
4. When the program was adopted, price disparities had not been eliminated, and in spite of that, large disparities in the levels of personal incomes were still present.
5. Not even the most important technical condition for the success of the shock therapy (which was aimed at halting the growth of domestic prices and reducing inflation to the level of German inflation by fixing the exchange rate and tying the dinar to the German mark), i.e., the marketization of the economy, has not been met. As demonstrated by Bajt Institute (1990), the trends in prices for individual products and services during the period before the adoption of the program depended on the domestic price index, and not on the exchange rate of the mark.

Since not one of the above conditions that would have permitted the success of the shock therapy was met, inflation continued after the adoption of the program (admittedly, at declining rates until June 1990).

The direct causes of inflation in 1990 were as follows:

1. As shown by calculations of price increases from December 1989 to October 1990 (the difference between the

growth of retail prices and the producer prices of industrial products), the most significant cause of inflation was inadequate fiscal policy. In the first place, during the first months of the implementation of the program, the government did not take into account the Tanzi effect that occurs under conditions of deflation. In the second place, the government even increased taxes. The total monthly amount of public consumption thus grew from 23.2 billion dinars in December 1989 to 42.7 billion dinars in July 1990, i.e., by 84.0 percent. That means that public consumption also increased in real terms.

2. The second reason was the growth in net personal incomes. From December 1989 to August 1990, the monthly aggregate of net personal incomes increased from 20 to 28.5 billion dinars, i.e., by 42.5 percent. That confirms that Yugoslav inflation is primarily consumption-related, and that it is caused by systemic reasons: the growth of personal incomes is a consequence of their nonmarket formation under conditions of social property, and cannot be restrained even by administrative control (it seems that Prof. Sachs forgets this.) On that basis, personal consumption increased between December 1989 and August 1990 by 122 percent, i.e., by 22.7 percent in real terms.

3. All of these processes were accompanied by a monetary policy that even undertook some incomprehensible steps. First, in months when there was an increased demand for real money (February, March, April), which was a consequence of disinflation, it increased monetary restrictions and caused liquidity problems and a decline in economic activity. Second, from April on, when prices stagnated, when economic activity was already proceeding at a lower level, and when the demand for money had also stabilized, monetary policy drastically increased the money supply (Bole, 1990).

Since economic policy in 1990 was operating primarily with a fixed exchange rate (and a limitation on bank credits), and did not employ fiscal restrictions, it caused hidden inflation during the period from April to June, and an overvaluation of the national currency, which has also been the case in some other countries which conducted stabilization programs without fiscal restrictions. The overvaluation of the dinar increased considerably by October, since the rate of inflation grew from month to month.

Reasons for Shortage of Medicines in Serbia

*91BA0187B Belgrade EKONOMSKA POLITIKA
in Serbo-Croatian 24 Dec 90 pp 24-25*

[Article by Verica Dukanac: "Shortages Again"]

[Text] There is no doubt that the most serious situation today with respect to the supply of medicines and the illiquidity of health care institutions and funds is in Serbia. No one familiar with the situation will deny any longer that if things remain as they are until the end of the year and payment for medicines is handled as in the past, there will be serious shortages in this market as

early as the beginning of January. According to some calculations done by pharmaceutical production and trade organizations, the internal mutual shortfall, including health funds and institutes as well, amounts to about 1,500 million dinars.

At a joint meeting last month of all the Serbian medicine factories, wholesalers, and independent pharmacist institutions, the public and the authorities were warned that if something really was not done urgently, it would be difficult for any of them actually to survive financially as early as December, and that there would be no medicines. They requested an urgent meeting with the president of the republic government, but since the authorities were busy with the outcome of the elections, the meeting has not been arranged to date. "They promised us in August that things would be better in October, in October they were worse than in June, and today the situation is even more difficult because the numbers are much higher," stated Teodor Krajsic, the general director of Belgrade's Srbolek. "Even today we have a situation in which doctors are writing prescriptions that are like uncovered checks," Krajsic emphasized, "and that is a criminal act in normal legal systems."

