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EXPORTING TO EASTERN EUROPE: PRINCIPLES AND PRACTICE

Including a Case Study of the Market for

Fire Fighting Equipment

by

Daniel Ellis Franklin

A thesis submitted for the degree of
Doctor of Philosophy

The University of Aston in Birmingham

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SUMMARY

East-West trade has grown rapidly since the sixties, stimulating a parallel expansion in the literature on the subject. An extensive review of this literature shows how: (i) most of the issues involved have at their source the distinctions between East and West in political ideology and/or economic management, and (ii) there has been a tendency to keep theoretical and practical perspectives on the subject too separate. This thesis demonstrates the importance of understanding the fundamental principles implied in the first point, and represents an attempt to bridge the gap identified in the second.

A detailed study of the market for fire fighting equipment in Eastern Europe is undertaken in collaboration with a medium-sized company, Angus Fire Armour Limited. Desk research methods are combined with visits to the market to assess the potential for the company's products, and recommendations for future strategy are made. The case demonstrates the scope and limitations of various research methods for the East European market, and a model for market research relevant to all companies is developed.

The case study highlights three areas largely neglected in the literature: (i) the problems of internal company adaptation to East European conditions; (ii) the division of responsibility between foreign trade organisations; and (iii) bribery and corruption in East-West trade. Further research into the second topic - through a survey of 36 UK exporters - and the third - through analysis of publicised corruption cases - confirms the representativeness of the Angus experience, and reflects on the complexity of the East European import process, which does not always function as is commonly supposed.

The very complexity of the problems confronting companies reaffirms the need to appreciate the principles underlying the subject, while the detailed analysis into questions of, originally, a marketing nature, reveals wider implications for East-West trade and East-West relations.

KEY WORDS:

EAST-WEST TRADE; MARKET RESEARCH; FOREIGN TRADE ORGANISATIONS; BRIBERY

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ABBREVIATIONS

Director of Commerce and Industry

AFFF: Aqueous Film Forming Foam

BOTB: British Overseas Trade Board

CEMA)
CMEA) The Council for Mutual Economic Assistance
COMECON)

COCOM: Coordinating Committee (of representatives of NATO countries less Iceland plus Japan, responsible for administering the Western strategic embargo).

CPE: Centrally Planned Economy

CSSR: Czechoslovak Soviet Socialist Republic

EETC: East European Trade Council

FFE: Fire Fighting Equipment

FRG: Federal Republic of Germany

FTO: Foreign Trade Organisation

FYP: Five Year Plan

GDR: German Democratic Republic

HCB: Hampshire Car Bodies (fire fighting vehicle manufacturers, subsidiary of Angus Fire Armour Ltd.)

HEF: High Expansion Foam

LCCI: London Chamber of Commerce and Industry

MFN: Most Favoured Nation

NMP: Net Material Product

SCEE: Socialist Countries of Eastern Europe

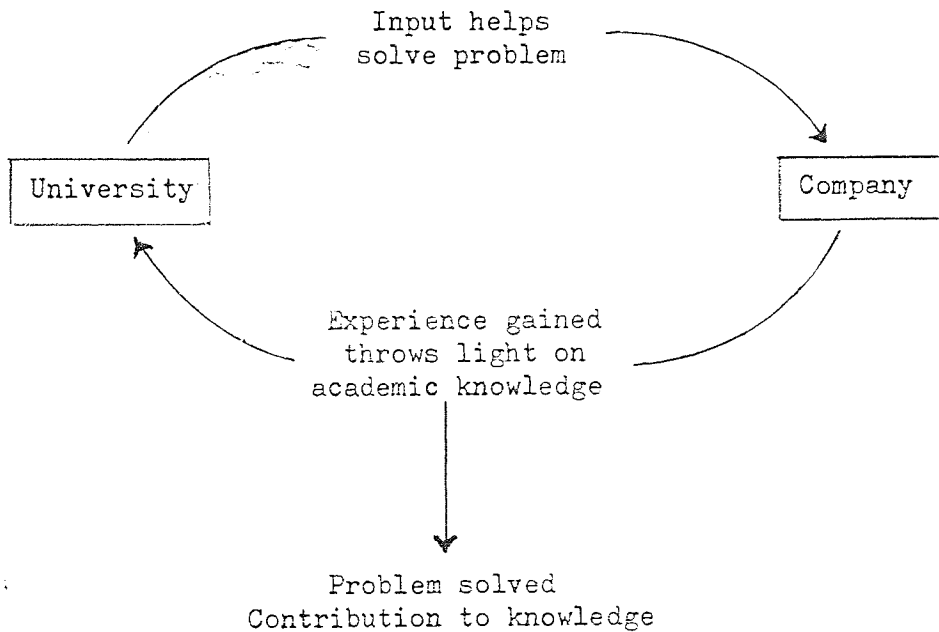
VNIPO: Vsesoyuzny Nauchno-Issledovatel'sky Institut
Protivopozharnoi Oberony (All-Union Scientific-
Research Institute for Fire Protection)

CHAPTER 1: INTRODUCTION: AIM AND ORGANISATION OF RESEARCH

"My subject cuts deeply across several disciplines. To give it adequate treatment (in terms which are representational rather than exhaustively descriptive) I have had to stray far more freely than I like from the proper preserves of the international lawyer, to those of the economist, banker, business manager, diplomat, political scientist and public servant concerned with foreign policy and military defence. These trespasses occur because none of the institutions and concepts in question can be adequately understood apart from the amorphous and essentially alien environment in which they are required to operate". (Samuel Pissar, 1971; p.10).

East-West trade, it would appear from this comment by a prominent scholar of the subject, fits uneasily in the strait-jacket imposed by established disciplinary boundaries. Instead, it seems to lend itself to an interdisciplinary approach, and hence forms appropriate matter for research through the Interdisciplinary Higher Degrees (I.H.D.) scheme at Aston. This scheme operates in collaboration with industry as illustrated in Figure 1.1. below: academic input of an interdisciplinary nature is used to help solve a practical problem within a company; in return it is hoped that the experience gained can make a contribution to the state of knowledge on the subject in question.

Figure 1.1: How the I.H.D. Scheme Works



In the case of this project, the company was a subsidiary of Dunlop Ltd., Angus Fire Armour Ltd.¹, who manufacture a wide range of fire fighting equipment. The problem was to assess the market potential for Angus products in Eastern Europe (including the Soviet Union, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania, but excluding Yugoslavia) and to determine what sales strategy, if any, the company should adopt.

1. In November 1980 (some time after work on this project with the company had been completed), Angus was sold by Dunlop to the Guthrie Corporation (see the Financial Times, 30 November, 1980).

As work progressed, more general issues in East-West trade were considered, and research continued after the collaboration with the company had been completed. Thus, while the Angus case study provided the pivot of the project, the overall scope of the thesis is wider: we attempt to develop a broad analytical framework for East-West trade, within which certain specific aspects of the subject can be examined in detail.

The thesis falls into three parts (framed by an introduction and conclusion), broadly corresponding to the pattern shown in figure 1.1 above:

Part 1: Background to East-West trade and state of existing knowledge (Chapters 2-5).

Part 2: Detailed case analysis of Angus Fire Armour Ltd. and its market potential in Eastern Europe (Chapters 6-9).

Part 3: Further research (suggested by the case study) into aspects of the East European importing system (Chapters 10-12).

This structure was largely determined by the way in which the research evolved. The project was approached by a linguist without previous knowledge or experience of East-West trade, and hence with an open mind as to what academic import might prove useful. Initial observation within the company suggested that difficulties had arisen in the past through lack of knowledge and understanding of the East-West trade environment, and that it was essential to develop an appreciation of this:

what, precisely, was different about East-West trade, and why? What special marketing problems were likely to be encountered, and why? It was clear that little progress could be made from the stage already reached by the company unless these basic questions relating to the East-West trade environment were understood. This is essentially the approach suggested above by Pizar, and it is consistent with mainstream international marketing theory:

"Variations in the political, cultural, economic and institutional dimensions are significant factors of the kind of mix that must be developed if the consumer's needs will be fully satisfied. It is right to say therefore that in an international marketing effort the environmental dimensions become very important, in fact even more so than in domestic marketing, and we shall treat them as an integral part of the marketing mix". (Majaro, 1977; p.17).

"The differences between domestic and global marketing derive entirely from the differences in national environments within which global marketing is conducted..." (Keegan, 1974; p.6).

"Just as space scientists and astronauts must study the expected environment on the moon and other planets, so international marketers must analyze the environment in which they will be operating. The kind of steps they can take and the adaptations they must make will be determined largely by this environment, just as astronauts' actions are defined by the moon's environment". (Terpstra, 1978; p.1).

It was surprising to find, therefore, that the background environment to East-West trade receives generally superficial treatment in marketing guides to Eastern Europe. Such guides tend to examine what, in practice, is different about the area, but pay little attention to why this is so; the emphasis is predominantly on what problems the western exporter faces, rather than on appreciating the East European perspective - which is surely how one begins to understand an alien environment. An experienced campaigner would doubtless be able to read between the lines and fill in the gaps, but to a newcomer these guides appear hollow and inadequate. Thus, in order to understand the environment, wider reading on East-West trade and on East European economic management was required.

Part 1 of this thesis, then, developed from a background study specifically related to Angus into a far more general, self-contained survey of the subject of East-West trade. It sets the subject in perspective, reviews the many issues involved, and, in particular, attempts to show the fundamental principles which lie behind and give rise to these issues, providing, as it were, a linking thread between them. It is hoped thereby to create a background framework that is relevant not just for the Angus study, but for all companies and for the subject of East-West trade in general.

Specialists in East-West trade will be familiar with the matters discussed in the first three 'foundation' chapters (Chapters 2-4), but they are included because the remainder of the thesis rests heavily on the basic principles they describe. Chapter 2 concentrates on predominantly quantitative analysis, setting Eastern Europe and East-West trade in international perspective. An understanding of the Soviet-type economic system is essential, since it is from this above all else that the distinguishing features of East-West trade evolve; this system is therefore described in outline in Chapter 3, while Chapter 4 looks at how foreign trade is organised within the planned economies. The ground is thus prepared for the discussion, in Chapter 5, of the major issues involved in East-West trade, through a review of the extensive literature on the subject. The evolution and nature of East-West trade as a subject are examined, followed by a critical analysis of the literature, both on general political and economic issues, and on marketing issues. It is argued that these two perspectives tend to be kept too separate, and that the subject would benefit from an attempt to bridge the gap between them; this is, indeed, one of the main objectives of the present thesis.

The second section of the thesis begins, in Chapter 6, with a more detailed introduction to Angus Fire Armour and the reasons for the project being set up, and a description of the various methods of research used: seeking 'expert opinion', desk research and visits to the market. For the sake of conciseness and continuity, some of the more detailed data (e.g. in-depth description of Angus products, analysis of trade data, reports of visits to Eastern Europe) are omitted

from the main text and included as appendices. Chapter 7 presents the findings of the research, showing what was learnt about the import channels for fire fighting equipment, the nature of domestic and Western competition and the prospects for sales. In the light of the opportunities and constraints perceived, recommendations are made on company strategy for the future. Up to this point, the focus is entirely on the external environment; in Chapter 8, attention is turned inside the Company, to problems of internal adaptation to the special demands of the East European market, and we see how this adds a further dimension to the difficulties of trading with Eastern Europe.

In the final section of Part 2 (Chapter 9), the research with Angus is assessed, both from the Company's perspective, and from the more general perspective of the contribution made to the subject of East-West trade. Although the Angus case represents only a drop in the ocean of East-West trade activity, some conclusions of general relevance can be drawn. The Angus experience centres on the early stages of approaching the East European market; based on this experience and on the literature reviewed, a loosely-designed model for market research and strategy formation in Eastern Europe is presented. The case study tends to confirm many of the major points made in the marketing literature, but particularly at the detailed operational level the Angus experience also exposes the complex nature of East-West trade practice, and points to aspects of the subject which had received insufficient attention in the literature.

Part 3 of the thesis takes up two of these areas which, the Angus experience suggested, had not been adequately treated in the existing literature, and which demonstrate the complexity and uncertainty involved in exporting to Eastern Europe. Both relate to the way in which East European import systems function, and the aim is to deepen the analysis of these issues beyond the level permitted by existing studies and the limited experience of Angus Fire Armour.

In Chapter 10 we examine the monopoly position of East European foreign trade organisations (FTOs). A survey of thirty-six UK companies shows that the Angus experience in this respect was not unique: the majority of companies exporting to Eastern Europe are faced with more than one importing organisation for their products, and the import channels do not always function as they are officially 'supposed to'. The reasons for this are complex, but one important consequence is that advice from official bodies and marketing guides can be dangerously misleading.

The second theme taken up in Part 3 is the sensitive question of bribery and corruption in East-West trade - so sensitive that it tends to be ignored or mentioned only fleetingly in the existing literature; however, experience of contacts with East-European decision-makers suggested that gift-giving of varying degrees might be an extremely

important element in the East-West trade decision-making process. Analysis is complicated by the nature of the issue; the approach taken was to collect references to corruption cases in printed sources (mainly the East European press), and these cases are presented in Chapter 11. In Chapter 12 we analyse the data, which give some insight into the nature and extent of corruption in East-West trade.

These studies provide further evidence that the element of uncertainty and unpredictability in East-West trade is strong, a fact which seriously undermines the value of prescriptive marketing guides. This in itself reinforces the need to understand the fundamental principles which generate the various issues involved, since such an understanding permits a flexible response to the problems encountered. One of the main conclusions of the research, therefore, consists in justifying the approach through which the conclusion itself was reached.

Such, then, is the ground covered in this thesis. In reviewing the literature on East-West trade, criticism is levelled at the rigid separation which tends to be made between the theoretical and practical aspects of the subject. Throughout this work we stress the

importance of the fundamental principles which generate the issues involved in East-West trade, and the examination of specific practical questions (the Angus case, the FTO monopoly, bribery and corruption) is assisted - and sometimes only made possible - by the analytical framework described in Part 1. In turn, discussion of specific practical questions throws some light on the more general issues in East-West trade - indeed, we have attempted to consider both specific and general implications of our findings at all stages of our analysis. The result is that the present thesis should be seen neither as a narrow marketing work, nor simply as a general treatment of East-West trade: as the title suggests, it is about the interplay between the principles and the practice of East-West trade.

No apology is made for the breadth of attack; for, as Pisar found, a broad interdisciplinary approach is demanded by East-West trade, a subject in which - as is the case with Soviet-type planning - 'all must be seen in the context of all'.

CHAPTER 2: EASTERN EUROPE IN PERSPECTIVE

Seventeen percent of the world's surface area, nine percent of its population and seventeen percent of total GNP¹ - such is the combined importance of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the Soviet Union. Of these, the Soviet Union stands out as the dominant country in both physical size and economic and military strength.

Table 2.1: GNP, Surface Area, Population Comparison

	<u>GNP 1978</u> <u>Billion US \$</u>	<u>Population (Millions)</u> <u>1978 Mid-Year</u>	<u>Surface Area</u> <u>(km²)</u>
WORLD	9,660.0	4,208.0	135,830,000
USA	2,107.6	218.5	9,363,123
UK	309.6	55.9	151,126
USSR + EASTERN EUROPE	1,640.0	369.7	23,392,166
USSR	1,253.6	261.2	22,402,000
BULGARIA	24.8	8.8	110,912
CZECHOSLOVAKIA	70.7	15.1	127,869
G.D.R.	81.0	16.8	108,178
HUNGARY	32.1	10.7	93,030
POLAND	108.3	35.0	312,677
ROMANIA	67.5	21.9	235,500

Sources: GNP and population from CIA, Handbook of Economic Statistics, Washington, National Foreign Assessment Centre, 1979. Surface area from U.N. Demographic Yearbook, 1977.

1. A note on the use of East European statistics and their comparability with Western data is given in Appendix 2A.

Despite diversity of history, language and culture, these countries tend to be viewed as a group. This is partly because they represent a geographical block, but mainly because of their common Marxist-Leninist political ideology and their similar systems of economic management, which distinguish them from the capitalist West.

2.1. Recent History

After the Second World War, left-wing governments were established in all the East European countries, and by 1949 communist parties had gained complete control. The following years were marked by political purges and Soviet exploitation. After Stalin's death - in particular after the Polish bread riots and the Hungarian uprising of 1956 - there was some internal liberalisation, and the USSR has since used the stick sparingly, turning to the carrot as a more effective means of obtaining cooperation from her partners. (See Brzezinski, 1967, for a detailed analysis of the changing relationship between the Soviet Union and her partners in this period).

Anxious to protect their own national interests, the smaller East European countries have not simply followed the line dictated by Moscow: the Polish free trade union movement provides the most vivid example of 'deviance'; Romania has pursued an independent foreign policy; and Hungary has introduced significant economic reforms; moreover, the status quo is challenged by dissident movements throughout the bloc. Some deviation from the 'orthodox' line is tolerated, but, as the so-called 'Brezhnev doctrine' (enunciated shortly after the invasion of Czechoslovakia in 1968)

made clear, dissent is likely to be crushed whenever it is seen to threaten 'socialism' (meaning, in practice, arrangements acceptable to Moscow), and hence the security of the bloc as a whole. This led East European governments to pursue conservative policies in the seventies, with major reforms avoided, attempting to placate the population by a steady improvement in the standard of living.

2.2. The Political System

The precise nature of the political system varies from country to country, but all are broadly based on the Soviet model. There is an elected parliament (Supreme Soviet, Sejm, Volkskammer etc.), which meets infrequently. It elects a praesidium or Council of State, which assumes legislative powers between parliamentary sessions. A Council of Ministers (in effect the government), is also elected by, and is responsible to, parliament.

In practice, power rests in the hands of the party, whose parliamentary candidates are elected without opposition. The highest authority of the party, its congress, elects a central committee, which in turn elects a small 'Politburo'. It is the Politburo that dictates national policy through party and governmental organs. Senior appointments are subject to party control, and important posts are usually held by party members. (For a detailed description of the Party in the Soviet Union and how it evolved, see Schapiro, 1970).

2.3. The Council for Mutual Economic Assistance

The Council for Mutual Economic Assistance (CMEA, CEMA and Comecon are commonly used abbreviations) was founded in January 1949 to provide an institutional framework for economic exchanges in Eastern Europe¹. At least once a year there is a session of the Comecon Council, consisting of the Prime Ministers of the member countries, the highest authority of the organisation. Below this there is an executive committee (consisting of representatives from each country at deputy Prime Minister level) which meets every three months, various standing commissions, a permanent secretariat in Moscow and a few joint project organisations (see Wacker, 1979, pp.41-59 and pp.145-7 for a description of CMEA organs).

