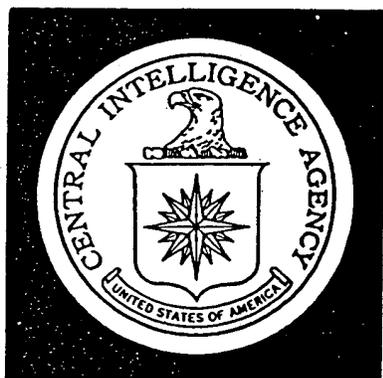


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

East-West Cooperative Ventures

CIA HISTORICAL REVIEW PROGRAM
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
July 1969

INTELLIGENCE MEMORANDUM

East-West Cooperative Ventures

Summary

The USSR and the East European Communist countries since 1963 have increasingly entered into cooperative business ventures with firms in the industrial West. The chief Communist motives for participation in these ventures are the acquisition of advanced Western technology, equipment, and know-how and the expansion of exports, primarily to the West. Western participants generally regard these ventures as, among other things, a means of gaining a foothold in what they anticipate will be future markets.

Production sharing and joint marketing arrangements have been the principal types of ventures in the East-West cooperation. Production sharing is an arrangement which involves manufacturing or assembly as an integral part of the venture and often provides a vehicle for the acquisition of Western technology. Most production sharing and joint marketing agreements also are designed to expand exports to the West. An increasingly popular type of East-West cooperation is the venture intended to attract Western tourists and to increase the sale of services to them.

Well over a hundred of these venture agreements have been concluded in the past five years. New agreements have been signed in greater numbers each year and continue to be signed with no apparent letup after the Czechoslovak events in 1968. Hungary leads the other Communist countries in the number of cooperative venture agreements concluded with Western countries.

Note: This memorandum was produced solely by CIA.
It was prepared by the Office of Economic Research.

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Foreword

The purpose of this memorandum is to provide information on the nature and scope of East-West cooperative business ventures, especially those arranged between the USSR and East European countries on the one hand and the industrial Western countries on the other. Yugoslavia is excluded from the discussion.

The ventures reported in this memorandum range in complexity from simple component supply agreements to jointly owned corporate entities. The common feature of these cooperative ventures is the element of continuing cooperation. Ostensibly cooperative ventures which lack this element -- for example, turnkey projects of long duration like the Soviet-Fiat agreement -- are not included.

Information on East-West cooperative ventures is incomplete in two respects: the actual number of these ventures is unknown because of incomplete or inconclusive reporting, and detailed information on the terms of the agreements is lacking in most cases for the same reason.

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General

1. Cooperative international business ventures, long a feature of international economic relations in the West, were rare in East-West commercial relations before 1964. Earlier cooperation was largely confined to licensing agreements -- still the most common form of East-West economic agreement aside from commodity trade. The vast majority of these licensing agreements involve the acquisition of Western technology by Communist countries, although the flow is occasionally in the other direction.

2. In recent years the USSR and Eastern Europe have evinced considerable interest in forming cooperative arrangements of various kinds with Western firms. Since 1963, well over 100 cooperative venture agreements have been concluded.* About a dozen were concluded in both 1964 and 1965, and since then the numbers per year have increased, reaching about 30 in 1968. Interest in East-West cooperative ventures apparently has not diminished since the Czechoslovak events in 1968. The number of known agreements signed in 1969 continues at roughly the same pace as in 1968.

3. Agreements known to have been concluded are listed in the table below, which indicates that Hungary, the most innovative of the East European countries in economic reforms, is also in the forefront with respect to cooperative venture agreements with Western countries. West Germany, historically the chief Western trading partner of the East European countries, has been the most active of the Western countries in negotiation of cooperative agreements with the Communist countries. France, Italy, the United Kingdom, and Austria also have signed a number of such agreements.

4. The recent interest in production sharing and joint marketing is primarily a reflection of the continuing Communist quest for Western technology and markets. Other sought-after benefits include the use of unemployed or underemployed labor, the training

* Selected groups of cooperative venture agreements are listed in Appendixes A, B, and C.

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Soviet and East European Cooperative Ventures
with Industrial Western Countries
1964 - June 1969

<u>Country</u>	<u>Production Sharing</u>	<u>Joint Marketing</u>	<u>Other</u>
Bulgaria	5	10	3
Czechoslovakia	5	8	1
East Germany	1	1	N.A.
Hungary	20	5	9
Poland	11	8	1
Rumania	11	3	3
USSR	7	9	6

of skilled labor, and the development of a nucleus of experienced managerial talent. Western motives for participation in East-West cooperative ventures include a desire to establish a foothold in the East in anticipation of growing future markets there. Also, production sharing involving Western technology and equipment and East European labor has offered Western firms the opportunity to expand production and markets without incurring the high marginal costs of domestic production.