Old Problems

The basic problems with medicines in Yugoslavia have already continued for decades; only the causes are different. They have mostly consisted of the following situations: When there were dinars, there was no foreign exchange to buy raw materials, and when foreign exchange was provided more regularly for that purpose, there were no dinars to buy that foreign exchange because of the constant problems with depressed prices for domestic medicines.

On the other hand, today the pharmaceutical firms are in additional trouble because of exports, along with generally more difficult business conditions. For a long time most of them "covered themselves" with large exports of medicines to Eastern Europe and especially to the Soviet Union. Since they are also paying for medicines with foreign exchange today, they are turning more and more toward the West, because it offers them more favorable lines of credit. Also, because of our unstable financial and political situation in Yugoslavia, Western firms have cut back their financing of raw materials for almost all the factories to only one month, instead of three as before.

The issue of prices for medicines has still not been resolved. The Federal Price Institute, as they claim themselves, completed its assigned task of bringing the prices for domestic medicines to an average level of 30 percent of world prices sometime around the middle of the year. At that time the criteria according to which price increases would be approved in the future for specific types of medicines were established. In the meantime, the prices of electricity, raw materials, and packaging materials have jumped considerably, but requests from almost all the factories in Yugoslavia for price increases since September have been rejected.

Only Galenika, in Belgrade, and Lek, in Ljubljana, have received the requested increase for certain medicines. The rest were left to continue to cope for themselves and calculate. As we were told by Branko Radovic, the director of the Belgrade Pharmacist Institution, for about 10 years now about 10 percent of the medicines on the restricted priority list have actually not been available. Even today, for instance, the accounting for local anesthetics for pulling teeth, as Krajisic illustrated it, looks approximately like this: When the producer imports the raw material and buys an ampule, instructions, and a box, and when he calculates how much all of this costs, without taking his own costs into consideration, it exceeds the sale price. And when he imports one ampule, it costs a mark but is worth almost nothing here.

Health institutions and funds do not even pay regularly for such cheap medicines, however; some outstanding bills even date back to January. While inflation and personal incomes grew quickly, the health funds' income was also increasing, and bills were being paid within two months. The stable dinar and the more or less settled situation with personal incomes, along with the objectively worse economic situation, have extremely aggravated things. "Each year health care," we were told by the secretary of Serbia's Health Care Fund, "has ended the year about 10 percent short of funds. This year that is going to reach 40 percent." Particularly in jeopardy is the Republic Fund, which is actually financed primarily through contributions from income, and since there is no income, the results are logical. Increased participation, which barely got through in Serbia with many quarrels in mid-year, still has barely a 2 percent share in the total funds.

Systemic Obstacles

The fundamental problem behind this dead end in which everyone has wound up with medicines, from factories to patients, according to Radovic, is the Bolshevik error that it is enough for us to declare something necessary, and then it has to be. Radovic says, "This is not just a fashionable slogan; the fact is that for decades we, along with doctors, pharmaceutical producers, and politicians, have worked to clear up those ideological errors so that they would understand that a medicine is a good like any other, and has to be paid for." Today, according to him, that has at least been realized, but the bill is on the table and the financier is facing collapse.

A new element of the whole matter is that in seeking the guilty parties, people are no longer only seeing politicians. All of our interlocutors, who are otherwise very well-informed people involved in the production and trade of medicines, wholeheartedly asserted for this newspaper, officially or unofficially, that most of the situation in this sector is actually controlled by the so-called health lobby, as can best be seen from the example of Serbia. Politicians also interfere in some parts, they say, but again, at the intervention of health workers. Among other things, doctors have always held key sectors in the responsible republic bodies, so that all changes, including those being carried out today under the label of reforms, proceed in accordance with the

system of maintaining the status quo within the industry itself. No, the future does not promise anything either, because all of the parties, keeping in mind the popularity of doctors among the people, as well as public cultural workers, have put forward such people as their candidates, so that the future republic assembly will be more like a cultural/health society than a serious political body.