Comecon was set up largely as a response to the Marshall Plan, and until 1956 was little more than a name. The Cold War, the formation of the EEC (1958), of EFTA (1960), plus a genuine need for greater economic cooperation, stimulated an up-grading of the organisation, an attempt to

1. In addition to the countries already mentioned, the Mongolian People's Republic (1962), Cuba (1972), and Viet-Nam (1978) have also become full members, but their contribution is small and their economic relations with the West are very different from those of the East European members, and we shall be using 'Comecon' to refer to the European members alone. Yugoslavia participates in certain defined spheres of the Council's activities, but is not a member. Albania is still officially a full member, but since 1961 has not taken part in the Council's activities; Korea (People's Democratic Republic, 1957), Angola (1977), Laos (1977) and Ethiopia (1978) have observer status.

make it more effective. Two important documents - The Charter (1959) and "Basic Principles of the International Socialist Division of Labour" (1962) - spelt out the aims of the Council. Special emphasis was laid on economic and technical cooperation, on improving the international division of labour and on the elimination of the differences in levels of economic development within Comecon. At the same time, the principle of the national sovereignty of the member nations was stressed.

Progress towards these goals has been slow, hampered by the problems of central planning and conflicting national interests. Romania in particular strongly resisted Khrushchev's attempts to establish a supra-national planning organ, seeing this as a threat to national sovereignty and fearing economic subservience. Consequently, there is little coordination of the national plans, and only superficial economic cooperation. East European currencies remain inconvertible due to the absence of a supra-national planning authority (and because of the administrative economic system - to be explained in Chapter 3), which greatly inhibits capital flows within Comecon. Intra-bloc trade is still essentially bilateral, despite attempts to multilateralise it - notably the establishment in 1963 of the International Bank for Economic Cooperation (IBEC), which created the transferable rouble. The other Comecon bank, the International Investment Bank (IIB - established 1970), has proved more effective, its purpose being to finance projects of mutual interest.

At the 1972 session of the Council a 'Comprehensive Programme' was drawn up, containing a wide range of ambitious long-term proposals for scientific and economic activity. The idea seems to have been to achieve greater integration while avoiding unpopular institutional reform, but many of the proposals (such as the aim to introduce a convertible Comecon currency by 1980) have proved unworkable.

It is clear that Comecon is far from being a true common market, in which goods flow freely between the member states. This fact, together with the lack of supra-national authority within Comecon to conduct trade negotiations with outside states, has so far prevented any agreements being reached with the EEC, although various overtures have been (and continue to be) made.

2.4. Economic Development

(i) Resources

The smaller East European countries are heavily dependent on the Soviet Union for raw materials, especially fuel - despite Polish coal, East German lignite and Romanian oil. The USSR is exceptionally rich in natural resources; she is the world's largest producer of oil, iron ore and asbestos, and stands high in the production league for coal, lignite, gold, copper, lead, zinc, chromium and nickel (see Appendix 2.B., Table B.1.). However, much of the potential mineral wealth lies in the inhospitable permafrost regions of Siberia, with the cost of development extremely high.

As for labour resources, there has been a slowing of demographic growth since the War (see Appendix 2.B., Table B.2.). Czechoslovakia, East Germany and Hungary suffer from an acute shortage of labour. The situation is not helped by the virtual non-existence of labour flows between Comecon countries.

(ii) Economic Growth

The Soviet economic system has been described as "Totalitarianism harnessed to the task of rapid industrialization and economic growth" (Campbell, 1974; p.3). Certainly rapid economic growth has always been a prime objective of the Comecon countries, motivated by security considerations, the desire to overtake capitalist countries and create 'full communism', and by a definite 'growth for growth's sake' ethos.

Starting with the first Soviet five-year plan in 1928, a policy of 'extensive growth' was pursued, involving extensive utilisation of available resources, collectivisation of agriculture, an extremely high level of investment, with priority given to heavy industry. Results were impressive - if achieved at great human cost - turning a relatively backward country into the world's second biggest industrial power. A similar growth strategy was imposed on the smaller East European countries after the War.

In the sixties, however, with the exception of Romania, there was a general slowing of growth rates. The breadth of resources necessary for extensive growth was quickly exhausted in the smaller countries, while in the Soviet Union the slack had been taken up. Consequently, Comecon countries have turned towards a policy of 'intensive growth', which means more discriminating use of existing resources, concentrating on the more efficient industries, with greater emphasis on quality, new technology and labour productivity. In recent years, only moderate growth rates have been achieved, as the following Western estimate shows:

Table 2.2: Real Gross National Product Growth (%)

	<u>Ave. Annual Rate</u>							
	1961-5	1966-70	1973	1974	1975	1976	1977	1978
USA	4.7	3.0	5.5	-1.4	-1.3	5.7	4.9	4.0
UK	3.3	2.3	6.6	-0.6	-1.6	2.6	1.6	3.0
USSR	4.9	5.3	7.2	3.8	1.8	4.3	3.4	3.2
BULGARIA	6.3	4.8	4.1	3.3	7.9	4.1	-0.2	4.4
CZECHOSLOVAKIA	2.0	3.5	3.3	3.6	2.9	2.1	4.3	2.5
G.D.R.	2.9	3.2	3.1	4.8	3.8	2.2	4.0	3.3
HUNGARY	4.2	3.1	5.0	2.4	2.7	-0.1	5.0	2.6
POLAND	4.1	3.8	7.5	5.9	4.6	4.1	2.8	2.7
ROMANIA	5.0	4.6	3.3	5.6	4.4	11.7	3.2	4.2

Source: CIA, Handbook of Economic Statistics, 1979

The rate of investment is still very high: 30.7% of GNP for the USSR in 1978, compared with 16.4% in the USA and 18.2% in the UK¹, and there is still a marked priority for the production of capital goods at the expense of consumer goods. The two main casualties of these priorities have been the consumer and agriculture. In the Soviet Union in particular, where agriculture is a vital sector of the economy, poor, unpredictable grain harvests have proved a major obstacle to growth. Efforts to remedy this situation have had some success, though at considerable cost (see Nove, 1978).

(iii) Level of Economic Development

Table 2.3 shows the Comecon countries, the USA and the UK in approximate order of ranking according to their level of economic development, with various indicators of their relative positions:

1. Derived from CIA, Handbook of Economic Statistics, 1979.

Table 2.3: INDICATORS OF ECONOMIC DEVELOPMENT

	PER CAPITA GNP 1978 (US \$)	PROPORTION OF LABOUR FORCE EMPLOYED IN AGRICULTURE IN 1978 %	SHARE OF AGRICULTURE IN NATIONAL INCOME IN 1977 %	TELEPHONES IN USE PER 1,000 INHABITANTS IN 1977
1. U.S.A.	9,650	3.8	3	744
2. U.K.	5,540	3.7	2	415
3. G.D.R.	4,820	9.8	10	171
4. CZECHOSLOVAKIA	4,680	14.8	10	190
5. POLAND	3,090	31.1	16	84
6. HUNGARY	3,000	19.5	16	103
7. SOVIET UNION	4,800	23.4	17	75
8. ROMANIA	3,080	38.6	16	(NA)
9. BULGARIA	2,820	26.9	18	107

SOURCES: Per capita GNP and proportion of labour force employed in agriculture derived from CIA Handbook of Economic Statistics, 1979 and CSO Monthly Digest of Statistics, November 1979, (for U.K. employment figures). Share of agriculture in national income from UN Yearbook of National Accounts Statistics, 1978, Vol.I. (For the CMEA countries these figures relate to Soviet-style income rather than GNP, which will make the share of agriculture higher for these countries. On the other hand, it is generally agreed that in the case of the U.S.S.R., at least, the relative 'underpricing' of agricultural output in NMP statistics works in the opposite direction). Telephones in use per thousand inhabitants from UN Statistical Yearbook, 1978

Such comparisons serve only as a rough indication. The Soviet Union, for example, is extremely advanced in certain specific fields - such as military and space technology - but is otherwise relatively unsophisticated, and the country as a whole is less developed (with

a poorer standard of living) than East Germany and Czechoslovakia, both of which can be classed as advanced industrial countries. At the other end of the spectrum, Romania and Bulgaria have been industrialising rapidly from a primitive base, and the gap between these less developed countries and their Comecon partners has narrowed.

As it became clear that technology would play a primary role in economic growth, the Comecon countries were forced to recognise that in many spheres they lagged well behind the developed West. This 'technology gap' has been one of the main stimuli for trade between East and West.

2.5. Foreign Trade

(i) Total Trade

Owing to its size and the extent of its natural resources, the Soviet Union, like the United States, has a relatively low dependency on foreign trade. Trade has a far greater importance for the smaller East European countries, but overall the centrally planned economies show a somewhat lower ratio of trade to GNP than market economies. Table 2.4 illustrates this, using for a measure of trade dependency the mean of imports and exports ($\frac{x + m}{2}$) as a percentage of GNP:

Table 2.4: TRADE DEPENDENCY OF COMECON COUNTRIES COMPARED WITH
THE WEST, 1978

	$\frac{x + m}{2}$ as % of GNP
United States	7.8
Soviet Union	4.1

European Community ¹⁾	23.7
Eastern Europe (excluding USSR)	17.6
Bulgaria	27.7
Czechoslovakia	16.8
G.D.R.	19.1
Hungary	30.2
Poland	14.0
Romania	12.7

SOURCE: Derived from CIA Handbook of Economic Statistics, 1979

NOTE (1) Excludes Greece

Despite its low trade dependency, the Soviet Union is in terms of volume by far the most important trader of the Comecon bloc. This can be seen in Table 2.5:

Table 2.5: SHARE OF INDIVIDUAL COUNTRIES IN FOREIGN TRADE TURNOVER OF COMECON (1), 1978 (% of Total)

Soviet Union	40.4
Poland	12.4
G.D.R.	11.9
Czechoslovakia	9.5
Hungary	9.3
Romania	6.6
Bulgaria	6.0

SOURCE: Statistichesky Yezhegodnik Stran-Chlenov SEV, 1979

NOTE (1): Including Cuba and Mongolia. These two countries account for the missing 3.9%

(ii) East-West Trade

Before the Second World War, the West, especially Germany, had been the natural trading partner of the countries that now constitute the Eastern bloc. In 1938 (according to Wilczynski, 1977, p.178) 74% of their trade was conducted with the West, but by 1953 this had dwindled to 15%, the bulk of trade having been diverted towards the Soviet Union.

Even now East-West trade, taken in its global context, is small in volume. The total trade turnover of the Eastern bloc with non-communist countries in 1978 was \$91,000 million¹, which represents 3.5% of world trade and is somewhat less than the trade turnover of the Netherlands.

1. Derived from U.N. Yearbook of International Trade Statistics, 1978, vol.I.

In purely financial terms, East-West trade is of greater importance to the East than to the West. As Tables 2.6 and 2.7 show, approximately one-third of Comecon trade is now conducted with 'developed capitalist countries', while Comecon accounts for only 3% of imports and 3.7% of exports for O.E.C.D. countries.

Table 2.6: DIRECTION OF COMECON TRADE, 1978 (% of Total)

	<u>With OMEA⁽¹⁾</u>	<u>With 'Developed Capitalist Countries'</u>	<u>With Non-Communist Developing Countries</u>
Bulgaria	78.4	12.4	7.3
Czechoslovakia	68.5	20.7	6.6
G.D.R.	68.8	22.7	5.2
Hungary	52.1	34.8	9.1
Poland	54.7	36.2	6.4
Romania	39.7	(35.1) ²	(17.1) ²
Soviet Union	55.7	28.0	12.2

SOURCE: Statistichesky Yezhegodnik, 1979. Figures do not add to 100 because they exclude the category of 'other socialist countries'.

NOTES: 1) Including Cuba, Mongolia.
 2) Not given. These figures are derived from CIA Handbook of Economic Statistics, 1979, although the category of 'developed' countries in that source does not coincide precisely with that of 'developed capitalist countries'.

Table 2.7: Selected OECD Countries' Trade with the USSR and Eastern Europe, 1978

	<u>Imports from Comecon as % of all imports</u>	<u>Exports to Comecon as % of all exports</u>
USA	0.9	2.6
CANADA	0.5	1.7
JAPAN	2.1	3.3
FINLAND	22.8	20.5
FRANCE	3.1	3.8
FRG ⁽¹⁾	4.7	5.4
ITALY	5.2	4.3
UK	2.9	2.6
NETHERLANDS	2.3	1.8
AUSTRIA	8.8	13.7
SWITZERLAND	3.5	4.5
TOTAL OECD	3.0	3.7

Source: Derived from OECD, Statistics of Foreign Trade,
Series A, December 1979

NOTE: (1) Excluding trade with the GDR.

Despite the relatively small volume of trade, it can be seen from Table 2.7 that, for certain Western countries - notably Austria, West Germany and (though rather a special case) Finland - trade with Eastern Europe is of considerable importance. Moreover, East-West trade has been growing rapidly since 1953, faster than world trade

and intra-Comecon trade, and out-pacing economic growth in the bloc (see Appendix 2.B., Table B.3), although, as Table 2.8 shows, the dynamic upsurge of the early seventies has slackened somewhat since 1975.

Table 2.8: The Growth of East-West Trade⁽¹⁾ since 1975

(Percentage change over the same period of the previous year)

(i) Western Exports

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Jan.-May 1980</u>
<u>Eastern Europe and the Soviet Union</u>						
Value (US \$)	33.0	4.5	0.7	18.0	18.0	17.0
Volume	15.4	14.9	-6.8	10.0	6.1	1.8
<u>of which, the USSR</u>						
Value (US \$)	66.4	9.0	-0.3	16.0	20.0	12.0
Volume	40.6	20.1	-11.7	16.0	1.0	-2.6

(ii) Western Imports

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>Jan.-May 1980</u>
<u>Eastern Europe and the Soviet Union</u>						
Value (US \$)	6.4	16.0	10.7	14.0	35.0	37.0
Volume	-3.3	16.4	3.2	3.8	-2.1	9.6
<u>of which, the USSR</u>						
Value (US \$)	6.4	25.4	14.0	14.0	43.4	47.0
Volume	-4.0	20.9	3.9	3.5	-8.5	8.8

SOURCE: United Nations, Economic Bulletin for Europe, volume 31, no. 1 (1979), and volume 32, no.1 (1980).

NOTE: (1) Excludes trade between developing countries and Eastern Europe.

Table 2.8 shows that East-West trade has not grown in a stable manner in recent years. Western exports have picked up somewhat since the severe drop in 1977. Western imports have been increasing rapidly in value terms, but only modestly in volume; this is largely due to the sharply rising price of Soviet oil exported to Western countries - the Soviet terms of trade improved in 1979 by approximately 30%, and by a further 15% again in the first half of 1980¹.

The importance of East-West trade is further enhanced when its commodity composition is taken into consideration (see Table 2.9 below).

1. Figures from United Nations, Economic Bulletin for Europe, volume 32, no.1 (1980), p.72.

Table 2.9: Broad Commodity Composition of EEC¹ Trade with the Soviet Union and Eastern Europe, 1978 (%)

<u>SITC SECTIONS</u>	<u>EEC - USSR TRADE</u>		<u>EEC - EASTERN EUROPE TRADE²</u>	
	<u>EEC Import</u>	<u>EEC Export</u>	<u>EEC Import</u>	<u>EEC Export</u>
0,1,4 (Food, live animals, tobacco, animal/vegetable oils/fats)	1.6	3.0	9.1	4.9
2 (Raw materials)	14.3	1.1	11.7	2.4
3 (Fuel + energy products)	61.8	0.4	37.5	0.8
5 (Chemicals)	9.4	12.2	7.5	15.8
6 (Manufactured goods classified chiefly by materials)	8.4	35.3	15.1	30.1
7 (Machinery + transport equipment)	3.0	43.3	8.3	40.1
8 (Miscellaneous manufactures)	0.6	3.8	9.7	4.7
9 (Unclassified)	0.8	0.9	1.0	1.0

SOURCE: Derived from OECD, Statistics of Foreign Trade, Series B, April 1979.

NOTES: (1) Excludes Greece.
(2) Excluding FRG - GDR trade and trade with USSR

Table 2.9 reveals that East-West trade still follows an essentially 'primitive' pattern, with the West importing mainly fuel and raw materials and exporting predominantly manufactured goods and chemicals. One consequence of this concentration is that Eastern Europe represents a very important market for certain product classes. For example, in the

case of West German exports, the Soviet Union accounts for "20 per cent of machine tools, forging and pressing equipment, 17 per cent of chemical plant and no less than 50 per cent of large diameter pipes". (Nevill, 1979; p.33).

The smaller East European countries show a slightly more 'sophisticated' trade pattern than the Soviet Union, and even the latter has made some progress recently in exporting manufactured goods to the West - Lada cars are an obvious example. Nevertheless, Comecon's inability to increase significantly sales of manufactures to the West has been the most conspicuous failure in East-West trade, with the serious consequence that hoped-for relief of the hard currency deficit has not materialised. Hard currency was borrowed in order to buy technology and machinery which, it was hoped, would make Eastern goods more competitive in the West, thus generating hard-currency revenue. The figures show that this has not happened. Instead, borrowing has continued to increase, with indebtedness to the West more than doubling between 1975 and 1979. This is shown in Table 2.10, while the burden this represents for individual countries is indicated by the debt service ratios given in Table 2.11.

Table 2.10: Estimated¹⁾ Net Hard Currency Debt to the West (US \$ billion)

	<u>1971</u>	<u>1975</u>	<u>1979</u>
Bulgaria	0.7	2.3	3.7
Czechoslovakia	0.2	0.8	3.1
G.D.R.	1.2	3.5	8.4
Hungary	0.8	2.2	7.3
Poland	0.8	7.4	20.0
Romania	1.2	2.4	6.7
Soviet Union	0.6	7.5	10.2
CMEA Banks	0.5	2.7	5.2
TOTAL	6.0	28.9	64.7

SOURCE: CIA, Estimating Soviet and East European Hard Currency Debt: A Research Paper, Washington, National Foreign Assessment Centre, June 1980.

NOTE: (1) East European indebtedness can only be estimated, because East European countries do not publish information on their financial position with Western governments and banks. The CIA study states that the estimate can be considered to lie within a 10% margin of error. Country figures may not add up to the totals because of rounding.

Table 2.11: Debt Service as a Share of Total Revenues¹⁾ (%)

	<u>1972</u>	<u>1979</u>
Bulgaria	36	38
Czechoslovakia	10	22
G.D.R.	18	54
Hungary	14	37
Poland	15	92
Romania	27	22
Soviet Union	14	18

SOURCE: as for Table 2.10.

NOTE: (1) Revenues consisting of merchandise exports, sales of gold and arms, tourism and transport to all non-communist countries.

Poland's deteriorating position has naturally given the most cause for concern. However, Comecon is still widely regarded as a good credit risk - according to the so-called 'umbrella theory', the Soviet Union is considered likely to guarantee the solvency of countries such as Poland.

The hard currency problem is one of the main reasons why Comecon countries are increasingly attracted towards long-term links with Western companies. 'Cooperation' has become a catch-word, referring to numerous forms of medium or long-term agreements of varying complexity, such as joint marketing or production, joint ventures, and collaboration on R and D. However, the bulk of trade is still conducted along traditional lines, namely the sale and purchase of goods and services.