5. Although the results from these ventures in terms of sought-after Western technology and markets have not been large in absolute terms, their overall success is reflected in the increasing numbers and greater sophistication of these agreements in recent years. Thus in 1967-68 the more complex production sharing agreements have increased greatly in relation to the previously more common joint trading arrangements. In a period when trade between Eastern Europe and the West has been leveling off, cooperative ventures may become increasingly important to East-West trade and a growing source of needed hard currency for East European countries. Hungary has been particularly successful in a number of production sharing arrangements which achieve all the objectives of the East European countries and are also attractive to the Western partners.

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Production Sharing

6. The most common of the cooperative ventures undertaken in the last five years is that of production sharing. The more complex and comprehensive of these arrangements are known as coproduction agreements, which effectively provide for a partnership between Communist and Western participants. In a typical coproduction venture, the Western partner provides the capital and entrepreneurship and the East European partner supplies the plant, labor, and raw materials. The host Communist country thus acquires the desired access to modern Western industrial and management techniques and often secures Western markets for the joint product as well. An example of coproduction is the arrangement made by the West German firms Krupp and Grundig with Poland to manufacture tape recorders. Poland supplies the land, labor, raw materials, and factory building, and the West German partners provide the know-how, machinery, and trademark rights. Poland retains nominal ownership of the venture, and the Krupp and Grundig firms receive a share of the output. Some of the recorders are sold by Poland in Eastern Europe, and the others are sold by Grundig throughout the Free World. In some coproduction ventures the output may be marketed only in the East or only in the West.

7. Less comprehensive agreements require one of the partners to provide component parts for a product or to perform preliminary operations on a product which is then shipped to the other partner for finishing and sale. An example of the former is an agreement between Czechoslovakia and Italy whereby Czechoslovakia supplies motors built especially for Italian motorcycles which are sold only in the West. An example of the second type is a Swedish-Polish agreement for Poland to manufacture furniture which is then sent to Sweden for finishing and sale in the West. Each of these agreements provides the Communist country with Western markets, but not with any technological gain or capital imports. In another example, however, the West German firm Siemens-Reiniger sends components of medical equipment to Hungary, where complete units are produced by the Hungarian enterprise Medicor under West German quality control supervision. The final product is shipped to West Germany. In this case the Communist country acquires Western know-how as well as a Western market.

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Joint Marketing

8. The Communist countries make use of joint marketing to gain entry into markets which might otherwise be closed to them. Joint marketing arrangements that attach a Western trademark to Eastern goods or provide for their distribution through a Western sales network enable the Communist countries to benefit from the commercial reputation of the Western company or brand name. Such market sharing may also cloak the Communist origin, which in some Western countries might repel would-be buyers. These benefits are automatically secured in supply agreements that involve Eastern export of components instead of finished products.

9. The joint marketing firms are generally domiciled in the West and may take a variety of organizational forms. Sometimes a joint-stock company is used to market East European exports. An example is the joint French-Bulgarian company Sofbim formed to promote sales of Bulgarian machine tools in France. Ownership of the firm is divided among six Bulgarian and 10 French firms, each side holding 50 percent. Similarly, the joint Soviet-Belgian company Nafta was established in Belgium to import and sell Soviet petroleum products, although in this company the USSR retained majority ownership.

10. A joint marketing venture often does not involve joint investment but instead utilizes an already established Western sales network or trademark to market Communist goods, or a Communist country's sales network to sell Western goods. For instance, a 1966 Austrian-Czechoslovak agreement provided for Czechoslovak-made ski equipment to bear the Austrian firm's trademark and to be marketed in both countries. The Czechoslovaks receive part of the hard currency proceeds of Austrian sales. Another marketing arrangement involves the sale of Ferranti (UK) Argus computers by Inorga of Czechoslovakia in the latter country. Inorga does the actual selling of the computers and provides software and maintenance service.