As is in any well-known case, today public services are completely in the hands of the republics, although according to the Constitution, the settlement of key systemic issues is still within the jurisdiction of the federation. At one time Mikulic's government, at the request of its health minister, had decided to adopt first a law on enterprises, and then a law on public services. Markovic neglected that second part, and Serbia, although others had done the same thing, decided to resolve this itself and adopted its own law in this area. Then the republic ministers competed (according to our interlocutors) in currying favor with Slobodan Milosevic, since he was at the head of the Republic Committee for Reforming the System, to pass a law in this area as soon as possible. Dr. Filimonovic, who was at that time the agile health minister, was among the first to succeed in this. Admittedly, he understood quite well that some things had to be settled by law, but he could not understand that laws were not omnipotent and thus tried to solve every problem in that way. If he had remained, they say, Serbia would have had health legislation amounting to volumes. Regardless of how much that was really just an autonomous affair of ministers who were ahead of their time, it is such in many respects, because things at that level intersect. All of those who dealt with medicines in any way whatsoever requested that we first try to reform insurance, as long as the state guaranteed minimum health rights to everyone, from birth to death, naturally, protecting certain categories and social circumstances. And everything else, naturally, would go through a certain health insurance system known to us before the war. It was only the new constitutional law, in the middle of this year, that established this as an obligation by the end of next year. Regardless of how painful it will all be, this is the only opportunity for the health funds to assume their real role and balance the left and right sides of their balance sheets.

Even if insurance is finally accepted as inevitable, however, the problem of the industry itself has remained. In that part as well, the two above-mentioned groups of opinions were evident. Some people supported the old Soviet system of having the state take away everything, and make every person happy individually, while people involved in producing and marketing medicines, who felt the consequences personally, insisted on a change of ownership and competition in that area. Officially, however, the first opinion prevailed, and "in the area of this industry, the state took what had been developed and what is protected as being the state's, whether they work or not. It seems the same to them," Radovic says, "and so the system is still collapsing." Serbia has thus created regional health centers, so-called health combines, where

all health clinics, hospitals, and drugstores are located in those areas. All of this is under the pretext that such systems can be managed more easily, although the question is how much control can be established on them at all. It would have been much more reasonable if those hospitals had been left to compete against each other, while opening up possibilities and even stimulating development of the private sector, according to Radovic. All of the concern in the industry itself can thus be reduced to how to advance wages, and that, according to him, is a direct consequence of the systemic mistake.

Even since a new health minister has been appointed in Serbia, the respected Prof. Vladimir Petronic, aside from the orientation toward health insurance, nothing has changed in the industry itself. For several months there has been a discussion about private practice, and in a rather vulgar way, according to our interlocutors, since things are becoming more exacerbated about whether doctors, as has already been proposed, should be allowed to work in the morning in state consulting rooms, and in the afternoon, in their own private ones. According to Radovic, that is only appropriate for some African country that does not have enough doctors, as was the case here after the war. A mistake was made even then, however, and now people are determined to avoid encouraging private practice by both doctors and pharmacists, in such a way that some issues would be resolved normally through competition. The main thing is to present the government and the assembly with a realistic accounting. The data exist, and they only need to be put on paper, but obviously that is not popular for electoral marketing, and the problems are accumulating.

Dangerous Alliance

What is significant with respect to the industry itself is that the doctors themselves voted for the formation of those combines. Only the pharmacists entered that scheme for more mundane reasons, because they antagonized the then minister of health. Thus, in addition to the Belgrade pharmacist institution, the Nis and Novi Sad ones have also been integrated into the centers. Their transfer accounts have been abolished, so that they almost do not even pay for medicines, since each of those combines establishes its own list of priorities and there is barely money for wages. Not even independent pharmacies fare any better in terms of development, however, because all the legislation considers them health institutions; even though they primarily have a commercial dimension. The possibility of private pharmacies has been created, but they are not allowed to charge the funds for prescriptions either, nor are the official pharmacist institutions allowed to restructure their ownership. "In this shortage of medicines," Radovic stated, "we asked to open at least one international pharmacy on Terazije, where imported medicines would be sold, because the owners of private pharmacies do it, but that was not permitted. Consequently, it does not occur to anyone to establish fair play here and make the competition a truly equal one. Thus, in this area pharmacies are

objectively lagging several years behind the economy, solely because of the systemic obstacles that have been set up."