(iii) The United Kingdom's Trade with Comecon

During the sixties the United Kingdom was one of the leading nations in East-West trade. Now West Germany dominates, and the United States, Japan, France and Italy all export more to Comecon than the U.K. Table 2.12 illustrates this. (See Appendix 2.B., Table B.4 for a breakdown by individual Comecon countries).

Table 2.12: Trade of Selected OECD Countries with Comecon: Order of Ranking 1978

OECD EXPORTS - (FOB, US \$ millions) MONTHLY AVERAGES		OECD IMPORTS - MONTHLY AVERAGES (CIF + FOB - US \$ millions)	
1. West Germany ⁽¹⁾	642.90	1. West Germany ⁽¹⁾	468.30
2. U.S.A.	306.20	2. Italy	243.94
3. Japan	266.44	3. France	210.95
4. France	242.98	4. <u>United Kingdom</u>	189.31
5. Italy	200.75	5. Finland	149.24
6. <u>United Kingdom</u>	156.08	6. Japan	139.35
7. Finland	145.86	7. U.S.A.	125.50
8. Austria	138.73	8. Austria	116.67
9. Switzerland	88.36	9. Netherlands	106.89
10. Netherlands	75.32	10. Switzerland	69.87

Source: Derived from OECD, Statistics of Foreign Trade, Series A, December 1979.

NOTE: (1) Excludes FRG - GDR trade.

Trade turnover with Comecon in 1980 was £2,409 million, representing 2.4% of the U.K.'s total trade.¹ However, only a small number of UK companies trade with Eastern Europe, and for many of those that do, the market accounts for a substantial share of their turnover. (This is clear, for example, from the case studies of British firms by Hill, 1978).

1. Figures derived from Overseas Trade Statistics of the United Kingdom, December 1980.

The U.K. traditionally runs a deficit on Comecon trade, mainly due to imports of fuel, timber and diamonds from the Soviet Union, much of which is for re-export. The imbalance is often also explained by the Eastern countries' desire to balance their trade with the sterling area as a whole, not just with the U.K. Otherwise the UK's trade with Comecon fits into the pattern discussed above.

2.6 Summary

Comecon is seen as a distinct bloc for ideological and systemic reasons. It represents a substantial proportion of the world's economic capacity, but despite its push for rapid growth it has fallen behind the West in the development of new technology. This, amongst other reasons, has stimulated a rapid growth in East-West trade. Although the volume of trade is low, it is of considerable importance for certain countries and in certain product classes. The commodity composition of trade remains 'primitive', and this is not easing the Eastern countries' hard currency problems (except for the USSR, which benefitted substantially from sharply rising energy prices).

This, then, is a brief factual background to Comecon and East-West trade. In order to understand these features, we have to look at the factor which, together with political ideology, sets the area apart from the West: the system of economic management by central planning.

CHAPTER 3: THE SOVIET-TYPE ECONOMIC SYSTEM

"The socialist economic system is based on social ownership of the means of production. It is on this foundation and by means of specific institutions that the State is able to direct the economy in both the short and long term". (Lavigne, 1974; p.25).

The 'specific institutions' that developed in the Soviet Union and were broadly adopted in Eastern Europe after the War created a system which operates on fundamentally different principles from those of the 'market economy' that prevails in the West. This distinctive system of economic management lies at the heart of virtually all the issues involved in East-West trade: it generates the specific structure of foreign trade organisation in Eastern Europe, largely accounts for the foreign trade performance and behaviour of Comecon countries, and gives rise to numerous political and marketing considerations in the West. Thus, in order to understand the workings of foreign trade in Eastern Europe, it is essential first of all to appreciate the main characteristics of the Soviet-type economic system.

In this chapter the 'classical' Stalinist model will be examined, using Soviet institutions as examples, followed by a brief review of the variations on the theme brought about by reforms in Eastern Europe since the sixties. The intention is not to pass judgement on the system, but to outline some of its salient features.

3.1. Formation

Marx had not been concerned with the micro-economic organisation of a future socialist society, and before the Revolution Lenin had envisaged economic management as a simple book-keeping process: "We shall reduce the role of state officials to that of simply carrying out our [the workers'] instructions as responsible, revocable, modestly paid 'foremen and accountants' ... Such a beginning, on the basis of large-scale production, will of itself lead to the gradual 'withering away' of all bureaucracy, to the gradual creation of an order ... under which the functions of control and accounting, becoming more and more simple, will be performed by each in turn, will then become a habit and will finally die out as the special functions of a special section of the population". (V.I. Lenin, The State and Revolution (1917), quoted in Nove and Nuti, 1972, pp. 28-9).

This vision hardly conformed to the realities that had to be faced after the Bolsheviks had seized power. Ideology, of course, did greatly influence basic features of the Soviet economic system - for example, social ownership of the means of production, and hostility towards 'spontaneous' economic forces - but the precise form the system took on was determined to a large extent by historical conditions in the U.S.S.R. in the 1920's¹. The central issue was how the Soviet

1. Although ideology remained an influential factor in the subsequent development of the Soviet-type economic system, in the operation of the system we would argue, as Nove does, that "homo economicus sovieticus is very like his Western counterpart in the sense that if any of us were Soviet managers or planners, subject to the same pressures, rules and incentives, we would behave much as they do", and we assume that "there is usually no need to invoke ideological explanation for managerial behaviour patterns". (Nove, 1977, p. 10).

Union should industrialise: the rightists (e.g. Bukharin) were in favour of gradual change, with parallel development of agriculture and industry, while the leftists (e.g. Trotski, Preobrazhenski) pressed for rapid growth and argued that the capital accumulation required could only be achieved by lowering the terms of trade offered to the peasants. Essentially, Stalin followed the latter course, though by more forcible methods than Preobrazhenski envisaged, and thus it was that, "To impose the priorities of industrialisation, and to ensure that key projects received necessary materials and equipment, there was set up by stages the centralised system of production planning and supply allocation that we now consider the essential feature of Soviet-type economies" (Nove, 1977; p.18).

3.2. The Principles of Central Planning

In the Soviet-type economy, the market mechanism is replaced by planning. Industrial enterprises are not autonomous units which act in response to forces of supply and demand; they are owned by the state and instructed what to produce, how much, and for whom. The system has variously been described as a centrally-planned economy, a command economy, and an administrative economy, all of which in their own way stress the essential characteristic of active control as opposed to 'spontaneous' development.

It is true that in the West we also find a considerable amount of State ownership of industry, and some degree of central control - in the form of taxes, subsidies etc. - is exercised by governments. Similarly, in the Soviet-type system the market mechanism continues to operate to some extent for labour, agriculture and consumer goods, since personal preference and the weather cannot be 'planned' in the same way as physical goods. However, not only is there a difference in the degree of central control in the two systems, there is a difference in its nature: in the West, government action is generally intended to influence the decisions of individual companies by altering the balance of market forces, but the market remains the ultimate guide, even for nationalised industry. In the Soviet-type economy central decisions are translated into concrete instructions to subordinate units, so that the planners actively and in physical detail dictate the economic activity of the country.

This system assumes that a group of planners (in effect the political elite) are better able to judge the needs of society than the 'spontaneous' forces of the market. In theory at least, the system is attractive for several reasons: economic development can be controlled, certain priorities (e.g. emphasis on heavy industry, full employment) can be pursued, and the fluctuation of market economies can be avoided.

3.3. The Mechanism of Central Planning

There are three types of plan: long (15-20 years), medium (5 years) and short-term (one year). The first two are 'indicative', outlining the general directions economic development is to take and what sectors are to be given priority. The annual plan is 'operational'; it is drawn up in the light of the overall priorities, but in this case the general goals must be disaggregated into specific instructions for each and every economic unit. The annual plan must take into account the realities of supply shortages and shifts in priorities, and targets will often have to be adjusted in mid-stream. It is at this operational level that the system encounters its most serious difficulties.¹

The plan must attempt to balance all output with the input required to produce it. This is an immensely complex task. If, for example, it is decided to increase the production of steel screws, it will also be necessary to increase the production of steel in order to make more screws, and if extra machinery is required to produce the extra steel, still more screws will have to be made, which in turn means more steel ... and so on. In short, as Campbell puts it, "it is impossible to plan the activity of any one sector of the economy in

1. It is worth noting that the distinction between annual and five-year plans is now somewhat blurred in the case of the Soviet industrial sector, since individual industrial enterprises are now supposed to be given five-year plans.

isolation from the rest." (Campbell, 1974; p.36). In practice the plan is never perfectly balanced, but through a series of iterative processes and adjustments (and with heavy reliance on the experience of previous years) a manageable approximation to balance is achieved.

Drawing up the plan is a complicated process in which many organisations participate. The most important are the following:

(i) The Politburo. As the state's supreme policy-making organ, the Politburo determines the broad strategies and priorities to be followed in the plan. Its decisions are, however, greatly influenced by information and pressure from subordinate organs (due to 'centralised pluralism' - discussed in section 3.6 below).

(ii) The Council of Ministers. With its responsibility for the administration and execution of economic policy, the Council of Ministers plays a key role in determining the direction of resource allocation between the various sectors of the economy. Ministers compete for scarce resources at this level.

(iii) Planning and Control Organs. The most important of these is the State planning committee (USSR Gosplan). It is the task of Gosplan to coordinate plan formation according to the priorities established by the Council of Ministers, ensuring cohesion and the matching of input and output. It must cooperate closely with branch ministries, and with the State committee responsible for the

coordination and administration of supply (USSR Gossnab - in practice, the demarcation of responsibilities between Gossnab and Gosplan tends to be somewhat blurred). Gosplan must also liaise with other influential organs in the planning process, notably the State bank (USSR Gosbank) and the State Committee for Science and Technology (or its equivalent outside the USSR), which earmarks sectors worthy of research or technical development.

(iv) Industrial and Other Branch Ministries. Each ministry has responsibility for the management of a particular sector of economic activity (though here again the precise demarcation of responsibility between different ministries is not always clear. See Nove, 1977; pp.60-1); hence the number of ministries generally exceeds that in Western countries of comparable size¹. The ministries are huge, powerful organisations, often concerned with empire-building and they exert pressure on Gosplan for resource allocation, negotiating from a position of strength in that they are, in all probability, better informed than the planning authorities as to the existing production situation and future possibilities: "Those with experience of these matters speak of a constant tug-of-war between the ministries and Gosplan" (Nove, 1977; p.63).

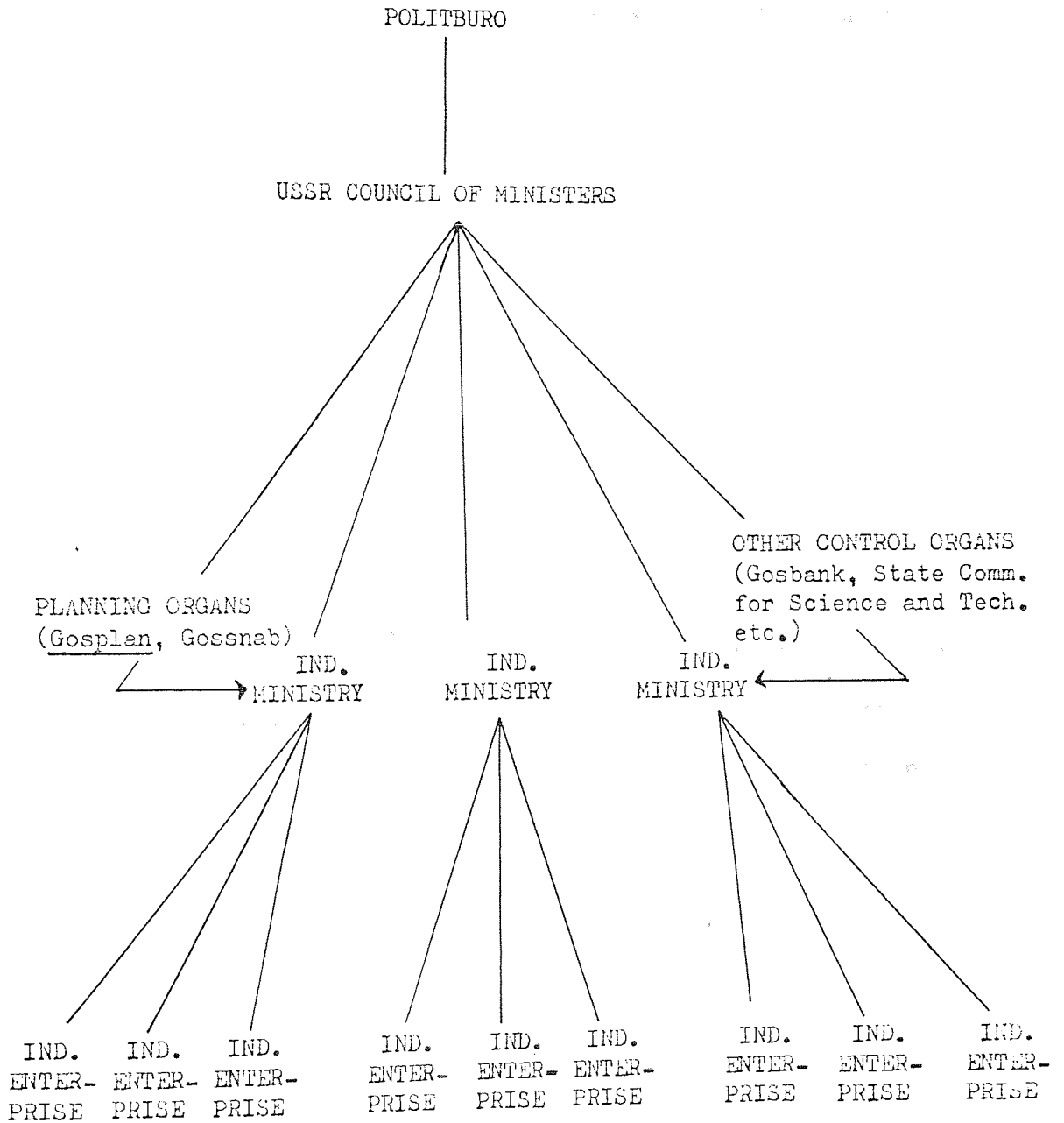
1. According to Wilczynski (1977; p.67) - presumably referring to the situation in 1976 - "In the USSR there are 50 ministries, plus 10 commissions which can be classed as 'economic' ... The United States ... has only 6 ministries (called Departments), out of a total of 12, clearly concerned with economic administration. The number of economic ministries is, naturally, smaller in other socialist countries ... the GDR: 22; Romania: 22; Poland: 18; Bulgaria: 14; Czechoslovakia: 13; Hungary: 12; ... compared with 13 in Britain".

(v) Industrial Enterprises. Finally, at the bottom of the hierarchy come the thousands of enterprises actually engaged in production. These come under the authority of their relevant ministries, and must fulfil the instructions issued down to them. This does not mean, however, that they do not influence the plan formation: the decisions of superior organs are based on information supplied at the base, enterprises also compete for resource allocation, and requests for new equipment are often initiated by them (these again are features of 'centralised pluralism' - see section 3.6 below).

The structure of the planning hierarchy, greatly simplified, is shown in Figure 3.1:

Figure 3.1:

THE PLANNING HIERARCHY



The planning process begins at the top of the pyramid. Early in the year, the Politburo, assisted by its Central Committee Secretariat, whose various sections liaise with Gosplan and branch ministries, decides on the general priorities for the following year. These are passed down to the specialised planning organs, the various other important administrative bodies, and to the industrial ministries, who translate the general sectoral priorities into more detailed directions for individual enterprises. The flow then starts in the opposite direction: enterprises submit input requests and draft production plans to industrial ministries, who in turn submit their aggregated demands to the planning authorities, primarily Gosplan, reporting to the USSR Council of Ministers. Input demand is contrasted with resources available and adjustments are made according to the broad policies set out by the Politburo. Eventually, towards the end of the year, the plan is finalised, with detailed and legally binding instructions issued to all industrial enterprises and other basic management units.

Communication therefore flows in vertical channels, both down and up the hierarchy: instructions are issued downwards and are increasingly disaggregated; information and requests flow upwards and are increasingly aggregated. The importance of matching input supply with planned output should be stressed again, since, in this integrated structure, a bottleneck sends shock waves throughout the whole system.

3.4. Taut Planning, Shortages and Sellers' Markets

Because of the commitment to rapid growth, there is great pressure to commit all available resources in the effort to produce as much as possible and there is a tendency to set over-ambitious targets. There is also a tendency for all users of producers' goods to exaggerate their 'demand' during the plan-formulation period in order to obtain more resources. They can 'afford' to do this since the planning system will guarantee them finance for whatever inputs they are allocated. Inevitably, shortages occur, and, with no slack in the system and with all output already allocated, enterprises who find themselves short of supplies have nowhere to turn. This taut planning, coupled with command allocation and absence of competition, creates sellers' markets: because of the difficulty of obtaining necessary supplies, managers generally have no option but to accept whatever they are offered. This in turn means that manufacturers can afford to pay little attention to the quality of their products, since the likelihood is that even poor quality products will be accepted by the customer.

In effect, some would argue, there is suppressed inflation in the system¹. Demand exceeds supply, and this is expressed in shortages (in the case of capital goods) and queues (in the case of consumer goods). Inflation is 'suppressed' because supply and demand are not brought into equilibrium, as they are in a market economy, by the price mechanism.

1. This conventional view has, however, been challenged by Portes (1977a), who argues that, although micro imbalances do prevail because of the distorted relative price structure, the planners have in fact maintained macroeconomic equilibrium in the consumption goods market for all but a few brief periods during the past two decades.

3.5. Prices

An important consequence of the planning system is that prices are not formed in the same way and do not perform the same function as in market economies: "In the Socialist state the use of economic instruments (monetary categories) completes the planning process to which it is subordinate. These categories themselves are a product of the plan and not of the free interaction of economic units: prices and wages are planned; credit and financial plans are nothing more than the translation into monetary terms of balances and adjustments previously defined in physical quantities in the plan." (Lavigne, 1974; p.223). In a market economy, prices serve as information-carriers to producers: for example, an increase in demand for a particular product will lead to a price rise, which tells manufacturers that it is in their interest to produce more. In a planned economy, however, since quantities are set by the planners, this function of prices ceases to operate: indeed, the only way customers can influence production of their suppliers is through the vertical channels of the planning system. This does not mean that money ceases to have any function at all (though immediately after the Revolution a moneyless economy was in fact envisaged). Wages are paid for work, and consumer goods prices should in principle serve to clear the market, while for capital goods prices have been found necessary as a tool for accounting and for assessing enterprise performance.

Prices are fixed on a cost-plus calculation. The enterprise wholesale price, which forms the basis of the planned price structure, is initially determined by adding a mark-up (some 15% on capital) to the

average production costs throughout the particular industry. This means that some enterprises will be 'planned' to operate less profitably than others, while some will even operate at a planned loss. The industrial wholesale price adds to the enterprise wholesale price the wholesale distributive margin and a substantial 'turnover tax' (levied almost entirely on consumer goods) which accounts for about one-third of the state's budgetary revenue. Finally, the retail price is formed by adding retail costs and a small retail profit to the industrial wholesale price. There is no capital market, and originally no charge was made for capital employed in industry, though a nominal charge of 6% was introduced in the 1965 reform.