Other Types of East-West Ventures

11. Other ventures, which are not in the above categories, include joint shipping companies and a

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series of tourist-related activities. These ventures also provide the Communist partner with increased exports or export potential in the form of services as well as Western expertise and capital. In these ventures, the host Communist country often permits the Western partner to exercise a large measure of control over the entire operation. Business practices are similar to those in Western countries, and the name of the Western product often is maintained. Shell, a major Western oil company, is setting up in Hungary a chain of its automobile service stations supplying its brand of products. The Hungarians obtain hard currency from foreign users of the stations and obtain practical access to Western business methods.

12. The tourist industry is a particularly noteworthy example. In the past few years, Western companies have concluded agreements with Communist countries for the construction of several hotels in Eastern Europe. Tower International, a US-owned corporation, is involved in several of these projects. It provides a portion of the necessary capital, supervises planning and construction, arranges for Western management, and handles sales and reservations service in the West. In return Tower, or any other Western participant, may take a share of the profits in hard currency or make other financial arrangements.

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APPENDIX A

East-West Production Sharing

<u>Date a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1964	Bulgaria	Netherlands	Jointly owned company NV Pastem assembles Bulgarian lift trucks in the Netherlands and markets and services them throughout the EEC.
1965	Bulgaria	Italy	Italian partner Gaetano Zocca incorporates Bulgarian components into its machine tools produced in Italy and markets them in the West through its Swiss office.
1967	Bulgaria	Italy	Bulgarian enterprise Balkancar assembles Fiat autos for sale in Bulgaria.
1967 b/	Czechoslovakia	France	French firm Petrochimie and a Czechoslovak firm jointly produce industrial equipment for less developed countries.
1967 b/	Czechoslovakia	West Germany	Joint production of turbines, to be supplied to third countries.
1967	Czechoslovakia	Italy	Joint production of small motorcycles. Czechoslovak Povazske

a. Date the agreement was concluded, unless otherwise indicated.
b. First noted.

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<u>Date a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
			Engineering Works supply motors; the Italian firm Itölemmezeta mounts and sells them.
1967 b/	Czechoslovakia	United Kingdom	A.E. Callaghan of the UK collaborates with Kdyske Strojirny of Czechoslovakia in production of automated textile machinery. Both partners supply components, and profits are shared 50-50.
1965	East Germany	United Kingdom	British Perkins engines installed in East German forklift trucks; marketed in the West through Perkins representatives.
1964	Hungary	Austria	Austrian firm Fuehrungstechnik and the Hungarian enterprise Nikex jointly own and operate a lime works in Italy.
1966 b/	Hungary	Italy	Italian Alfa-Romeo engines are fitted into Hungarian buses and marketed in the West by an Italian firm.
1966	Hungary	West Germany	West German firm Spillings-Werke's steam engines and Hungarian generators are combined and marketed in Hungary, West Germany, and third countries.

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b. First noted.

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<u>Date</u> <u>a/</u>	<u>Communist</u> <u>Country</u>	<u>Western Country</u>	<u>Description</u>
1967 <u>b/</u>	Hungary	West Germany	West German firm Siemens-Reiniger sends components of medical equipment to Hungary, where the Hungarian firm Medicor assembles them under West German quality control supervision. Completed units are shipped to West Germany.
1968	Hungary	Austria	Austrian firms Steyr-Daimler-Puch and the Hungarian Red Star Tractor Factory cooperate in production of heavy duty tractors. Cooperation also extends to marketing and servicing.
1968 <u>b/</u>	Hungary	France	French firm Neyprick-Alsthom cooperates with Hungary in the manufacture of hydraulic turbines.
1968	Hungary	France	Cooperation in toy production. A French toy manufacturer provides Hungarian firm with equipment and know-how and receives part of the production. Goods are jointly marketed and profits are shared.
1969	Hungary	West Germany	Joint supply of textile machinery to Czechoslovakia. Each partner provides 50 percent of the component parts,

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<u>Date</u> ^{a/}	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
			which are then assembled in Czechoslovakia.
N.A.	Hungary	France	French firm Berliet and the Hungarian enterprise Ikarus cooperate in bus chassis production and marketing.
1966	Poland	West Germany	West German firms Krupp and Grundig jointly manufacture tape recorders with Poland. Poland supplies land, labor, raw materials, and the factory building, while the West German partners provide know-how, machinery, and trademark rights. Poland retains ownership of the venture; Krupp and Grundig receive a share of the output for royalties and repayment. The recorders are sold by Poland in Eastern Europe and by Grundig in the rest of the world.
1966	Poland	Sweden	Poles make semifinished furniture to the specifications of Swedish partner, Ikea. Ikea supplies machinery, technical supervision, and quality control.