"On the other hand," Radovic said, "I warned that with the health and pharmacist industries organized in this way, we would have a dangerous alliance between doctors and pharmacists, and if someone really means this Serbia well, something like that should not be done. That danger is more evident everywhere that private practice has been developed. Even in old Yugoslavia a private doctor and pharmacist were prohibited from collaborating if they were close relatives. Such an alliance is also possible in state institutions, however, primarily because health care, by its nature, is a monopoly, and since it is a monopoly it can be abused, particularly here, since there is no qualified customer in the system. A patient is not a qualified customer anywhere in the world; a doctor may or may not give you a prescription; if he does, the medicine is not found in the pharmacies; he is only obliged to give you the prescription because of the Hippocratic Oath, for which he does not have to answer to anyone. The fund is not an institution that acts in this system, without real health insurance, as does a qualified customer or monitor of the accounts and the prescriptions that he pays for. No real control has been established over the quality of treatment, nor do we have any possibility of rational therapy when medicines are financed like this."

The fundamental aspect of the whole matter, with respect to medicines, is consumption. The Belgrade Pharmacist Institution is the only one monitoring that consumption in Serbia, and it does that on the basis of the amount and value for each pharmacy, as well as consumption per doctor. Since last year, it has started to monitor consumption according to defined daily doses, which is rather important as a means of comparison with the rest of the world. Last month the Federal Institute for Health Protection instituted its own study in that area, so that every generic name of a medicine here now has a defined daily dose, regardless of the producer, which implies the actually agreed-upon amount of medicine most frequently used for the most frequent symptom. And, as Gordana Mihailovic of that same Institute told us, all of that is at a standstill now because the competent federal secretariat still has to adopt it by law as an official statistical unit; and what the Pharmacist Institution is doing according to its own conscience for Belgrade, and paying about 50 people for, it is doing for free, according to Radovic. Apparently, it is not even necessary to very many people in this system. It is only used by researchers for their studies, and for a certain period health clinics conducted a quarterly analysis of the consumption of medicines, by doctors, which upset the latter considerably. If there really were people responsibly concerned about the issues of public health in Serbia, however, that would certainly have to be important. Let us consider just the fact that for several years in a row now, the antibiotic "aflacitin" has been the most frequently prescribed of the group of medicines that are most consumed in Yugoslavia. From this medicine alone, its producer has a higher turnover than

from everything else combined. The important thing, however, is that people become resistant to a medicine in such widespread use, and it is necessary to develop a new generation of antibiotics, in order to be able to continue treatment at all.

In this electoral euphoria, however, it seems that all of these issues do not even concern the authorities. The only ones concerned are the wholesale drug firms and pharmaceutical producers, since they operate according to cost accounting principles. We do not know when this will reach the desk of the authorities; the certainty that there will be fewer and fewer medicines, however, is a sad one.

Demands of Serbian, Montenegrin Shipbuilders

91BA0187C Belgrade *EKONOMSKA POLITIKA*
in Serbo-Croatian 24 Dec 90 pp 26-27

[Article by Bernard Ostojic: "Illiquid Millionaires"]

[Text] Last week's strike by about 6,000 employees at Yugoslav shipyards passed relatively unnoticed by the public news media. The strike, which was organized by the trade union of the Dunav-Brod Business Community, which includes ten river shipyards in Serbia and Vojvodina, and the Veljko Vlahovic shipyard in Bijela, followed a two-hour "warning strike" on 27 November, when it was "suggested" to state authorities (federal and republic) that they seek ways to cover the "financial shortage" which they had "produced" for the shipbuilders. The essential thing, it seems to us, is to emphasize the strikers' assertion that the reasons for the work stoppage are purely "economic in nature," i.e., that they "do not have any sort of political background." Completely in accordance with this is the observation by employees at the river shipyards that the faulty economic policy measures being adopted at both the federal and republic levels are more or less equally responsible for, to put it mildly, their unenviable financial position.