Once set, prices tend to remain unchanged for long periods (10 to 20 years). This is not only because stable prices facilitate planning, but also because the process of allocating prices to tens of thousands of items is a lengthy one, and by the time it is finished the next adjustments are likely to be due! (The price reform that eventually took place in 1967 in the U.S.S.R. was decided on in 1960). There is also political reluctance to increase retail prices in particular - the possible consequences were seen in Poland in 1970 and 1976, and a rise in meat prices provided the spark to the strike movement in 1980.

It is clear that prices formed in this way are 'artificial', in the sense that they reflect neither utility, nor scarcity, nor real costs. Therefore, they cannot be used as a reliable basis on which to make economic decisions. Administrative orders are supposed to fill

this vacuum, but, as we shall see, these are frequently inadequate, and in the absence of other information artificial prices often in fact serve as the main criteria for decisions.

3.6. The Problem of Scale

This leads us to the greatest problem facing the system of central planning: that of scale. We have seen that many functions, which in the West are performed by the 'invisible hand' of the market, must, according to the logic of the planning system, actively be administered from the centre - setting of prices, detailed production plans, matching input and output. Yet, quite simply, it is impossible for the centre to perform this task fully because of the overwhelming scale of the operation: "Kiev mathematicians have calculated that, in order to draft an accurate and fully integrated plan of material-technical supply just for the Ukrainian republic for one year requires the labour of the entire world's population for ten million years". (Antonov, quoted in Nove, 1977; p.51). Reality therefore demands that many decisions in fact be taken not at the centre but at various levels throughout the hierarchy. Thus, for example, numerous 'micro-decisions' may be taken by enterprise-managers in the course of day to day operations, and enterprises also greatly influence the decisions made by higher organs, since the information on which these decisions are based is supplied by them. Thus, de facto, a considerable amount of decentralisation inevitably exists. Nove calls this 'centralised pluralism': "The theory of centralised

Marketless socialism required that all be considered in the context of all, yet this is physically impossible. Hence 'centralised pluralism', i.e. a division of the centralised economy into quasi autonomous units". (Nove, 1977; p.75).

3.7. Control and the Incentive Problem

Even the best-intentioned manager, then, will make decisions which conflict with the interests of the plan as a whole, since he has insufficient criteria - inadequate prices - on which to make his choices. The problem is intensified by the fact that, despite propaganda pressing the unity of the socialist struggle, sectoral interests are bound to conflict, and individual units naturally tend to work towards their own limited objectives. Some means therefore has to be found to ensure that all units act in the interest of the integrated plan. "In capitalist society it is the market mechanism, competition, which tend to resolve antagonistic interests. In the socialist system, the abolition of private property in the means of production does not automatically eliminate such conflict, and if the economic agencies do not spontaneously act in the general interest, the State will have to ensure that they do". (Lavigne, 1974; p.49).

Material incentives are used as the main tool of control. Enterprises are placed on a form of profit and loss accountability (khozraschet) and are given various 'plan indicators' (pokazateli) on which their performance is judged. Bonuses are paid for reaching - and, better still, exceeding - these targets. But how, precisely,

should the targets be set? How, for example, should quantity targets - naturally the most important in a system based on allocation of physical quantities of goods - be measured? In tons? If so, the tendency is to produce heavier - and larger - than necessary goods. By number of units? In this case, lighter and smaller goods will tend to be produced - it is natural that enterprises should try to reach their targets by the easiest possible route, and with the majority of products there is scope for adjusting specifications accordingly. As in Western tax legislation, each new attempt to correct anomalies creates new loop-holes. Again the problem is one of scale: the centre cannot set tailor-made targets for each unit, and aggregated indicators can turn out to contradict one another, and are subject to misinterpretation and abuse.

The primary importance of achieving goals set from above leads to many other inefficiencies. Given the uncertainty of the supply situation, enterprises tend both to hoard supplies and, as mentioned above, to exaggerate their requirements in their requests to the planning authorities. (In turn, the planning authorities, knowing that requests are inflated, have to second-guess the true requirements). Furthermore, enterprises may conceal their true productive potential in an attempt to get an 'easy' target. Ministries may even encourage such behaviour, since they, too, are judged by their results and the ability of the enterprises under their control to achieve targets, and they too will put in exaggerated claims as they compete with one another for scarce resources. Bargaining over scarce resources is thus one of the main features of the planning process at all levels of the hierarchy.

A further consequence of the incentive system is that the vertical links within the system are strengthened, and horizontal links not encouraged, since, "The producers' motivation is to satisfy their bosses, rather than their customers" (Campbell, 1974; p.61). Quality suffers, there is wasteful duplication of production between the various ministries, and projects which require cooperation across the vertical lines of responsibility run into difficulties.

Finally, innovation is retarded by the system. Enterprises are not forced by competition to develop new products in order to remain profitable - on the contrary, due to the prevalence of sellers' markets they will continue to have customers for out-dated products. New product development involves a risk (to short-term plan fulfilment) which there is little incentive to take. Even if innovation offers the possibility of more efficient production in the future, it is likely that targets would be revised and made correspondingly more difficult, and in any case there is a tendency to look no further than the target immediately ahead, to work with short time horizons - paradoxical as this may seem in the context of a planned economy.

3.8. 'Influence' and Black Markets

It is as a natural consequence of shortages, of the vast bureaucracy and slow decision-making process that 'influence' and the black market flourish. To some extent, semi-legal and illegal channels are a necessary evil in the planned economy, for they oil the wheels of an otherwise excessively rigid system.

Having the right contacts can be all important in ensuring that goods are allocated in the desired direction, or that a decision is hurried through, and not lost in, the bureaucracy. This is further encouraged by the system of privilege and 'protection' operated by the party. Bribery is commonly used as a means of obtaining influence. The black market thrives in many other forms, too: at industrial level in the use of 'pushers' (tolkachi) to obtain supplies, and on a private level through pilfering, selling scarce Western products such as jeans and records, hard currency dealing, and in services such as medicine and car repairs which the planning system handles clumsily.

Obviously there is a 'hidden economy' in every country, and it is by definition difficult to judge its relative extent. However, anecdotal evidence, a growing number of academic studies in the West, and even reports in the East European press, suggest that it is indeed far more important in the planned economies than in the West. It is probably fair to say that the black market is deeply embedded in the everyday culture of the planned economies, very much a part of normal life¹.

3.9. The Need for Reform

The scale of the black market, then, reflects weaknesses inherent in the system of central planning. Nove summarizes the points we have made concisely:

1. This aspect of the Soviet-type economy is discussed in greater detail in Chapters 11 and 12.

"Most of the weaknesses which we have been discussing relate in some way to diseconomies of centralised scales. In a model ... in which the state, acting on behalf of society, determines what is needed, what should be produced and by whom, the volume of decision making and information enormously exceeds the capacity of the centre. No amount of reorganisation can change this basic fact. We have seen that this has two profound consequences: the centre itself becomes divided ('centralised pluralism'), and a very large number of decisions become dependent de facto on the actions of subordinate officials, in enterprises and elsewhere. They have to fill lacunae in the plans, they disaggregate aggregated plan targets, they make proposals and provide (or conceal) information which forms the basis of central orders, they have to cope with inconsistencies and breakdowns, e.g. in supply of inputs. Improvements in quality, the introduction of new designs, the diffusion of technological innovation, depend greatly on management at intermediate and local levels. Yet they lack any criteria for operational decision-making, other than the necessarily incomplete and aggregated plan-orders received from above. Lines of responsibility are further confused by the intervention of party organs, and by the lack of coherence between ministerial lines of subordination and the actual production and investment process, a consequence of the immense organisational complexity. A price system designed to facilitate evaluation of performance and control over expenditures fails to provide economic information to management and planners alike. The incentive system is too often producing paradoxical results. It has been impossible to devise success indicators which would stimulate and reward the actions which planners and party leaders evidently desire, but which they are incapable of defining operationally: quality, conformity to user requirements, and so on". (Nove, 1977; pp. 371-2).

Such operational insufficiencies have led some to conclude that the Soviet-type system, while offering many advantages for extensive economic development in the early stages of industrialisation, is unable to cope effectively with the complexity of an advanced economy: "The system and strategy of Soviet planning, in the form in which it was constituted by Stalin, seems to be a transitional model that has outlived its original rationale". (Campbell, 1974; p. 226). The need for reform was recognised by many East European economists in the fifties. As economic performance deteriorated (at least in terms of growth), previously 'heretical' ideas for reform began to be actively considered, especially in the small countries of Eastern Europe,

where internal inefficiency was hampering progress in the vital foreign trade sector. All Comecon countries have since introduced reforms of varying importance, but only in one country, Hungary, has this brought about a fundamental change in the nature of the system.

3.10. The Nature of Reforms

The aim of reform is to increase efficiency. This can be achieved either by 'perfecting' the existing system of central control, or by decentralising decision-making to a significant extent. Either way the impossible burden on the central planners has to be reduced.

One much talked about means of 'perfecting' the existing system is through computerisation. However, this possibility is unlikely to produce more than a partial solution - to quote a Czech economist, Ota Sik: "I am convinced that the centre cannot find optimal solutions for the individual branches and enterprises even with the help of the most complicated computer system; for such a system can only work on the basis of data fed into it by the enterprises". (Sik, 1972; p. 63). Sik argues that the only true solution lies in the radical measures embodied in the abortive Czech reform of 1968, in which "we intended to create a real market, a market for commodities as well as for labour and capital, a market

that, however, would have been subjected to macro-economic planning and direction". (Sik, 1972; p. 72).

In practice, all except Hungary have made adjustments, but resisted radical reform; these countries are, to use Thalheim's phrase, 'compromisers': "The compromisers are those who, although upholding the principle of central planning and management have realized the shortcomings of the system and are consequently trying to incorporate 'quasi-market' elements in it". (Thalheim, 1972; p.145). Such 'quasi-market' elements include, in varying degrees according to the country, price reforms to bring prices into closer relationship with production costs; the introduction of capital charges and the recognition of the role of interest rates, greater financial accountability of enterprises and the introduction of profit as a criterion for success; and decreased isolation of enterprises from the world market. Particularly significant has been the creation in all Comecon countries of industrial 'associations' or 'trusts', which group together and control enterprises manufacturing similar products. The idea is to devolve some of the central decision-making burden (though this cannot be described as true decentralisation - more like 'middlisation'), and thereby to improve and rationalise management, while benefitting from economies of scale and more efficient technological innovation through improved coordination between research departments and producing enterprises. The degree of freedom enjoyed by these associations appears to be greatest in East Germany, where they originated, but even here there seems to be pressure

towards centrally imposed targets. Greater autonomy for associations is at present being experimented with in Czechoslovakia and Bulgaria, though in the U.S.S.R. and Romania the recent trend has been towards tighter central control.

As a result of these changes there now exists a multiplicity of organisational forms in Eastern Europe. However, a common problem of reform is that the devolution of power conflicts with the underlying principle of the system, which continues to be the allocation of resources by command, according to centrally determined priorities. There is thus a tendency for reforms to be eroded by conservative forces, and the basic limitations of the command system have not, in the main, been overcome.

The exception is Hungary, whose 'market socialist' system can be seen as belonging to a different 'genre' from the Soviet-type economy (see, for example, Wiles, 1977; pp.254-6). Hungary's reform, called the 'New Economic Mechanism' (NEM), was introduced after careful preparation in 1968, and closely resembles the 1968 Czech reform. 'Directive' planning was replaced by 'indicative' planning and a return to the market mechanism for the allocation of resources; the reform was politically acceptable because the central planners, albeit in a looser way, still controlled the direction of economic activity. Hence it was claimed that "A more extensive reliance on the market within the system of economic control does not contradict the basic principle of central planning and control; on the contrary it enhances

the efficiency of the latter". (Friss, 1969; p.12). Enterprises were given substantial autonomy - "In our new system the enterprises are no longer given any numerically determined plan targets, tasks or indicators whatever" (Friss, 1969; p.13); they were to be subjected to competition, both internal and foreign, and personal incentives were to be brought in line with the needs of society by "relying mainly on the interests associated with enterprise profits" (Friss, 1969; p.13). Gradually, prices were to influence and reflect the conditions prevailing on the market, and the role of subsidies was to be reduced. The reform has not progressed quite as far as was originally intended (restrained by unfavourable developments in terms of trade, Western stagflation, the lack of similar reform elsewhere in Comecon, and internal resistance to some of the harsher realities of the market), and there is still greater central control (particularly of prices, subsidies and in foreign trade) than had been planned. (See Portes, 1977; also Revesz, 1975). Nevertheless, the principles of the reform remain intact - and have recently been reasserted (see Comecon Reports, Vol.1, No.3, Jan. 1980; pp.1-14) - and the Hungarian system is significantly closer than the Soviet model to our own (though clearly distinguished by social ownership of the means of production, and by the extent of 'indicative' planning).

The case of Hungary should not obscure the fact that, overall, the reforms, which promised much, have yielded little. Ambitious blueprints have been watered down in application, and, failing to alter the basic logic of the system, have failed also to make a significant impact. It can be argued that no partial reform will work; only the

radical, integrated programme of the Hungarian type can succeed. Opposition to reform of any variety is strong, however: there is ideological resistance, and resistance from those in the bureaucracy with a vested interest in the status quo; but above all reform - especially market-type reform - represents a threat to the political monopoly of the party. Selucky sums up the position as follows: "The main external obstacle blocking further advancement of economic reforms ... is the existing political command system. Its representatives are aware, on the one hand, that without solving the economic problems it is impossible to maintain political power permanently. On the other hand, they are aware that it is impossible to solve the economic problem without a fundamental reform of the political system and without the abolition of bureaucratic dictatorship". (Selucky, 1972; p.175). Recent events in Poland provide a graphic illustration of this dilemma.

3.11. Conclusions

Despite the reforms, the salient features of the Soviet-type economy are, except in Hungary, more or less the same as in the original Stalinist model. The weaknesses of the system have been described not to prove it inferior to the 'market economy' - which, of course, is itself far from perfect - but to emphasise the realities of its functioning in a necessarily imperfect world.

The points made should help to understand features of the system which have an important bearing on the conduct of foreign trade. We have seen, for example, some of the main causes of the 'technology gap' and the difficulty of bridging it. We can begin to appreciate the environment in which people within the system operate - what their responsibilities are, what decisions they are empowered to make, and what motivates them. We have seen, too, that the official system is unwieldy and that unofficial channels are of great importance. Selucky - probably quite rightly - claims that "anyone who was not or is not part of a Soviet-type command system cannot fully understand its logic". (Selucky, 1972; p.VI). Hopefully, though, we are at least now in a position to understand better the foreign trade systems of Comecon countries, which have to be seen in the context of the organisation of the economy as a whole. This is the subject of the next chapter.

CHAPTER 4: FOREIGN TRADE ORGANISATION IN EASTERN EUROPE

"The institutions, techniques and behaviour of the Communist nations in international trade are quite different from those which have evolved under capitalism. Most of these differences are due to the Stalinist model of central planning..."

(Holzman, 1976; p.21)

Foreign trade in Eastern Europe is conducted in the context of the economic system described in the previous chapter. Like the rest of the economy, it is planned: the foreign trade plan forms part of - and is subordinate to - the overall economic plan, and the organisation of foreign trade is highly centralised. In this chapter the distinguishing features of Comecon foreign trade are described - the state monopoly, inconvertibility of currencies, the organisations involved in import and export decisions and the planning process. As in Chapter 3, a review of the 'classical' structure is followed by a discussion of the increasing complexity of organisational forms that have evolved in the smaller countries of Eastern Europe.

4.1. The State Monopoly of Foreign Trade

In market economies international trade is conducted by individuals and private companies¹. In the planned economies, it is a state monopoly, coordinated mainly by the Ministry of Foreign Trade,

1. Some international trade is performed by the state in developed market economies (though numerous state-owned enterprises conduct foreign trade transactions in a way essentially analogous to the practices of private traders), and state trading is important in some developing countries (see Kostecki, 1978). However, the differences in purpose, organisation and, above all, operational environment between such enterprises mean that comparisons with Eastern Europe are not necessarily helpful.

with ultimate control exercised by the Council of Ministers. Under this system, only those organisations which have been granted specific permission are entitled to engage in foreign trade activity, these rights being primarily invested in specialised Foreign Trade Organisations (FTOs, also called Foreign Trade Corporations and Foreign Trade Enterprises), which import and export on behalf of the industrial enterprises.

An important reason for the establishment of the monopoly was the need - in view of Communist growth and employment priorities - to protect domestic industry from foreign competition, and to prevent excessive imports of consumer goods which would counteract the policy of austerity. In addition claims are made for the commercial benefits afforded by the monopoly (e.g. the bargaining power of large import/export corporations, elimination of competition amongst domestic agencies involved in foreign trade, specialisation of personnel, reduction of the role of foreign middlemen), and it is also supported on political grounds (i.e. scope for use as an arm of foreign policy) and for ideological reasons. (For a discussion of these and other justifications of the monopoly, see Quigley, 1974; pp.3-34; Smith, 1973; pp.6-15; and Ellman, 1979; pp.222-6). However, the principal reason for the existence of such a monopoly today stems from the fact that "A planned economy was not feasible in the absence of an effective control over foreign trade". (Baykov, 1946; p.10). With dovetailing of inputs and outputs required, it is impossible to allow 'random' imports and exports to disturb the balancing of the plan - instead, foreign trade must be closely controlled so that it conforms to the plan; indeed, it must be a part of the plan. This is achieved through centralisation and the state monopoly.

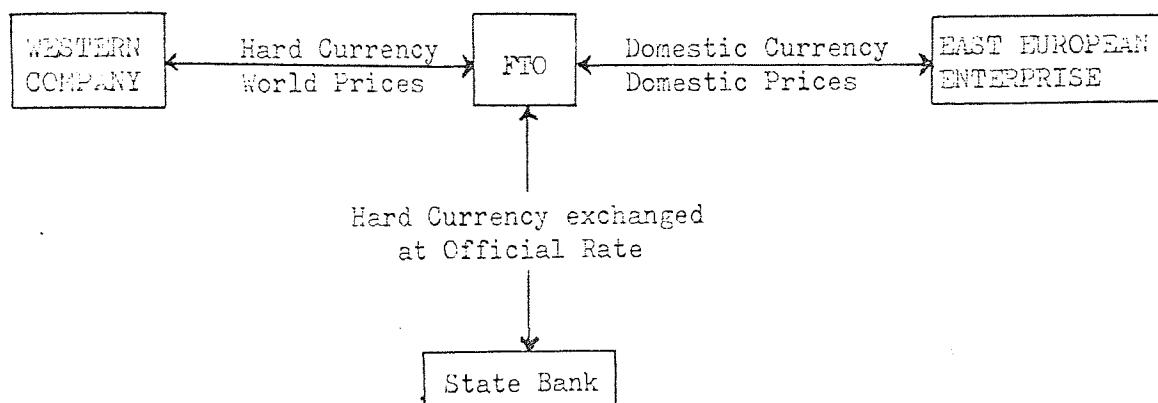
4.2. Inconvertibility and Exchange Rates

East European currencies are inconvertible, not only into Western currencies, but also amongst themselves. Given the existence of the foreign trade monopoly and the planning of imports and exports, there would in any case be little incentive for Western companies or other non-residents to hold roubles or zloty, since these could not be 'converted' into goods unless such a sale was specified in the plan. There is, however, a further reason why Comecon currencies cannot be convertible: the irrational structure of internal prices. In the capitalist system, albeit with the distortions of tariffs, quotas etc., the principles of currency convertibility can be described as follows: "An exchange rate is the price of one currency in terms of another. Where trade is allowed to flow freely and prices and exchange rates are allowed to seek their equilibrium levels, the relative prices of currencies reflect, roughly, the purchasing power of each currency in its own country of internationally tradable goods. There is, in other words, an organic connection between the prices of tradable goods in each country and world prices". (Holzman, 1976; pp. 26-7). With the existing price structure in East European countries, such purchasing power parity would plainly be impossible - whatever the exchange rate, there would be serious distortions (with disruptive consequences for the economy), since some goods would be artificially expensive on the international market, others artificially cheap. This is also true for intra-Comecon prices, since prices are not 'uniformly irrational' in all the CMEA countries.