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<u>Date ^{a/}</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
			Output is sent to Sweden for finishing and marketing.
1967	Poland	United Kingdom	British firm Power-Gas Co., Ltd., and Polish enterprise Polimex cooperate in the building of industrial plants and installations for third markets.
1968	Poland	France	Joint production of multispindle automatic lathes. French partner Amtec-France receives unfinished lathes from Polish firm and finishes them. They are marketed under joint trademark "Amtec-Fat" in France and other mutually agreed-upon markets.
1968	Rumania	Italy	Joint manufacture of electric generating sets. Rumanian partner Masin-export supplies the generators, and the Italian firm Isotta Fraschini provides thermic diesel engines, transmissions, and control panels for automated operation.
1969	Rumania	West Gemany	Cooperation in truck production. West German partner Man supplies technology and name; Rumania constructs the vehicles, which bear a joint trademark. Part of the production is exported.

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<u>Date</u> <u>a/</u>	<u>Communist</u> <u>Country</u>	<u>Western Country</u>	<u>Description</u>
1964	USSR	Belgium	Joint company Scaldia-Volga, located in Belgium; USSR owns two-thirds interest. Imports, assembles, and sells locally Soviet autos and trucks, the latter including Perkins engines from Britain.
1967	USSR	Japan	Joint manufacture of coal mining combines. Japanese firm Mitsui supplies component parts and distributes the finished product in parts of East Asia.
1969 <u>b/</u>	USSR	France	Joint manufacture of electronic digital equipment. Agreement calls for construction of a jointly funded manufacturing facility in France and a bilateral exchange of technical assistance and personnel.

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APPENDIX B

East-West Joint Trading Companies and Marketing Arrangements

<u>Date</u> <u>a/</u>	<u>Communist</u> <u>Country</u>	<u>Western Country</u>	<u>Description</u>
1965 <u>b/</u>	Bulgaria	West Germany	Joint trade company Chemie-Commerz GmbH for promotion of trade in chemicals between the two countries; located in West Germany.
1966 <u>b/</u>	Bulgaria	Netherlands	Joint trade company, held 55 percent by Machinoexport of Bulgaria and 45 percent by the Dutch firm Maringson Mij NV. Except for sale of Dutch machinery in Bulgaria, the firm's activities are restricted to Western Europe. Profits are divided equally.
1967	Bulgaria	France	Joint company Sofbim to promote sales of Bulgarian equipment in France. Shares of the Paris-based firm are divided 50-50 between Bulgarian and French interests.
1967	Bulgaria	Australia	Joint trade company Bumac International Pty., Ltd., based in Australia and shares held 50-50.

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<u>Date</u> <u>a/</u>	<u>Communist</u> <u>Country</u>	<u>Western Country</u>	<u>Description</u>
1966 <u>b/</u>	Bulgaria	West Germany	Joint trade company Istrum A.G. for promotion of Bulgarian-West German trade; ownership is 50-50. Bulgarian partner is Bulet.
1969	Bulgaria	Japan	Bulgarian Iron and Steel Export Corp. bought an interest in the Japanese firm Nichibu. Under Joint Bulgarian-Japanese management, the firm will trade in iron and steel and in machinery for the iron and steel industry, primarily between Bulgaria and Japan.
1964	Czechoslovakia	United States	US firm Simmons receives metalworking machinery from Czech partner Skoda. After slight modification the machines are marketed under Simmons trademark and through Simmons outlets.
1966	Czechoslovakia	Austria	Czech-made ski bindings, bearing the Austrian firm Wiener Metallwarenfabrik Sinolka's trademark, are jointly marketed in both countries. The Czechoslovaks receive part of the hard currency proceeds of Austrian sales.

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<u>Date</u> ^{a/}	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1967	Czechoslovakia	France	Jointly owned company Stim-France to sell Czech machine tools in France; based in France.
1969	Czechoslovakia	United Kingdom	Marketing agreement under which Ferranti of the UK and Inorga of Czechoslovakia cooperate in selling Ferranti's Argus computers in Czechoslovakia. Inorga provides software, sells the systems, and provides maintenance service.
1969	Czechoslovakia	Sweden	Joint trading company Tjeco-Svea AB, based in Sweden, to market Czech machine tools in Sweden and Swedish industrial products in Czechoslovakia. Ownership is equally divided between Strojimport of Prague and Jeijerinvest of Stockholm.
1969	Czechoslovakia	Italy	Joint trading company Mez Italiana markets Czech products, mainly electric motors, in Italy. The Milan-based company is held 51 percent by Czech interests and 49 percent by Italian interests.