Headed by the Exchange Rate

The "unrealistic dinar exchange rate," however, has a clear lead on the list of reasons that have brought shipbuilding to the very brink of a general collapse. According to accounts prepared for the first 10 months of this year, the river shipyards' loss from the overvalued dinar is equal to 55.1 percent of the total payments received. That means that earnings, expressed in dinars, would be greater than the amount received by that percentage if the exchange rate had been corrected in time. The amount received (in the period in question) was a little over 672 million dinars, which is equivalent to about \$63 million. If the strikers' demands (see the box) are not met, the extent of this type of loss for the entire year, of course, will be several times higher. This is because the value of the agreements with those who have ordered ships is about \$320 million, and all of the work contracted for—which, as stated by Dragan Milicevic, the director of the Dunav-Brod Business Community in

an interview for *EKONOMSKA POLITIKA*, covers 100 percent of the capacity of the domestic river shipbuilding industry—is being carried out in accordance with the contractual schedule.

Our interlocutor forestalled any conclusion that it is illogical, from the standpoint of economics and common sense, to insist upon 100 percent employment of capacity in a situation when state interventions are taking most of what is earned out of the shipyards' treasuries, with a whole series of dramatic consequences that economically logical behavior by the shipbuilding industry in these circumstances would bring—e.g., halting the production of ships. Consequently, it is not just that the shipbuilding industry would be without work, throwing thousands of people who are now employed out onto the street—a large number of industries whose production is sold through the shipbuilding industry would also be seriously affected, while the banks that had entered arrangements (as guarantors) with the shipbuilders would have to be shut down on the spot. Milicevic asserts that the situation that maritime shipyards are fighting is absolutely identical, although, naturally, the amounts are incomparably higher. The total value of the work that the entire Yugoslav shipbuilding industry has contracted for so far is around the amount of \$2.2 billion, which puts this industry at the very peak of Yugoslav exporters, and ranks domestic shipbuilders among the world's leading ones. The Adriatic shipyards have demanded that the SFRY state compensate them for the \$486 million that they lost between 18 December 1989 and the end of October 1990, solely as a result of the dinar's unrealistic exchange rate. Concerning this, they have also recently filed a complaint with the Federal Executive Council [FEC] (i.e., the state), while still refraining (under the influence of the Croatian authorities?) from the methods that the river shipyards are resorting to right now! In addition to these quite direct consequences, a possible collapse of Yugoslav ship production would also bring about a lot of other problems for those who create the rules of conduct in the Yugoslav economy, arising from the fact that the already unfavorable ratio of imports and exports—in which, naturally, the value of imports at this time is over \$3 billion higher—would become considerably worse.

Reduced Burden or...

The overvalued dinar, however, is not the only reason why the shipbuilding industry, in its own view, is facing collapse. On the contrary, the competent (or incompetent) policy is persistently and successfully showing great inventiveness when it is necessary to devise and carry out ways to "fleece" the ship producers, who, after all, are "successful and competitive on a world scale." The least subtle part of that job, of course, is the way in which taxes and contributions are cut out of income and gross wages. It was in the presence of this author that Dunav-Brod's director received a telex from Brodoremont DTD [Danube-Tisza-Danube (Canal) Ship Repair] in Backi Monostor, which supplemented the extensive documentation on the (dis)incentives for river shipbuilding with

the information that the above-mentioned shipyard had received an account from the "tax collectors" according to which it owed the state an amount 10 percent larger than its income (!?). During the last part of this year, according to the shipbuilders' calculations, the widely advertised campaign to reduce the burden on the economy (especially the export-oriented economy!) resulted in a 17 percent increase (on the average) growth of taxes and contributions. The shipbuilders are still awaiting an answer to their appeals sent to state authorities, on several occasions and in several forms, not to reduce the burden on them in that way anymore.

With respect to the problem of financing ship production for export—and of proving the already notorious fact that this type of production takes a year or more and can hardly exist without credits, much less be competitive—they did receive an answer, although admittedly an indirect one. It (the answer) reads as follows: there is no money in the bank specializing in financing export production. It is not there primarily because the sociopolitical communities (the republics) are avoiding their obligation to pay money into the bank's funds, as they are required to do by (federal) law. That means: seek credits from other sources. The problem entailed by such a search is the again notorious fact that other sources (i.e., commercial banks) also have no money, or if they do (for anyone), then it is too expensive. An attempt to figure the cost of that money into an offer for a customer for a ship from any of the developed Western countries, who have been virtually the only partners (i.e., customers) for the past two years, is absolutely impossible. This has to do with interest rates, which, according to information from Dunav-Brod, have ranged between 35 and 40 percent, whereas the Western market considers any interest rate over 10 percent to be "excessive." Naturally, the ship producer has to pay the difference if he wants a business arrangement. An attempt to find a cheaper creditor outside the borders of the SFRY—which would have been quite feasible, according to director Milicevic, in view of the shipyards' reputation and efficiency—was a failure. Appeals and requests of that type have been rejected, with the explanation that something like that is not in accordance with the regulations, and that it would be inappropriate to make an exception.