As a result, intra-Comecon trading tends to be balanced bilaterally - that is, each CMEA country equalises its imports with exports vis-a-vis every other member country - while trade with capitalist countries is conducted in hard currency, at world prices

(some Comecon trade with Third World countries is on a bilateral settlement basis, while the rest is multilateral). The domestic economy is sheltered from world prices by the foreign trade monopoly, since FTOs deal with internal enterprises in domestic currency and at domestic prices, as illustrated below.

Figure 4.1: PAYMENT IN EAST-WEST TRADE



Exchange rates do exist. They are necessary firstly for tourists, but also for FTOs, who buy and sell the hard currency they use from the State Bank at the official rate. In the latter case, the exchange rate is no more than an accounting device: whatever rate is set some FTOs will make artificially large losses and are subsidised, others make artificial profits, which are collected by the state. However, undue overvaluation of domestic currency (used in the past for political purposes) can adversely affect the FTOs' performance. "It may be objected that these gains and losses cancel each other out, but in the long term the economic calculations of the foreign trade agencies are disturbed, and there develops an artificial impression of the cheapness

of imports and the disadvantages of exports. From this point of view devaluation has positive consequences, since its first effect is to make imports dearer and exports a more profitable operation". (Lavigne, 1974; p.265). Thus, control of the exchange rate does serve a function, but a far more limited one than in capitalist economies.

It is important for the Western exporter to understand that price levels generally concern the FTO and not the end-user, while competitiveness is to be judged not in relation to sheltered domestic prices, but to those of other Western suppliers.

4.3. Organisations Involved in Foreign Trade

The organisations described in Chapter 3 are also involved in the decision-making process for foreign trade. The planning authorities coordinate the drawing up of the foreign trade plan, the State Bank controls the foreign exchange monopoly and regulates the financial implementation of export and import transactions; the State Committee for Science and Technology (or its equivalent outside the USSR) identifies and assesses the nation's technological needs, and is particularly involved in supervising the importing of licenses and know-how; and industrial ministries, industrial associations and individual enterprises are the consumers and producers of imports and exports. As customers, the latter are particularly concerned with the technical evaluation of imported products; therefore, a key role in import decisions is played by the technical institutes attached to ministries,

the technical department of industrial associations, project-design offices (in the case of capital projects), and technical experts at enterprise level.

In addition to the above, there are a number of organisations specifically established for the control and operation of foreign trade. Their functions are briefly described below¹.

(i) The Ministry of Foreign Trade

The Ministry of Foreign Trade is the principal agency for the administration and control of foreign trade, and is directly responsible to the Council of Ministers. Its central task is to control the foreign trade monopoly and formulate foreign trade policy. It prepares draft plans for foreign trade, and, on their approval, supervises their implementation by the FTOs. The right to engage in foreign trade activity is generally granted (and can be withdrawn) by this Ministry.

To carry out these wide-ranging functions the Ministry of Foreign Trade requires a correspondingly large organisation. Below the minister there is a collegium plus a series of functional administrations

1. The description is based mainly on the system as it is operated in the Soviet Union, which has remained relatively close to the traditional Stalinist model that was initially adopted by the smaller East European countries. More detailed treatments of the Soviet system are to be found in Smith (1973), Quigley (1974), and Pozdniakov (1976). Reforms to this traditional system in the smaller East European countries are dealt with later in this chapter (section 4.6).

(responsible for the coordination of planning and economic matters, foreign exchange, customs etc.), geographic administrations (for the supervision and coordination of trade with different regions of the world), and product administrations (see Bozek, 1979, pp.521-3 for an illustration of the Ministry's hierarchy). The Soviet Ministry of Foreign Trade also controls an extensive network of agencies both within the USSR and abroad.

(ii) Foreign Trade Organisations

The operational side of foreign trade transactions - the actual buying and selling of goods and services - is handled by specialised foreign trade organisations, most of which are subordinate to the Ministry of Foreign Trade¹. The FTOs are set up, "to specialise in specific goods and/or services, and these areas of operation are clearly defined in the charters. Generally these corporations have a monopoly and no competition is allowed". (Smith, 1973; p.100). The precise division of responsibilities and the number of FTOs varies from

1. There are exceptions. Notably, in the Soviet Union, twelve FTOs are subordinate to the State Committee for Foreign Economic Relations, which was established in 1957 to coordinate trade with other socialist countries and with developing countries; amongst other FTOs not subordinate to the Ministry of Foreign Trade are the shipping organisations 'Sovfrakht' and 'Sovinflot'; 'Vneshtekhnika', 'Intourist' and 'Sovexportfilm' (see Bozek, 1979; p.515). However, over 90% of Soviet foreign trade is accounted for by FTOs under the Ministry of Foreign Trade (see Quigley, 1974; p.105). This devolution has gone further in the smaller East European countries, as discussed in section 4.6 below.

country to country, partly due to the differences in the composition of each country's trade¹. FTOs are major decision-makers in the import process; they have responsibility for the negotiation of contracts, and an important (though not always dominant) say in the choice of foreign suppliers.

FTOs import their range of products for a whole country, and are therefore extremely large organisations, with a hierarchical internal structure similar to that of big Western corporations². Their product range is sub-divided internally, with different departments given responsibility for distinct 'sub-groups' of products (see Bozek, 1979; pp.524-5, for a description of the organisation of the Soviet FTOs 'Stankoimport' and 'Prodintorg').

1. Below we challenge the common belief that the division of responsibilities between FTOs is strictly maintained in practice (see, in particular, Chapter 10). Lists of the FTOs in each country are to be found in the London Chamber of Commerce (1980).
2. According to Wilczynski (1977; p.176) - presumably referring to the situation in 1976 - the annual value of trade handled by average FTOs in the USSR, Czechoslovakia and Poland exceeded \$1,100 million, \$600 million and \$200 million respectively.



(iii) Agencies and Service Organisations

With the exception of the Soviet Union, all East European countries have set up state agencies to represent foreign companies. Working on a commission basis, their role is more restricted than agents elsewhere (generally they cannot, for example, negotiate or sign contracts on the exporter's behalf). These agency firms come under the control of the Ministry of Foreign Trade.

There are also a number of service organisations involved in foreign trade activities, such as state advertising, market research and insurance agencies.

(iv) Representatives Abroad

The commercial sections of the East European embassies in Western capitals are staffed by representatives of the Ministry of Foreign Trade and the FTOs (usually one man represents several FTOs). Their function is to identify potential imports, to promote exports from their own country, and to carry out direct commercial operations as an agent of the FTOs. They also have certain regulatory functions, and supply information to Western businessmen.

In addition, several mixed companies promoting sales of East European goods and purchasing Western goods have been established abroad, particularly in Western Europe (see the London Chamber of Commerce (1980) for lists of those in the U.K.).

(v) The Foreign Trade Bank

In addition to The State Bank, the Foreign Trade Bank also plays an important, though subordinate, role in the financing of foreign trade. Its functions include the exchange of foreign currencies and travellers cheques, the holding of foreign exchange accounts, and the financing of foreign trade operations, including complex barter and switch transactions.

(vi) The Chamber of Commerce

East European Chambers of Commerce perform similar functions to their counterparts in the West. These functions have been summarised as follows (in UNCTAD/GATT, 1971; pp.45-7):

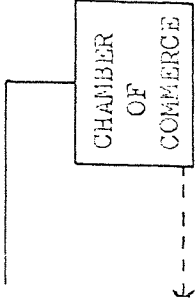
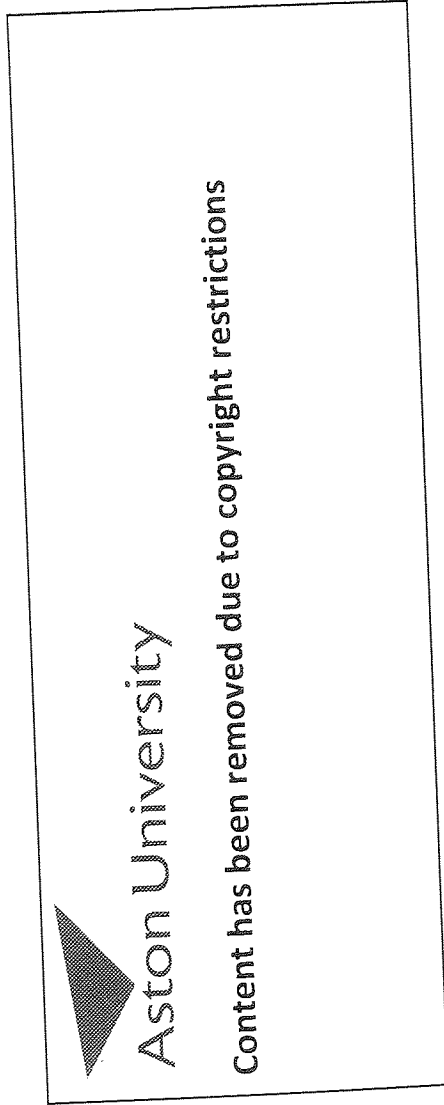
1. Furnishing information to foreign exporters.
2. Assisting visiting foreign businessmen.
3. Promoting the country's foreign trade with non-socialist economies.
4. Advising domestic organs on foreign trade matters.
5. Cooperating with the administration of the country's international trade fair.
6. Issuing certificates of origin.
7. Securing of patents, registering of trademarks and insuring the utilisation of inventions.
8. Maintaining a Court of Arbitration and other arbitration commissions.
9. Publishing of reviews, brochures, books and other material.
10. Supervising the placing of advertising.

11. Keeping the foreign economic and trade press informed.
12. Carrying out commercial surveys for exporters and importers.

(vii) The Role of Governments and International Organisations

Mention should also be made of the role of governments in setting the framework for East-West trade. Bilateral trade and cooperation agreements influence the business climate and identify potential areas for future trade. (See Hill, 1978; pp.23-37, for a summary of agreements between East European countries and the U.K.) In a still broader perspective, trade is affected (particularly through tariffs and MFN treatment) by East European adhesion or non-adhesion to international organisations such as the GATT and the World Bank (see Kostecki, 1979, for a discussion of the history of East European relations with the GATT and the effect on trade).

These, then, are the principal organs responsible for foreign trade; the relationship between them in the import decision-making process is shown (with the Soviet Union as model) in Figure 4.2 below. Our brief descriptions give only a small idea of the considerable complexity of foreign trade organisation under central planning; not only are many different bodies involved, but each individual organisation has an intricate internal structure, with channels of communication often far from clear. Difficulties inevitably arise in the coordination of their activities, especially in the planning process, which is described in the next section. (For a pertinent analysis of the complexities of Soviet foreign trade organisation, see Gruzinov, 1975).



Note: Continuous line = Subordination
Dotted line = Information/Requests

SOURCES: Adapted from Stowell, Soviet Industrial Import Priorities, p.8, and Hill, Export Marketing of Capital Goods to the Socialist Countries of Eastern Europe, p.55

FIGURE 4.2: ORGANISATIONS INVOLVED IN IMPORT DECISIONS

4.4. The Planning of Foreign Trade

The foreign trade plan has two main components, the import plan and the export plan, and forms part of the currency plan, which represents the total receipts and payments for the year (including invisibles). This in turn is an integral part of the overall economic plan.

The planning process for foreign trade conforms to the pattern described in Chapter 3, though it is complicated by the 'extra layer' created by the foreign trade monopoly: the foreign trade element in enterprises' plans must be developed in parallel with the plans of the FTOs, entailing a prodigious task of coordination and a huge interchange of information. The planning process for foreign trade can be divided into stages as follows:

1. The planning authorities draw up a provisional plan for the Ministry of Foreign Trade, in the light of overall economic policies, experience from previous years, requests received from industries, and domestic production capacity.
2. The process of disaggregation takes place, with FTOs drafting detailed plan proposals after considering requests from enterprises.
3. The Ministry of Foreign Trade makes adjustments according to policies and resource availability, and draws up a coordinated foreign trade plan, which is submitted to the government for approval.

4. Once the plan has been approved, (possibly after some further amendments) detailed instructions are issued down the hierarchy, including, where possible, technical specifications of products to be imported.

Once the plan is finalised, it nevertheless remains open to some adjustment in line with changing conditions in the world market, and shortages or surpluses arising in the domestic economy: "The exporter should realise that the foreign trade plan is not a rigid final document that will be adhered to in spite of anything that may happen in the domestic economy or on international markets. Instead, it is viewed as a set of flexible guidelines by the Ministry and the FTOs alike, which review it quarterly or even more frequently to see whether it is still valid" (UNCTAD/GATT, 1971; p.50).

One way in which greater flexibility has been introduced is by reducing the role of quantity planning; in the U.S.S.R., for instance, "Since 1937, the government fixes the yearly quotas only for certain mass imported goods (... non-ferrous metals, rubber ...) which are distributed from the centre... As regards commodities not imported on such a mass scale and not distributed by one central agency, import licences are issued to applicants by corresponding departments and institutes, individually in each case, on the basis of the general import plan. For equipment and similar specialised goods, limits are set only to their value, and within these limits importing corporations can vary the quantities imported. The purpose of this change was to allow more freedom and greater flexibility to import trade". (Baykov, 1946; p.34).

A similar trend towards value targets can be noted in all the COMECON countries (see Matejka, 1975; pp. 454-8).

While Western exporters might wish that more information were available on precisely how much flexibility exists in the import system (in particular, how much scope for unplanned imports), the disaggregation of value targets is one reflection of the effective decision-making power of the lower organs within the hierarchy. For it must be stressed that 'centralised pluralism' also operates in the field of foreign trade. The centre - Gosplan, the Ministry of Foreign Trade, industrial Ministries - cannot possibly cope with all the micro-details of foreign trade planning. Demand for a particular foreign product is often initiated from below, with enterprises submitting requests to their ministries. Enterprises and industrial associations thus exert considerable influence over what is imported, both through import requests and in the disaggregation of general currency allowances into specific goods. A study by the UNCTAD Secretariat (1972) emphasises that "the procedure for elaborating import plans in the SCEE [Socialist Countries of Eastern Europe] is nowadays characterised, first of all, by the combined efforts of the central planning authorities (government planning bodies as well as planning units inside the ministries of foreign trade) and end-users (enterprises, ministries)" (pp.17-18). Similarly, as in other sectors of the economy, demand for imports from the West exceeds supply, which is limited by a combination of government policy and the country's export

capacity. There is thus a degree of 'frustrated demand' amongst end-users, the extent of which it is impossible to measure, though the pressure it generates is partly reflected in East European indebtedness (see the UNCTAD Secretariat, 1972; p.19).

4.5. Relationship Between FTOs and End-Users¹

The degree of cooperation achieved between FTOs and end-users varies. It may depend on the legal status of the FTO² - in the case of FTOs formed as joint stock companies or cooperatives (see section 4.6 below) the relationship with the end-user will tend to be close. It will also depend on the amount of business conducted by a particular enterprise with a particular FTO - in some cases, a department in an FTO may handle almost exclusively the business of a large enterprise.

Conflicts are bound to arise, however. In particular, FTO representatives are concerned primarily with prices and commercial conditions generally (their performance being judged largely according to their ability to negotiate good commercial terms), while the end-users tend to be concerned with quality and technical aspects³. If

1. See Quigley (1974; pp.127-172) for a description of the contractual relationship between FTOs and end-users for export and import in the Soviet Union.
2. UNCTAD/GATT (1971) lists five categories of FTO according to their legal status: i) Standard FTOs; ii) FTOs coming under the jurisdiction of Branch Ministries, though granted foreign trade rights by the Ministry of Foreign Trade; iii) FTOs organised as joint stock companies with limited liability; iv) Service FTOs subordinate to the Ministry of Foreign Trade; and v) Cooperatively controlled FTOs acting on behalf of the cooperative.
3. A CIA report on negotiating in Eastern Europe refers to American businessmen being embarrassingly 'caught in the crossfire' between FTO and end-user during negotiations (CIA, 1979; see also the UNCTAD Secretariat, 1972; p.21).

there is disagreement, it is the FTO that has the power to make the final decision between competitive offers. Furthermore, FTOs create an extra layer of bureaucracy, which can frustrate end-users and Western exporters alike. They are a 'narrow funnel' through which all transactions must pass, overloaded with requests from both Western companies and domestic enterprises. This inevitably leads to delays, slow correspondence, and even unwillingness to meet companies whose products do not appear of immediate relevance. It also inhibits FTOs from playing a creative role in looking for potential customers for a particular product - instead, they tend simply to react to requests received from industry. In general, FTOs tend to constitute a barrier between the end-user and the Western exporter - as Holzman puts it, "This artificial separation of consumers from producers cannot help but make foreign trade less satisfactory than it could be, except in the case of completely standardised homogeneous products"². (Holzman, 1976; p.22).

4.6. Reforms and Increasing Variety

Despite some undoubted advantages, then, the Soviet-type foreign trade system has been criticised on two main counts:

- i) Excessive centralisation with resulting problems of bureaucracy;
- ii) harmful separation of the foreign trade function from the production function¹.

1. See Quigley (1974; p.175).
2. Some attempt has been made to bridge this gap in the Soviet Union through a reorganisation of FTOs (introduced in 1978-9), as a result of which each FTO will have a board composed of representatives from industrial ministries, associations, enterprises and the FTO itself. See Bozek (1979; p.517).

These problems have been aggravated by the lack of an organic connection between domestic and foreign trade prices, which adversely affects the efficiency of decisions at all levels in the hierarchy. The need to increase flexibility and bring consumers into closer contact with producers has become felt with increased trade turnover and ever greater complexity of industrial products. Pressure for reforms has naturally been stronger in the smaller, more trade dependent countries of Eastern Europe. As Grossman (1968) comments: "To a significant extent all of the recent economic reforms in Eastern Europe - though not in the Soviet Union - have as a main purpose to render the given socialist economy more effective as an earner of foreign exchange and as a gainer from the international division of labour".