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<u>Date a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1967	East Germany	France	Joint trading company Defraco, located in Paris, designed primarily to expand East German exports to France.
1969	Hungary	France	Joint trading company Technotrans, based in France, to promote sales of Hungarian goods in France, mainly machine tools and electric motors. The partners will also cooperate in looking for products needed by Hungarian industry. Ownership is 60 percent French and 40 percent Hungarian.
1969	Hungary	Canada	Joint marketing of Hungarian bathtubs by Okusa of Canada and Enamel Industry Works of Hungary.
1965 b/	Poland	West Germany	Joint trading company Deploma, based in West Germany, to promote trade in heavy machinery between Poland and West Germany. Ownership is 55 percent Polish and 45 percent West German.
1966	Poland	France	Joint trading company Metalex-France to facilitate Polish exports, mainly equipment. Ownership of the French-based firm is 80 percent Polish and 20 percent French.

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<u>Date</u> <u>a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1967 <u>b/</u>	Poland	France	French firm Ateliers et Chantiers de Bretagne and the Metalexport Machine Tool Bureau of Poland market Hungarian-produced hydraulic equipment under a joint trademark.
1968 <u>b/</u>	Poland	Netherlands	Joint trading company International Production Handelsmaatschappij Calanda, based in Amsterdam; imports and exports agricultural and industrial products. Emphasis is on Polish exports.
1968	Rumania	West Germany	Joint trading company to promote trade in chemical and pharmaceutical products between the two countries. Partners in the West German-based company are the West German firm Chemie Handelskontor and Rumania's Chimomport.
1964 <u>b/</u>	USSR	Italy	Joint company Societa Ormas sells in Italy machinery supplied by Soviet foreign trade enterprises Mashinokспорт, Traktorokспорт, and Technopromimport.
1964 <u>b/</u>	USSR	Finland	Joint company Oykoneisto Ab imports and sells Soviet machinery in Finland.

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<u>Date</u> <u>a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1966	USSR	France	Joint company Actif-Avto to sell Soviet tractors in France.
1967	USSR	Belgium	Joint firm Nafta sells Soviet petroleum products in Western Europe. Ownership of the Belgium-based company is 60 percent Soviet and 40 percent Belgian.
1968 <u>b/</u>	USSR	Norway	Joint firm Konela Norge Bill, based in Oslo, to market Moskvich cars in Norway. The Soviet enterprise Avtoeksport holds a controlling share in the firm.
1969 <u>b/</u>	USSR	France	Joint firm Sogo and Company to sell Soviet chemicals in France.

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APPENDIX C

Other East-West Ventures

<u>Date</u> <u>a/</u>	<u>Communist Country</u>	<u>Western Country</u>	<u>Description</u>
1968	Bulgaria	United States	Agreement between Diner's Club and Balkantourist providing for the main hotels and tourist stores in Bulgaria to honor Diner's Club cards.
1967	Czechoslovakia	United States	Agreement providing for Tower International of the United States to provide capital and know-how in construction of a tourist hotel in Czechoslovakia.
1966	Hungary	United States	Agreement with Tower International on building a hotel in Hungary. Hungary is to provide the site and some capital; Tower is to provide advisers and capital and to receive a percentage of gross receipts over a period of years.
1969 <u>b/</u>	Hungary	United States and Netherlands	Shell Oil Co. will help construct Shell gasoline stations in Hungary (10 initially) and will supply management, advice, and

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<u>Date</u> <u>a/</u>	<u>Communist</u> <u>Country</u>	<u>Western Country</u>	<u>Description</u>
			Western goods and parts. Hungarian agencies will own the stations.
1968 <u>b/</u>	Rumania	United States	Cooperation with Intercontinental Hotels of the United States in construction of a tourist hotel in Rumania.
1969	USSR	United States	Agreement between Hertz Corp. and Intourist to establish a car rental service in the USSR. Intourist owns the cars and pays the employees; Hertz supplies its name, worldwide reservation service, and expertise. Intourist pays Hertz for the franchise and Hertz gets the concession for car rentals needed by Russians traveling abroad.
1969	USSR	United States	Agreement between Diener's Club and Intourist providing for acceptance of the Diner's Club card by Intourist facilities.

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