Attempts by the shipbuilding industry to obtain the principal materials for their production at world prices, i.e., in foreign markets, are usually rejected with virtually identical explanations. The general liberalization of imports that has been so touted, in fact, still has not gone so far as to spare this industry from an obligation to reach an agreement with domestic producers of sheet metal, for example, on the annual delivery and purchase of that material on the domestic market. The remnants of what until recently was the "regular system" in which a permit to import this sheet metal (and the same is true of several other materials, at least in amounts exceeding the annual agreed-upon arrangements) had to be requested from the domestic producer (!!) are, apparently, large and effective enough that they prevent purchases that would even cost only half as much. "We were

even forced," Milicevic stated, "to pay 80 cents for steel (i.e., sheets) at a time when that material had only reached the price of 40 cents in world markets..."

Remnants of Clearing

The same fate, at least for now, has also been met by requests that the competent state authorities use their authority to influence commercial banks, i.e., compel them, to refrain from retaining (foreign exchange) funds that the customers for domestic ships regularly deposit for the work performed at domestic shipyards. Those funds usually take an unjustifiably long time to travel to their owner, because the banks have their own priorities (!). The bankers are joined in this shady activity by "dealers" whose specialty is the cashing in "out of order" the securities with which the shipyards are (still) collecting payment for work done for customers from countries with a clearing method of payment. The "system" became widespread at the moment that the SFRY government, in order to protect itself against the continued growth of the deficit in clearing trade, introduced a rule that every payment in "cash funds" based on securities from clearing trade had to be backed by corresponding imports of goods. Since payment claims are growing considerably more rapidly than imports of goods from the clearing area, the commercial collection of payment on a security (which was understood in several previous years) has become unfeasible—that is, it has become possible only if the security is sold to someone who is in a position to cash it in immediately.

In a situation in which the state is successfully demonstrating only that it is not disposed (or unable?) to solve problems of this type, the fairly discreet suggestions from the shipbuilding industry to that same state—that the latter could seek some guidelines for its own policy toward their basic industry in the practice of the states that stand behind the firms that are Yugoslav shipbuilding's competitors on the world market—sound almost frivolous. Two years ago, the shipbuilding industry of the EEC, for example, "enjoyed" direct state subsidies worth 28 percent of the contracted value of ships; last year the subsidies were 26 percent, and then this year fell to "only" 20 percent. At the same time, the Japanese subsidize as much as 30 percent of their shipbuilding industry.... Obviously, the shipbuilders claim—on the "opponents' side" people think quite differently—and give serious consideration to the evident growth in the world market for the shipbuilding industry, but at the same time (and precisely for that reason) acknowledge (and pay for) the fact that the costs of producing a ship are still above its market value. All of this, of course, is above all a good basis for the conclusion that in the quite foreseeable future shipbuilding will be a very profitable business.

[Box, p 27]

We Request!

We request the following from the state authorities:

1. That the total loss resulting from the unrealistic exchange rate for the dinar be compensated for retroactively, from 1 January 1990.
 2. We request that monetary policy be used to introduce a realistic exchange rate for the dinar, thus preventing the creation of new losses on that account, or that additional incentives be used to alleviate the unrealistic exchange rate for the dinar.
 3. We request that the interest on credits for financing the preparation of export production obtained from commercial banks above 10 percent be completely refunded.
 4. We request that commercial banks be provided the credit resources to finance preparations for production for export.
 5. We request an increase in the amounts for the use of foreign exchange deposits in our banks abroad for financing exports of ships by our river shipbuilding industry.
 6. We request abandonment of the system of taxation of expenditures (during the past year taxes and contributions from personal incomes have grown from 40 percent to over 100 percent a month, which represents an insurmountable difficulty in the business process in shipbuilding, where the production cycle, as a rule, is longer than 18 months), and use of the system of taxation of profits.
 7. We request that allocations from taxes be reduced, since they are unrealistically high, so that 65 percent will go to business and 35 percent to society.
 8. We request that the Federal Executive Council make it possible through appropriate regulations to have earnings from abroad transferred to an enterprise's account within a period of one day, regardless of the state of liquidity of the authorized bank to whose account the earnings have arrived, and regardless of its obligations to the National Bank of Yugoslavia with respect to foreign exchange reserves.
 9. We request that the Federal Executive Council pay export incentives to the primary exporters immediately, and at the latest within a period of 15 days from the moment of the submission of the request and the necessary documentation.
 10. We request that the Federal Executive Council work on creating transitional solutions in economic cooperation between river shipbuilding enterprises and the USSR's economy for the 1991-95 period, along the lines of establishing contacts with Soviet authorities, and especially linking export transactions to imports of oil derivatives, natural gas, coking coal, and other raw materials that could possibly be imported on the basis of intergovernmental agreements.
- We also request that the Federal Executive Council advance the collection of payments due from the clearing currency area and prevent charging for discounts on securities.
11. We request that in the event that a comprehensive protective policy is not ensured at the national level, the republic and the autonomous province of Vojvodina should implement the protective measures that have been adopted and compensate river shipbuilding enterprises by halting payment of some of the funds to finance the federal budget:
 - Because of the unrealistic exchange rate for the dinar and the losses incurred on that basis, if the Federal Executive Council adheres rigidly to its decision that the dinar exchange rate in 1990 will still not be changed.
 - It should reimburse the interest on commercial bank credits that the river shipbuilding enterprises, as the primary exporters, are using to prepare for production for export, until the Federal Executive Council amends the Law on Reimbursement of Part of the Interest on Credits Used for Exporting Equipment and Ships (SLUZBENI LIST SFRJ No. 21/90).
 - It should return part of the taxes and contributions that some shipyards in the river shipbuilding industry have paid above the ratio of 60:40 percent in 1990.
 12. We request that the Republic Executive Council and the Provincial Executive Council provide for a further reduction of the burden on the economy in their 1991 economic policy, both in order to ensure the most favorable possible competitiveness in foreign markets, and in order to ensure distribution in 1991 in the ratio of 65:35 percent, and if that ratio cannot be ensured for the entire economy, then it should be ensured through economic policy at least for the enterprises which are the primary exports, which includes river shipbuilding.
 13. We request that the Republic Executive Council and the Provincial Executive Council demand that the Federal Executive Council consider these conclusions and the proposals made for improving business conditions for river shipbuilding enterprises, proposals which are under the jurisdiction of the Federal Executive Council, and that it make appropriate decisions as soon as possible.
 14. We request that the Federal Executive Council, until the basic, urgent problems we stated are solved, intervene immediately with \$30 million through the Yugoslav National Bank, and also from the SFRY's foreign exchange reserve deposits, in order to ensure the payment of personal incomes, purchase semimanufactures and ship equipment and pay for coproduction and other expenses, so that we can continue the production process without jeopardizing completion of the work that has been contracted for.
 15. We request that the members of the strike committee be received at once by representatives of the Federal Executive Council and the Republic Executive Council. We are not moving from this spot until our representatives are received by representatives of the Federal Executive Council and the Republic Executive Council.

If nothing is done by the state authorities, river shipbuilding is going to stop its export production.

Also, if the state authorities do not do anything in connection with all the demands that we have presented so far, we will be forced to:

1. Completely stop concluding contracts for new work for foreign customers.

2. All of the shipyards will have to prepare programs for restructuring production, and shutting down a considerable portion of their shipbuilding capacity, as

well as a program for solving the resulting problem of the technological surplus of workers.

3. The Dunav-Brod river shipyard fully supports Croatia's maritime shipbuilding industry, which has appealed to the Federal Executive Council and the Yugoslav state.

In conclusion, we warn that:

—There is a great danger that our customers will initiate proceedings to cancel contracts because of uncertainty that the work contracted for to date will be completed.

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