The reforms implemented to date can be grouped into four categories:

1. Exposing domestic enterprises to world prices. In all the smaller East European countries there have been moves to ensure the automatic linking of domestic and foreign prices, either by making enterprises pay and receive world prices (converted into domestic currency) for their imports and exports, or through a system of premia based on export receipts and import expenditure (see Matejka, 1975; pp.458-467). Implementation of this is fraught with difficulties, but at least the intention of reducing the extent to which domestic enterprises are sheltered from the world market is clear.

2. Increased control by industrial ministries over FTOs. This is particularly the case in Romania, where the majority of FTOs are subordinate to the relevant industrial ministries, though the Ministry of Foreign Trade retains overall control of the volume of trade through the issuing of licences. Similar reforms were made in Poland in 1971¹. Even in the Soviet Union, there has been a recent trend towards closer cooperation between FTOs and industrial enterprises.

3. Granting of foreign trade rights to enterprises and industrial associations. This is the most significant of the reforms. The rights that have been granted vary in degree and from country to country, with only the Soviet Union as yet unchanged. It can involve the right to negotiate foreign trade transactions independently, but with payments operated via FTOs. Alternatively, associations or enterprises may establish their own FTOs as joint stock companies or cooperatives (notably in Czechoslovakia and Hungary). Finally, in Hungary, Czechoslovakia, Poland and East Germany some industrial associations and large enterprises are licensed to trade actively on their own account. The devolution has been carried furthest in Hungary, where foreign trade has been liberalised in line with the general

1. It should be noted, however, that in both these countries there has been some tendency towards recentralisation and increased control of the Ministry of Foreign Trade since the initial reforms.

economic reform, and the number of organisations licensed to direct foreign trade activity has mushroomed, by far exceeding the number of FTOs in the Soviet Union, which has a trade volume over four times that of Hungary¹. (For greater details of these changes, see Matejka, 1975; pp.450-4).

Increasingly, exporting enterprises are also permitted to retain a percentage of hard currency earnings to trade on their own account. For example, in Romania as much as 25% of 'above plan' export earnings can be retained, and up to 2% can be used for cultural trips abroad undertaken by enterprise staff.

4. Joint ventures. In Romania, Hungary, Bulgaria, and (to a more limited extent) Poland, Western companies have been allowed to enter into joint ventures with domestic enterprises.

There is, then, increasing complexity and diversity in the organisation of foreign trade in Eastern Europe. As Matejka (1975; p.443) comments, "... the single Stalinist foreign trade model ... has

1. An interesting (but in our view over-simplified) parallel has been drawn between this general trend towards greater involvement of industrial enterprises in foreign trade and the progression within multinational corporations from the 'international division' to the 'global form' of foreign trade organisation - see Brada and Jackson (1978).

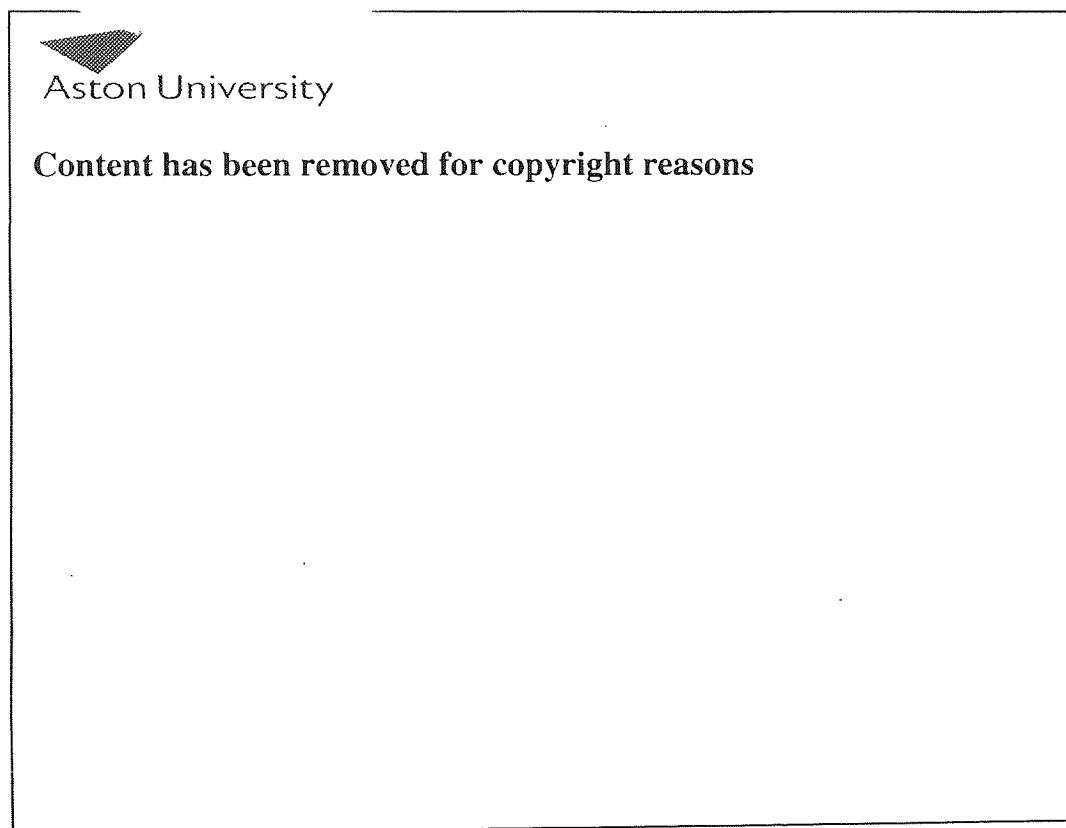
now clearly given way to a range of models. The USSR, at one extreme, retains a very traditional system. Hungary, at the other, is in the process of introducing a regulated market"¹. This is not to say that reforms have overcome the fundamental problems of the traditional system; some of the more acute tensions may have been eased, but it remains doubtful whether reforms can be truly effective without corresponding changes in the economic system as a whole. The monopolistic position of the FTOs has been eroded somewhat, but the state monopoly of foreign trade nevertheless remains intact; as Selucka observes, "the substance of the state monopoly of foreign trade has not changed in most Eastern European countries. What has changed and evolved are the organisational forms of foreign trade institutions and the methods and means of state control". (Selucka, 1974; p.91).

4.7. Import Channels from the West

Despite the reforms, FTOs remain responsible for a dominant proportion of foreign trade transactions. Nevertheless, Western exporters are faced with an increasing number of potential purchasers in Eastern Europe. There is the possibility of selling directly to enterprises with foreign trade rights, and, as flexibility increases, there is also greater ease of access to industrial enterprises with

1. For descriptions of the precise nature of the foreign trade system in each East European country, see the individual country volumes of Business International (1980); see also Starr (1974; pp.137-350), which, though somewhat outdated, provides useful legal background.

the possibility of stimulating demand amongst end-users without relying on the FTOs. (This is important, since, as noted above, it is not the FTOs' job to promote a Western company's products amongst end-users - FTOs work mainly with known demand, acting on requests received). The principal approaches open to the Western exporter (though not all of them applicable to all Comecon countries) are shown in Figure 4.3 below.



NOTE: Dotted line signifies alternative channel.

SOURCE: Adapted from Business International, Doing Business with Eastern Europe, 1980.

4.8. Conclusions

The organisation of foreign trade is exceedingly complex and increasingly diverse. As in the centrally planned economy as a whole, many organs are involved in the decision-making process, it is heavily bureaucratic and lines of responsibility are blurred. The speed of the operation is not helped by the individual accountability of FTC representatives and the heavy penalties that can be applied when mistakes are made. It is not surprising that, again as in the rest of the economy, unofficial channels supplement the official system, though little has been written about how these unofficial channels work.

There are many gaps in our knowledge of the precise workings of the foreign trade system in Eastern Europe, no doubt largely due to the difficulty of analysing the unofficial channels. This is one area which the extensive literature on East-West trade has not covered satisfactorily. It is to a review of this literature - and through it, to a discussion of some of the numerous issues involved in East-West trade - that we turn in Chapter 5.

CHAPTER 5: ISSUES AND PROBLEMS IN EAST-WEST TRADE: A CRITICAL
REVIEW OF THE LITERATURE

In this chapter we look at some of the issues involved in East-West trade through a discussion of the extensive literature on the subject. The chapter is divided into four sections as follows:

- i) An introduction to East-West trade as a subject: why it should be regarded as a subject in its own right, and how it has developed.
- ii) A discussion of the literature on the theory, economics, and politics of East-West trade.
- iii) A discussion of the literature on trading with Eastern Europe.
- iv) Conclusions on the literature and on the state of the subject as a whole.

There are many equally legitimate ways in which studies of East-West trade can conveniently be subdivided: by author, by country, by sub-category (e.g. legal aspects, financial aspects, political aspects etc.) ... The particular distinction we chose to make arises from our desire to view the subject as a whole, and to emphasise the connections rather than the divisions between the issues involved. Therefore, rather than splitting the subject into numerous sub-divisions, we suggest that the existing literature falls into two broad categories:

on the one hand, literature dealing with the theory, economics and politics of East-West trade, and, on the other hand, that dealing with the practicalities of trading with (and, in particular, marketing to) Eastern Europe.

There is a fundamental difference of perspective between the two. The former looks at the subject mainly from a wide-angle perspective, abstracting from the detailed data to construct explanatory theories, point to implications for government policy, examine trends in trade, differences between and changes in economic systems and their relevance - in general, it examines (and influences) the framework within which individual economic units must operate. Even those works which look at a small area of East-West trade in great depth do so in order to abstract and throw light on the general framework. The literature dealing with the practicalities of trading, on the other hand, looks at the subject in close-up, from an operational perspective, examining marketing options, negotiating techniques, legal constraints etc.

Now obviously the two are closely interrelated: the first relies on the activities of firms for its subject matter, the second operates within the environment examined in the first. The distinction also becomes blurred when those East Europeans looking at macroeconomic issues are at the same time economic decision-makers in their country, thus making their works operational in a very real sense. Nevertheless, the distinction generally exists and it is in many respects a natural one.

Therefore, in reviewing the literature in East-West trade, we examine the two bodies of literature separately, while in the concluding section we argue that there has been a tendency to keep the two perspectives too rigidly apart.

This review can only cover a small proportion of the total literature on East-West trade. There is no attempt to be exhaustive, nor to review all the authors who have dealt with a particular subject. The aim is simply to outline the major issues involved, show how they relate to one another, and comment on some of the opinions expressed by leading authorities. Despite its limitations, then, this review tries to be reasonably comprehensive in breadth if not in depth.

5.1. Introduction: East-West Trade in Perspective

i) East-West Trade as a Subject

East-West trade has come to be looked upon as a 'subject' in its own right. It is a peculiar hybrid, consisting of elements of several well-established disciplines - economics, politics, marketing, international law, history - but belonging exclusively to none of them. Why should this particular aspect of international trade - one which, moreover, accounts for a comparatively small percentage of world trade turnover - come to have an existence of its own? Is it indeed justified to consider it an independent subject?

There are two principal reasons. First, East-West trade involves the interface between two radically different economic systems: on the one hand, market or 'capitalist' economies; on the other, centrally planned economies. This alone makes East-West trade worthy of special attention. Secondly, these economic groupings correspond (not by coincidence, of course) to the two major political groupings of modern times. Matters of security, of comparative

economic and military strength become of prime importance, and trade is a major factor both influencing and influenced by political relations between the two blocs. The fact that foreign trade is ultimately in the hands of the political leadership in communist countries thus takes on added significance, and western governments have paid correspondingly greater attention to trade controls than with most other trading partners. In East-West trade, then, the sheer intensity of the interplay between politics and economics means that neither can truly be considered in isolation. Similarly, at the level of the companies involved in actual trading, new problems are created by the difference in economic systems - dealing with state trading corporations, limited access to end-users, lack of market information, long time lags - while the unpredictable influence of political developments has to be borne in mind.

No doubt, East-West trade would not have received so much attention were it not for its implications far beyond the low level of goods and services exchanged. As Wilczynski writes, "In spite of the small volume of East-West trade, its role in international relations since World War II has been extraordinary. East-West trade has been intimately interwoven with foreign policy and with many crucial issues of our time, forcing Western and Socialist countries into intricate patterns of relationships". (Wilczynski, 1969; pp.28-9).

So there are features of East-West trade that give it a significantly distinctive character. Analysis of these features may be approached from the angle of the economist, the political scientist, the marketing expert, the historian; their isolated contributions may be considered as part of their individual disciplines. The subject as a whole, however, cannot be conveniently annexed to any of these disciplines but consists of the dynamic interaction between them all. There is then, some justification in treating East-West trade as a 'subject' in its own right. It is an increasingly complex one: political and economic relations have become more subtle since the days of all-out economic warfare, and the growing multiplicity of economic reforms in Eastern Europe makes it ever more questionable whether one can treat the Soviet bloc as a relatively homogeneous entity. Nevertheless, East-West trade has become established as a subject - interdisciplinary in nature - and is likely to remain vigorous as long as the political and economic distinctions between East and West persist.

(ii) Development of the Subject

The subject has barely passed adolescence. Before the Second World War little attention was paid to questions of Soviet trade, neither in the West nor in the U.S.S.R. This was due partly to the predominance of other issues in the 1930's, partly to the policy of autarky pursued by the Soviet Union and the resulting insignificant volume of foreign trade turnover.¹

1. The work of Alexander Baykov (1946) is a noteworthy exception, tracing the heritage, development and organisation of Soviet Foreign trade from the Revolution to 1940.

It took the addition of the smaller East European countries, forming the 'Soviet bloc', to focus attention on the subject: the bloc became of greater economic importance, the smaller countries were far more dependent on trade than the huge and richly endowed U.S.S.R., and they were traditional trading partners of the West, particularly Germany. Even then it was only after some two decades, after the removal of the harshest governmental barriers and the realization on the Eastern side of the need for trade with the West, that the subject began to develop in a truly dynamic fashion. Detente, slowing growth rates in Eastern Europe and an increasingly manifest technology gap, the desire of some Eastern European countries for increased independence from the Soviet Union, the prospect of potential growth for Western firms, and the general trend in the world economy towards economic interdependence - these are all factors which have led to increased levels of East-West trade and drawn attention to the subject in both East and West.

In the Sixties a series of books - by Pryor (1963), Wiles (1968), Kaser (1967), Brown and Neuberger (eds.) (1968), Wilczynski (1969), amongst others - launched the subject. Since then, the literature has mushroomed and has revealed the complexities involved in East-West trade. Monographs, collected works, articles, government reports, marketing guides, conferences, and journals have all flourished in the Seventies.

The subject can be said to have come of age in the West with the appearance in the Seventies of several bibliographies:

by Lew et al. (1976), by Marer (1977), and Ervin (1979)¹. Of these, Marer's is the most comprehensive, containing over 1,500 entries, and is an invaluable research aid. To have some idea of the current size of the literature on East-West trade, one must bear in mind that Marer's work is by no means exhaustive (notably, it contains no East European works other than those that have been translated), and that a considerable number of works have been published since 1977. It is debatable whether this extreme level of activity will continue into the eighties. Already there is much repetition, many of the arguments circle around familiar stumbling blocks, and the growth of trade has tapered off as the Eastern countries face hard currency problems and the West economic recession. One might predict a steady if less dynamic flow of literature on East-West trade in the Eighties, parallel, perhaps, to the level of trade itself.

1. It should be noted that useful and extensive bibliographies had already appeared in UNCTAD/GATT (1971), Stowell (1975), and Loeber (1976).

(i) East-West Trade and International Trade Theory

Is Western trade theory applicable to Comecon trade, and if not, what has been produced to take its place? Western trade theory has been built around the institutions and conditions that have traditionally prevailed in international trade: private enterprise, entrepreneurship, effective exchange rates etc. The absence of these elements in Eastern Europe would seem to call for a new theory of trade. Wiles (1968) and Boltho (1971) both examine the Marxist tradition of foreign trade theory, or rather the lack of it: "There was and ... is nothing we can properly call a Marxist theory of post-revolutionary trade" (Wiles, 1968; p.7). The theory of comparative advantage was rejected, but nothing replaced it as the drive towards autarky pushed questions of trade efficiency into the background. As Boltho puts it, the resulting "blunders were due to the almost total neglect of foreign trade theory in the Eastern European countries. It was argued by Marxist theoreticians either that there was no justification for substituting a Ricardian scheme for a (practically non-existent) Marxist theory of foreign trade, or that socialist industrialisation could not be achieved by following the principle of comparative costs, or that the international socialist market was, in any case, an 'organised' market to which these principles were not applicable" (Boltho, 1971; p.63). More recently, with the increased importance of trade both with the West and within the bloc, this lack of a satisfactory socialist theory of foreign trade has come to be viewed critically by many Eastern economists: "We can admit without shame ... that so far Socialism has found no acceptable concept of its own covering the question of foreign trade and international economic

relations; still less a theoretical approach which would apply to a given historical period of some considerable length during which it has to share the world with a number of other systems" (Vajda, 1971; p. viii).

So, if Western theory appears less than satisfactory for the purposes of describing socialist foreign trade behaviour, the Comecon countries themselves have provided no alternative means of assessment. Attempts to fill this gap have been made in the West. Brown, for example, tentatively constructs a dynamic model of foreign trade behaviour in a centrally planned economy, concluding that "A CPE tends, over time, to become increasingly dependent on foreign trade" (Brown, 1968; p.84). Yet, as Campbell observes in his discussion of Brown's paper: "Surely a great deal of the history of foreign trade behaviour in the CPEs is the result of non-repeating influences". The fundamental problem is that Western trade theory assumes the operation of RATIONAL economic forces. Under the conditions of central planning, however, IRRATIONAL (in economic terms - that is, inconsistent with economic efficiency) political decisions frequently play a dominant role. We are thus faced with an impasse: either economic reforms make the Eastern countries conform to Western theory (as has been the tendency in Hungary), in which case we no longer have a subject to discuss, or we do have a subject, but one for which, as Wiles puts it, "There are and will be no valid general theories" (Wiles, 1968b; p. 166).

The only practical approach open to the analyst is to use conventional Western theory as a normative tool for analysing the economic efficiency of Socialist foreign trade, i.e. as providing a set of criteria for understanding and - if possible - measuring the economic costs of operating trade in a non-Pareto efficient way.

(ii) Level of Trade

East-West trade flows have been analysed in Chapter 2. We have seen that the commodity composition is unbalanced. The East European countries have had only limited success in their efforts to change this, a fact which causes particular concern to Eastern economists (see, for example, Schmidt, 1978; and Genin, 1978), who see a pressing need to balance the commodity trade flows. We have also seen that the volume of trade is relatively low. Apart from those who argue that, for political reasons, East-West trade should be decreased, there is general agreement that the present level of trade is unsatisfactory: "With all that has been achieved, however, one cannot overlook the fact that neither the volume nor the structure of actual economic relations has so far reached the limits of possibilities and the needs on either side. There are still obstacles to be removed and complicated problems to be solved" (Schmidt, 1978; p.7).

These obstacles are both political and systemic, the two being closely interrelated.

(iii) Political Constraints on East-West Trade

On the Western side, one of the main political obstacles to trade has been the strategic embargo together with credit control, the history of which has been comprehensively charted by Adler-Karlsson (1968). It is now generally argued that the embargo had little if any positive effect. On the contrary, it is argued that the embargo manifestly failed, since it encouraged the Soviet Union to build up independent strength in certain key areas: "Thus, paradoxically, the policy in its initial phase, when the embargo was at its strongest, consolidated rather than weakened the Soviet Union's position in the bloc, facilitated rather than hampered its capacity to 'displace' the output plans of the weaker countries of the COMEA group, and accelerated rather than retarded national drives toward heavy domestic industry building in each of these countries. On balance, these factors may ultimately have increased the capacity of the bloc to wage war" (Spulber, 1968; p.120). Holzman advocates a liberal trade policy: "I am basically in favour of virtually ending the state of economic warfare that has existed between the U.S. and the Communist nations since 1945. It is a negative policy that, in my opinion, has not added significantly to the security of this nation. We have little to lose and possibly, much to gain from adopting positive policies" (Holzman, 1974; p.217).

Pressure for a more liberal policy has in fact resulted in the progressive easing of controls. However, this does not mean that they have become negligible - examination of recent COCOM lists

shows how the restrictions are aimed specifically at areas of technology with military applications, in particular electronics (see "Security Export Control", supplement to British Business, 28th March 1980). Moreover, U.S. restrictions have remained harsher than those in Western Europe, with far-reaching consequences, as Pizar notes: "The American restrictions extend far beyond the limited sphere of commerce with communist countries. To ensure effective execution of its legislative mandate, the Administration has evolved systematic procedures for the supervision and punishment of Western buyers in connection with the unauthorized transshipment of strategic goods and know-how of U.S. origin ... In this manner, America's world-wide commerce, the activities of wholly alien firms which import from the United States and of foreign-based business ventures in which American groups participate are all affected by U.S. security measures, and the psychological environment in which they are implemented" (Pizar, 1971; p.97). The Soviet invasion of Afghanistan has rekindled the debate on strategic controls, strengthened the implementation of the restrictions (again, especially in the U.S.A), and shown that they remain an important issue in East-West trade ¹.

On the Eastern side, a policy of autarky was pursued (partly out of necessity) with pre-war Soviet autarky turning into bloc autarky with the creation of Stalin's 'Socialist World Market'. In the sixties, however, the appropriateness of autarky to describe

1. Provisional assessments on the effectiveness of the Western economic response to the Soviet invasion of Afghanistan range from verdicts of mild success to condemnation of U.S. policy as a counter-productive failure. See Hanson (1980; p.35) and Medvedev (1981).

expressed at a 1966-7 conference, Brown and Neuberger write that "there is little agreement as to the proper meaning of autarky. The problem ... is not entirely semantic ... autarky was attacked as a misleading oversimplification of the trade policy of CPEs" (Brown and Neuberger, 1968; p.9).

In place of autarky 'trade aversion' has been adopted as a more suitable expression, referring to a whole collection of factors which make the bloc countries reluctant to trade. The reasons for trade aversion are largely systemic and are discussed below (section iv). On the political side, protectionism and concern over excessive dependence on the West are said to lead to trade aversion. Even for the Soviet Union, however, a new phase has arguably begun, in which the prestige to be gained through trade has become an important consideration which counterbalances trade aversion.

Turpin would not agree. He argues that the Soviet Union's trade policy is exploitative and still autarkic, in the sense that she retains the INTENTION to be self-sufficient: "The Soviet Union is ... seeking so much economic isolation or independence as will ensure that it is not forced to subordinate any significant interest to the needs of its commercial interconnections with the outside world, while retaining the liberty to take such advantage of the existence of that world as seems beneficial to it... The purpose of the whole discussion is to draw attention to the fact that the Soviet Union does not and does not want to participate in world trade in the same way as free world companies and governments do, but rather wants to use the existence of the outside world to further its ends" (Turpin, 1977; p.10).

Not only does this view seem by implication somewhat charitable as to the aims of Western Governments and companies in trading with the Soviet Union, it also seems an inaccurate description of the Soviet Union's current trade policy: within limits imposed by (quite justifiable) worries of national security, the U.S.S.R. seems to have recognised a certain degree of international interdependence as a fact of modern economic life, and it would be naive to imagine that the Soviet Union's trade with the West involves no sacrifices (see, for example, Goldman, 1979; pp. 193-5).

"The end of autarky or economic isolation in the commercial trade of the Eastern countries with the West leads in time to a degree of interdependence difficult or costly to reverse ... It appears that economic influences will increase and security considerations - so long dominant - will recede" (Hardt, 1974; p.11). In the light of the impact on East-West trade of events in Afghanistan, this view may seem to have been premature, but in general it is true to say that, in the seventies, political constraints have become less of an obstacle to East-West trade. Yet this in no way means that political considerations are no longer relevant. The removal of sanctions is every bit as much a political act as the placing of them: detente is simply a more subtle political tactic which raises new issues in East-West trade. In this respect, Hardt's conclusion is slightly misleading: political considerations may become more passive, but they are still very much alive.

The main questions raised by detente and the liberalisation of trade are the distribution of benefits to either side, the problem of economic dependence and new forms of economic warfare for political ends.

The question of the distribution of benefits is the converse of the strategic embargo issue: discussion as to whether the lack of trade was hurting the bloc enough has been replaced by argument as to whether increased trade is benefitting the bloc too much. This matter was very much at the centre of debate at the Dresden conference in 1976, a conference inspired by the Helsinki Final Act, in which the signatories agreed on the aim of expanding East-West commercial relations. Watts (1978), in her introduction to the published papers, writes: "The nature and distribution of the benefits and the disadvantages of closer interdependence are likely to constitute the underlying theme of any discussion on economic relations between East and West". Discussion centres on the relative strength of bargaining positions and the relative economic importance of trade to either side. Western observers (notably Pizar, 1971) point to the power of the state-controlled foreign trade monopoly as against individual competing firms in the West, as well as to the greater importance of East-West trade to the Eastern economies - in particular, the higher percentage of their total trade represented by East-West trade plus the impact of imported technology on growth and military capacity are brought in evidence.

Eastern economists are keen to point to the economic importance of trade for the West, with Comecon countries offering new markets

which can have a great impact on employment levels: "Indeed, to capitalist states, economic relations with CMEA countries have become of great social importance. One should remember that East-West cooperation is a question of hundreds of thousands of employed workers" (Senin, 1978; p. 125). That there is economic benefit on both sides in any individual transaction is not in question; the important point, as Mateev (1978) points out, is the overall distribution of benefits and the implications for political decision-makers who determine the 'climate' within which individual transactions take place. Hanson reviews the arguments on the distribution of benefits, and concludes that, "For every argument that one bloc will corner the gains from East-West trade there is usually another line of argument, about the same category of benefits, which suggests that the gains will on the contrary go disproportionately in the opposite direction" (Hanson, 1978a; p.98). His paper demonstrates the complexity of the question and the need to measure benefits empirically; there does, however, seem to be greater weight behind the arguments that the East stands to gain more in economic (and possibly in military) terms, particularly in the field of technology transfer, as Hanson himself has argued elsewhere (1978b), and that this must be offset by political considerations in the west. There is no quantitative solution to such equations, but Wolf (1979) suggests that the overall distribution of benefits is fairly even.

Probably the most important aim of detente in Western eyes is that it will help to ensure world peace. Increased trade contacts

and the resulting interdependence is seen by many as the major practical guarantee of this aim: "East-West trade is a more fertile plane for bringing the West and the Bloc together on a sound basis than any other sphere of their relations" (Wilczynski, 1969; p. 384).

However, economic interdependence raises the issue of the possible use of economic leverage for political purposes. How great is the Bloc's ability to wage economic warfare? (not very, it is generally argued, though the West must beware of overdependence on Soviet raw materials). Should the West use what economic leverage it might have to support human rights movements in the bloc or more generally to influence the internal politics of East European countries? Eastern economists are (again justifiably) sensitive on this matter: "Certain circles have not yet abandoned their ambitions to use expanded economic relations as a vehicle by which to interfere in the internal affairs of individual Socialist states or of the socialist community at large. Attempts are still being made to abuse such relations, by using them as means of political and economic pressure or politico-ideological subversion. Some of these attempts are made under the pretext of wishing to facilitate East-West trade through some transformation of the Socialist system, by means of 'radical reforms' or 'decentralisation of planning'. Such activities, however, are in plain contradiction to the principles of peaceful coexistence and have nothing in common with the letter and spirit of the Helsinki Final Act, in which the participating states commit themselves to 'respect each other's right freely to choose and develop

its political, social, economic and cultural systems as well as its right to determine its laws and regulations'" (Schmidt, 1978; p.17). Brainard (1979) argues that, in the case of the Soviet Union, ... "the importance of credit availability as a constraining factor on Soviet policy is probably overestimated. Soviet credit policy appears cautious and conservative. For this reason, restriction by western governments on lending to the Soviet Union promise little in the way of political leverage. The most important issues for western policy lie in the trade area, particularly in relation to market access and fair trade policies" (Brainard, 1979; p.109). Hanson (1979) outlines the problems involved in the use of trade as a political weapon, the biggest of which are lack of coordination amongst Western countries and the possible counter-productivity of such attempts. As Turpin observes, commenting on the Jackson-Vanik Amendment, "Our examination of the Soviet system ... would seem to suggest that it is designed to secure for the Soviet political authorities complete control over external commercial relations, and thus precisely to thwart any external attempts to exert political influence on the Soviet state or the Soviet society" (Turpin, 1977; p.95).

These problems of foreign policy and trade have been clearly summarized by Shulman (1978). As Friesen (1976) shows, the task of formulating a coherent policy is further complicated by the plurality of pressure groups in the decision-making process, in both East and West. Like Pissar (1971) and Goldman (1975), he argues for the

establishment of a solid framework of pragmatic US policies on East-West trade in place of the current somewhat haphazard, ad hoc approach. In the wake of the Afghanistan crisis, it is interesting to note the extent to which, in Western Europe at least, this solid base has been created: Afghanistan has revealed not only the resilience of East-West trade, but also that its constraining influence on foreign policy is as strong on West European governments as it is on the East, with the former willing to forego the Olympics, but not all trade. In a very real sense, East-West trade has taken on a force of its own and 'gives as good as it gets' with regard to foreign policy.

(v) Systemic Constraints on East-West Trade

Political constraints can no longer be said to be a dominant obstacle to the expansion of East-West trade. The explanation of the low volume of trade lies predominantly in the problems created by the type of economic systems currently in operation in the Comecon countries¹. This, at least, is what is universally held in the West, and it is the opinion of many Eastern economists². Ausch (1968)

1. It need hardly be emphasised again that much of the discussion in the previous section has its roots in the difference between economic systems, while political as well as economic considerations lie behind the way in which Soviet-type economies are organised.
2. Though not all; for example, Mateev states that, "The new and complex relationship now required for industrial cooperation make the old problems of plan-market relations irrelevant" (Mateev, 1978; p.65.)

relates all problems of socialist trade to the system of central planning and the lack of market mechanisms; although he refers to intra-CMEA cooperation, his arguments are equally valid for trade with the West: "In the present situation the principal contradiction of socialist world market and of CMEA cooperation consists in that the functioning of the categories and laws of the market are limited by the very restrictions rooted in the national systems of economic control, applied by states which are otherwise sovereign, and whose external relations would demand a different form from those made possible by their internal systems of economic control" (Ausch, 1968; p.67).

The conditions created by central planning and the foreign trade monopoly are seen to lead to trade aversion in a number of respects. The tendency towards autarky, Nove points out, has not been entirely political: "It is important to realise that this tendency towards autarky exists within the Soviet Union as well as in dealings between the USSR and other countries, and that it is to some extent inherent in the system of planning itself" (Nove and Donnelly, 1960; p.21). Thus enterprises hoard materials, industrial ministries attempt to produce as full a range as possible of the inputs they require, and nations push towards self-sufficiency and are reluctant to engage in intra-industry specialisation. This point is also made by Ausch: "The inadequacies appearing in the division of labour among these [CMEA] countries are, in their character and effects, much similar to those of the internal mechanisms based on direct plan

instructions" (Ausch, 1968; p.59). At the enterprise level there is a reluctance to rely on imported inputs, since late delivery would affect their plan targets. In general, "The elimination of market mechanism from the system of domestic economy and foreign relations must automatically lead to super-protectionism and autarkic economic policy" (Ibid. p.111).

It is also argued that central planning creates an attitude to trade fundamentally different to that of Western companies, for whom the profit motive provides equal incentive for both imports and exports. Holzman observes that, in the planned economies, "... trade is conducted primarily to obtain essential imports. Exports are considered not as an end in themselves but purely as a means to finance the necessary imports ... More basically, exports are viewed as a loss of resources, not a gain" (Holzman, 1976; p.23). In practice, the effect of this has been to some extent counteracted by East European efforts to reduce indebtedness: this has led to campaigns and financial incentives designed to make exports profitable to enterprises, and there is a tendency now to view exports as a 'good thing'.

That such measures are necessary is a result not only of the traditional planners' view of exports as a sacrifice, but also of the lack of motivation at enterprise level to produce for export. With sellers' markets prevailing, enterprises have little reason to risk the uncertainties of competitive markets. Furthermore the separation of

consumer and producer operates in the internal trade of the centrally planned economy as well as in external relations, with the result that enterprises are generally ill-prepared and unwilling to adjust their production to the demanding requirements of the market. This is identified as one of the main reasons for the poor export performance of Comecon countries in manufactured products (see Aush, 1968; also Mateev, 1976), which in turn is a major restraining influence on the volume of East-West trade; as Pissar notes, "Fundamentally, the future growth of East-West trade depends on the ability of the East to provide, and the West to absorb, a much larger volume and variety of manufactured products" (Pissar, 1971; p.46). Hungarian reforms have been aimed at re-establishing the links between consumer and producer (see Friss, 1969; also Köver, 1971), in an effort to stimulate export production and make it more efficient. A study by Chasin and Jaffe (1979) suggests that these problems of quality are aggravated by the poor 'image' of East European products amongst Western (U.S.) industrial buyers, and that, if a successful export drive is to be achieved, a substantial public relations effort will be required in order to modify negative attitudes.

These systemic obstacles to exports are largely responsible for the rapid increase in CMEA indebtedness to the West in the seventies, which has become the most concrete constraint on trade growth. A thorough analysis of this issue, together with projections of possible future developments in CMEA trade and indebtedness, is given by Askenas, Fink and Levick (1979), who forecast that: "It must be

assumed that in the years to come the development of CMEA imports will be determined by the exigencies of the balance of payments rather than by the requirements of economic growth. In most CMEA countries this import policy orientation became evident during recent years when the latter started to put the brake on import growth from the industrialised West. One can assume that in the next few years they will attempt to gradually reduce the deficits in their foreign trade with the West through curbs on imports which are designed to achieve balanced trade in the eighties. The degree of import restraint will vary from country to country, according to the extent of the balance of payments' deficits" (Askenas et al., 1979; p. 23).

Central planning is further seen to inhibit trade through the heaviness of its bureaucracy. Guzinov (1975) estimates that, in Soviet foreign trade organisation, pushing paper takes up 70% of the working time of administrators in the central office. This bureaucracy, coupled with the logic of central planning itself, is seen by Western observers to inhibit entrepreneurial activity. For example, Haberler claims that: "There is no room in the centralised socialist economies for the innovating entrepreneur, and entrepreneurial activity is vitally important for international trade" (Haberler, 1968; p. 39). Again, the Hungarian reform aimed to restore this element: according to Vajda the reform ... "has paved the way for new entrepreneurial concepts. The executive agents of the past will become independent in

the world market, and it will be their turn to awake the slumbering capacities of creative people and let them assert themselves" (Vajda, 1971; p.60).

Arguably the greatest of all the systemic constraints on East-West trade is the irrational pricing structure and related currency inconvertibility. Inconvertibility is deeply rooted in the system of central planning - as Nove points out, due to the allocation of resources by command, "In a very real sense, the rouble is not convertible within the USSR" (Nove, 1977; p.276). Holzman calls this 'commodity inconvertibility', but in international trade the problem is intensified by the inconsistent differences between internal and external prices, both amongst individual Comecon countries and against world prices. The many obstacles to convertibility have been comprehensively discussed by Holzman (1978), who sees far-reaching domestic economic reform as a precondition of a meaningful convertible currency. For the present, Holzman argues, inconvertibility is a serious constraint on East-West trade:

"Inability to use devaluation as a tool for achieving an equilibrium in the balance of payments is a serious shortcoming and is certainly responsible, in part, for hard currency problems" (Holzman, 1978; p. 146). Because of inconvertibility and the causes that lie behind it, there is - in marked contrast to West/West trade - little possibility of risk capital inflow into Eastern Europe (or, for that matter, from one CMEA country to another). Furthermore, the absence of realistic price comparisons - both internationally, and

internal - is a major impediment to efficiency in East-West trade: "The interesting question is how those who manipulate the controls actually determine what and how much is to be exported and imported in a situation of disequilibrium prices and exchange rates ... planners often find themselves without a rational basis for deciding what should and should not be exported or imported" (Holzman, 1976; pp. 33-4). The unsatisfactory attempts to develop efficiency formulae have been examined by, amongst others, Boltho (1971), Turpin (1977), Holzman (1974) and Ausch (1968). No satisfactory solution has yet been found because efficiency formulae are based on distorted internal prices - once again, the consensus is that the only alternative to inefficiency is domestic economic reform, leading to a rationalisation of the price system.

Linked to inconvertibility is the question of bilateralism. Holzman argues that this no longer puts a brake on East-West trade: "While bilateralism is a serious problem in intra-CMEA trade, it is absent from East-West trade. East-West trade is conducted largely in vehicle currencies. Since there is at present general convertibility in the West, CMEA nations can spend their export earnings wherever they wish. The trade data show that earnings are spent relatively multilaterally, not bilaterally" (Holzman, 1978; p. 154). There does, however, appear to be some pressure towards bilateralism inherent in the system of central planning, which, according to reports in Business Eastern Europe, is, if anything, increasing (see Business Eastern Europe, March 3, 1980, pp. 58-60). Ironically though, the

greatest pressure for bilateral dealings comes from Western governments, who seek thereby to gain competitive advantage for their own exports. (For a criticism of the role of governments in East-West trade, see Hewett, 1974).

Systemic constraints are not purely one-sided. They are caused, too, by the simple fact that East-West trade is conducted between DIFFERENT systems. Thus, MFN reciprocity has become a battlefield in East-West trade negotiations: since tariffs are superfluous in centrally planned economies, what can socialist countries offer in return for MFN status? Introduction of tariff tiers in Comecon results only in 'trade diversion', not 'trade creation' (see Holzman, 1976). Similarly, the Soviet Union has been accused of dumping in the West, which led to Draconian counter-measures being taken (the history is comprehensively covered by Wilczynski, 1974). It is doubtful however whether dumping is ever of sinister intent: it simply results from the 'barter approach' of the import/export organisation and the different pricing structure within the CMEA (a feature which also makes proof of dumping virtually impossible): "Only crude propagandists believe that this dumping is deliberate, in the sense that they dump in order to disrupt. They sell cheap only when they cannot sell dear" (Nove, 1977; p. 284). Differences between organisational structure also lie behind the difficulties encountered in attempts to establish relations between the EEC and Comecon (see Hanson, 1974; also Senin, 1978). Finally, Western instability is unattractive to countries in which the economic system

demands a high degree of predictability, and the irregularity of Eastern orders can be disconcerting for Western corporations (see Hanson, 1978a).

(vi) Factors Encouraging East-West Trade

Most attention is naturally paid to the constraints on trade, since this is where the problems lie. These constraints should of course be seen against the background of positive features. Brown (1968) uses the term 'trade proclivity' as the opposite of 'trade aversion'.

The force of historical factors encouraging trade between the West and the smaller East European countries is not given sufficient emphasis in the literature. Political factors are stressed, in particular detente and the desire of the smaller East European countries to reduce dependence on the Soviet Union (see Holzman (1976) for a discussion of Romania's reorientation of trade).

The growing international interdependence of the world economy is also seen as encouraging East-West trade: "No country in the world, not even one of those at the highest level of economic development, can continue to make satisfactory industrial progress without taking advantage of the international division of labour" (Schmidt, 1978; p.15). The costs of R and D and the need for large markets and economies of scale for new products are the main reasons for this. "It becomes obvious that all three large regions of the

world economy have a vital interest not only in their own economy flourishing, but also in the economy of all other countries of the world developing as favourably and as smoothly as possible. These conditions would also best favour East-West trade" (Nemschak, 1978; p.37). There are systemic complementarities, as well as the constraints, which encourage this international co-operation: Hanson (1978b) points to R and D compatibility and complementary industrial priorities between East and West. Growing interdependence is reflected in the increasing complexity of long-term co-operation agreements with Western firms - St. Charles (1974) gives a useful categorisation of these relationships.

Various features of the Soviet-type economy also lead to trade proclivity. Stretched resources and the aim of fast industrial growth, poor harvests resulting from neglect of the agricultural sector, shortages of inputs necessary for plan fulfilment - all these lead to import demand.

Probably the most important factor of all is the 'technology gap' between East and West in an age when the 'scientific and technical revolution' is seen as playing a dominant role in economic growth, and Comecon countries have adopted a strategy of 'intensive growth'. The systemic reasons for technological backwardness in Soviet-type economies are well analysed by Nove (1977) and Berliner (1978), while historical causes are discussed by Berend (1971). Kaser (1967) points to the achievement of Comecon in exchanging technical

information, but this has also been called 'The mutual exchange of inefficiency'. The state of Comecon technology and its problems are examined in depth by Wilczynski (1974), who concludes that despite many impressive achievements, "In most fields the Comecon countries are well below Western technological standards" and that "the economic reforms since the early 1960's have generated an unprecedented need for Western processes, designs, know-how, machinery and equipment" (p.293). (At the same time, though, the technology gap is also a constraint on trade, since it inhibits Comecon countries' ability to export to the West).

Technology is imported not only in finished products, but also in the form of licences, know-how and through various forms of co-operation agreements. It has been argued - for example by Hayden (1976) - that this importing of technology from the West is a substitute for and a means of avoiding internal economic reforms which would be politically unacceptable. Technology transfer is thus at once progressive and conservative. Its importance, particularly to the Soviet Union, has been analysed by Hanson (1978 b and 1978 c) who suggests that the impact of imported technology in certain key areas may be substantial, though inefficiencies in negotiation, installation and implementation dampen this (see Hanson and Hill, 1979), and he sees no danger of the Soviet Union "overtaking" the West thanks to technology transfer.

Finally, mention should be made of the important question of Soviet oil. The Soviet Union's wealth in oil can be seen as encouraging East-West trade, since the rise in oil prices has given the USSR extra cash for Western machinery, while imports from the

West are needed to develop new fields (see Stowell, 1975; pp.78-115 for a discussion of Soviet import requirements in this sector). In 1977, petroleum was a source of 52% of Soviet hard currency earnings and 28% of its overall earnings (Goldman, 1978; p.188). There is, however, considerable controversy over the future prospects of Soviet oil production: for example, the CIA (1977) has predicted that the USSR will become a net oil importer by 1985, while the Petro Studies Company of Sweden (1978) contends that production will double in the eighties, giving the Soviet Union large hard currency earnings and making her a lucrative market for Western capital goods. Soviet energy production and policy also influence the trade of other COMECON countries - Soviet demands for higher prices for its oil exports to Eastern Europe affect the latter's capacity to import from the West. (See Kohn (1979) and Dietz (1979) for discussions on the change in Soviet terms of trade and its consequences).

Dienes (1979) presents two main scenarios for Soviet energy policy into the 1980's: (1) Intensive development of energy resources, which, in order to overcome the great geographic and technical difficulties, would involve a vast 'across the board' requirement for Western technology; and (2) Economic retrenchment and a return to autarky.

Dienes concludes that "a gradual retrenchment towards autarky is much more likely than a conscious choice for it. It is also more probable than the robust Western participation in Soviet resource development called for by the opposite scenario". (Dienes, 1979; p.227).

Whether or not this proves to be correct, it is clear that the question of oil will play a significant role in determining the future development of East-West trade. There are of course, systemic and political factors which affect Soviet oil extraction; however, it is indeed possible that the importance of the systemic and political issues we have been discussing will recede somewhat in the face of developments dictated by the true nature of Soviet energy resources.

5.3. Literature on Trading With Eastern Europe

The literature on trading with Eastern Europe suffers from several weaknesses. As one of the more authoritative sources observes: "Most practical marketing guides suffer from the same shortcoming ... They do not distinguish between the different conditions that prevail in each Eastern European market, and which have important implications for the marketing strategy that the foreign exporter will need to employ". (UNCTAD/GATT, 1971; p.114). One could add that inadequate distinction is made between the marketing of different types of product, and between the problems facing companies of different sizes. The truth is (as our detailed case study of Angus Fire Armour will demonstrate), that no marketing guide can hope to cope with all the complexities of East-West trade at the 'micro' level.

It might further be objected that any amount of literature is no substitute for practical experience; however, as one marketing guide comments, "To be sure, it is often said that everybody has to gain his own experience, but possibly one or the other reader can save himself a painful apprenticeship by profiting from the experience others have gained before him". (Berlin Chamber of Commerce, 1974; p.7).

(i) Marketing as a Concept in Eastern Europe

"Doing business in countries where the economy is centrally planned is basically the same as trading anywhere else in the world.

If quality, price, after service, and delivery are right then business will be likely to materialise". (Black, 1972; p.5).

This erroneous view of trading with Eastern Europe reflects a common shortcoming in the literature: the failure to appreciate why marketing to Eastern Europe is different from marketing elsewhere. This lack of attention to first principles is clearly illustrated by the varied and (generally) shallow treatment of background information. In fact, the very diversity of approach to background information suggests that there has been little discussion or agreement on precisely what it is useful for the businessman to know, and, more fundamentally, on what distinguishes trading with Comecon from trading with other areas: there is general consensus as to the differences in practical problems, but little recognition of the principles which generate these problems.

In reality, of course, excellent quality, service, price and delivery may not suffice to win business. This distinguishing feature of exporting to Eastern Europe is due to the system of central planning. The point is made forcefully by UNCTAD/GATT: "Sales opportunities are not generated by supply and demand alone. The competitive position of the exporter's goods on the market may be an important factor in finding a buyer, but need not be a key element in effecting the sale. The seller's short delivery time and superior quality may also influence the final decision to buy. In all probability, however, these positive arguments may be subordinated to more essential factors, such as the availability of foreign exchange for the purchase...

and the position of the product on the planners' list of priorities". (UNCTAD/GATT, 1971; p.126). This basic distinction is made in similar terms in Contracts with Eastern Europe (EETC, 1969; pp.11-12), but with the additional observation that, because of the planners' priorities, FTOs will generally buy from the West only under the following conditions:-

- (i) If it suits the national plan.
- (ii) If the goods required cannot be produced within the country.
- or (iii) If they cannot be produced in sufficient quantity.
- or (iv) If they cannot be produced within the required time
- and (v) If they cannot be purchased from within Comecon.

In the context of Eastern Europe, then, traditional components of the 'marketing mix' - such as product, price and delivery - though still important, must be seen in a different light. Is the traditional concept of 'marketing' appropriate for Eastern Europe? UNCTAD/GATT argues that it is, but with qualifications. "The many definitions of marketing in current use today apply equally well to the markets of Eastern Europe as to markets in other parts of the world. Virtually all the elements commonly associated with marketing, usually described as the marketing mix, can be used to a greater or lesser extent in Eastern Europe A foreign company ... should realise, however, that it may have to change the emphasis of certain elements in the mix that it employs with conspicuous success in other industrial countries. (UNCTAD/GATT, 1971; pp.54-5). One can conclude that marketing and the

marketing mix are useful and relevant concepts for Eastern Europe, but that adjustments must be made to an unusual extent to environmental (systemic/political) factors. It follows that the businessman should develop a good understanding of the peculiarities of East European countries, in particular the system of central planning and its consequences.

(ii) Market Research

"The nature of a planned economy ... means that it is not possible to apply the same techniques or start with the same assumptions as are normally made in the context of market economies. Although the ultimate goal of a market survey remains the same - assessing the sales potential for a specific product and determining how this potential should be realised - in Eastern Europe an entirely new methodology must be adopted if the survey is to lead to useful conclusions". (UNCTAD/GATT, 1971; p.126). The major distinction is the need to ascertain not just end-user demand, but the priorities of the planners and the factors which affect these decisions (end-user demand being only one of several influences). Thus, for example, as Stowell (1975; pp.260-1) observes, in the West, macro-economic data on end-use (consumer demand) is used to determine trends in primary demand or capital-goods industries, in Eastern Europe this is of limited relevance due to the consumer's restricted influence on what is produced. Other factors which distinguish market research in Eastern Europe include the relative inaccessibility of end-users, secrecy and, some argue, the comparative

scarcity of reliable published data. It is worth noting that there has been a marked upsurge of interest in market research within CMEA countries over the past decade; in this context, Gross and Szabo (1973) observe that techniques are improving, but the difference between planned and market economies cannot be ignored: "... researchers must be aware that the dimensions of a socialist market place, as well as marketing activities within it, differ from those of capitalist markets. Thus, in a socialist market, even those of indirectly guided economies, there is less freedom, certainly for enterprises ... Research methods themselves need not differ, but as a result of the above they will be used in a different 'mix', e.g. visitors at trade fairs are much more frequently utilised than readership and audience surveys". (Gross and Szabo, 1973; pp.2-3; see also Wills and Hayhurst (1971) for a discussion of the development of the marketing concept in Eastern Europe).

Opinions vary as to the degree of useful desk research that can be undertaken. There is no doubt that a substantial amount of source material is available to the researcher: "It is widely believed that general and detailed information on Soviet economics is not readily available. This is a misconception ... To desk researchers with a good knowledge of Russian a great deal of useful information on the Soviet economy is available ... The information gathered from such sources adds up to a complete industrial picture. But to assemble this jigsaw puzzle requires time, patience and a certain amount of

expert knowledge. Given these factors ... each businessman could become his own economic Kremlinologist". (Weisskopf, 1975; p.26). The starting point for market analysis is the national production plan: "The difference between the targeted output during each year of the plan and the targeted consumption during that year for the same product is the major factor used when estimating the volume of imports. Long-term growth potential for imported goods can be deduced from a study of the previous and the current five-year plans". (UNCTAD/GATT, 1971; p.99); the same approach is suggested by Feddersen, 1967, pp.2-3, and the Berlin Chamber of Commerce, 1974, pp.14-15). The analyst should next establish to what extent any gap in supply can be made up from within Comecon; then determine the ranking of the product in question in the planner's priority scale, and finally investigate the precise specifications of the product that will be required¹.

1. UNCTAD/GATT (1971); p.215) also provides a comprehensive checklist of questions to be asked, supposedly before a formal survey of the market is undertaken; however, if answers to all these questions could indeed be found, the fortunate company would probably be better informed than anyone in Eastern Europe itself, and would certainly not need to undertake further research.

Examining all these factors can be a complex process. As Feddersen comments, "Usually all necessary information cannot be found in one source. In general, many articles in many trade journals must be studied". (Feddersen, 1967; p.4). Numerous sources of information exist, and again the most comprehensive listing is to be found in UNCTAD/GATT (1971; pp.100-119). Apart from the national production plans, useful sources include: statistical data (official East European sources, official international sources, official and non-official sources outside Eastern Europe); the general economic and commercial press; the industrial and technical press; economic bulletins and newsletters; trade mission reports; lists of planned specialised exhibitions (which indicate planners' priorities), the 'shopping lists' produced at some exhibitions, and lists of participants at exhibitions (for an indication of active Western competition); and the Western strategic control lists. Feddersen confidently claims that "A market researcher can collect the same sort of information from these economies as he collects before launching a business offensive in any Western market. This will come as a surprise to many businessmen, but the researcher can get more and better information from published official sources in the Communist countries than he can get in most other countries in the world". (Feddersen, 1967; p.2).

Others, however, argue persuasively that published sources alone are unlikely to provide more than a very rough idea of market potential.

Ostlund and Halvorsen, for example, question Feddersen's confidence in the usefulness of East European data: "Feddersen has provided a set of questions designed to aid Westerners in analysing East European markets. In practice, answers to these questions are seldom if ever obtainable for Russia. Information regarding national production goals, specific production plans, priority lists for equipment to be imported and national industrial capacity is not published. A Westerner can only estimate the priorities attached to given production sectors as reflected in sponsored exhibitions, articles in trade publications and press releases about general production goals". (Ostlund and Halvorsen, 1972; p.10). A similar view is expressed by Stowell, who also questions the usefulness to the researcher of national plan data, concluding that: "All these facts about the Soviet economy-scarcity of information about the plan, frequent midstream changes in the execution of the plan, and the increasingly important role of demand in the USSR - give the forecaster the opportunity and the need to go beyond the Five-Year Plan in predicting market potential". (Stowell, 1975; p.68).

Stowell accordingly develops a 'marketing model' with the modest aim of answering "the basic question of whether there is any market for a company's product". (Ibid. p.68). The model consists of two stages: first, analysis of past imports, with the aim of putting oneself in the planners' position and establishing why certain goods were imported in the past; "The result is the formulation of criteria for importing that the Soviet planners apparently

use, formally or informally, to determine what should be imported." (Ibid. p.69). The second stage is the development of market indicators - "That is, after it has been established that goods are imported in the Soviet Union according to certain criteria, are there visible indicators that a market manager can seek in order to confirm an interest by the Soviets in his product line?" (Ibid. p.69). However, it is clear from the criteria actually developed by Stowell (pp.69-70), that this is little more than a formalisation of the approach taken by Feddersen, UNCTAD/GATT and others, an important element of which Stowell himself had discounted. Samli (1977) has a more inovative, quantitative approach to forecasting. His 'multiple factor analysis' relies on comparison of macroeconomic data coupled with various market quality indicators to estimate the size of the market for a given product in Eastern Europe. "In the absence of detailed data and the presence of unfamiliar market conditions this is the only tool that could provide reasonable approximation of the total market". (Samli, 1977; p.49). This technique has the virtue of simplicity, but naturally does not take the all-important qualitative factors, such as planners' priorities, into account.

Despite all that has been written, then, the practical value of forecasting from written data appear to be limited. Stowell himself admits as much: "Forecasting in the Soviet Union ... is a very inexact science. It is not possible to set up a model

that will accept certain data and return certain forecasts. Only on-the-spot market research can produce an idea of what future quantities will be imported of a particular product or technology. Forecasting models ... are only indicative". (Stowell, 1975; pp.75 and 77). In practice, according to Hill's survey, relatively little formal desk research is carried out by British firms: "In general it was found that the usual method of estimating market possibilities was the receipt of an enquiry from a foreign trade organisation, and continual contacts with that organisation for the purpose of discussing submitted proposals. Some companies also carried out desk research of the Western European technical and economic press, though these companies tended to be of the larger type generating sufficient sales turnover in the Eastern market to justify the expense of this activity. The smaller firms tended to rely on the services of their agents, a method not usually encountered in the larger firms". (Hill, 1978; p. 147). In a later article, Hill (1979) argues that desk research can nevertheless play an important role in assessing the Soviet market. He gives a detailed example of machine tools, showing how useful information can be gathered from published sources. Even in the case of machine tools, however, (chosen precisely because of 'the availability of a certain amount of Soviet published data on these products'), it was found that accurate information at a disaggregated level - on potential for particular types of machine tools - was not available; therefore, individual companies could only derive a very rough idea of the demand for their particular product from desk research. Thus, while

demonstrating that desk research can be of use, Hill's study also points to its limitations.

Hill's study therefore lends support to the balanced approach expressed, amongst others, by Zentner (1967 and 1972) and by Dymsha and Daiboch (1968). The value of examining published sources is stressed, ("The more you read the more complete your grasp of the commercial opportunities. Hoard all information like a stamp enthusiast hoarding stamps". Zentner, 1976; p.23), but their limitations are also recognised - in particular the failure of statistics, shopping lists and plans to give sufficiently disaggregated detail of product categories to be of great practical value. To obtain a more precise indication of market potential, desk research must be supplemented by a visit to the market, and meetings with FTOs, end-users, and other bodies involved in the import decision-making process. But this too, according to Business International, is a complex task: "In theory, the easiest way of finding out whether there is a need for a particular product is through a direct approach to the competent FTO. However, it must be remembered that in many cases personal visits or written enquiries to FTOs may not yield sufficient information for determining future sales potential". (Business International, 1980; P.I.9.). Furthermore, "An FTO will rarely provide a Western salesman with a list of all the officials in ministries, other government authorities, and factories who have a say in import decisions. In almost all cases it is a long and cumbersome job to find out who these people are and how to get in touch with them". (Ibid., p.III.9).

Given these problems of conducting effective market research, it may be tempting to commission research from outside bodies. Both Eastern and Western agencies undertake market surveys, and the relative advantages of their services are discussed by UNCTAD/GATT (1971; pp.129-141). The advisability of commissioning research must be judged on a case by case basis, but in general it is debatable whether the accuracy of such surveys will be greater than that which would be achieved by 'in-house' research. In the last resort, a major factor which should determine the type and extent of research undertaken is the cost involved (a fundamental consideration too easily forgotten by most authors).

One is forced to conclude that there is no simple solution to the problem of conducting market research in the planned economies. A multidirectional approach appears to be necessary which pieces together as complete a picture as possible from a variety of sources.

(iii) Developing a Market Strategy

In addition to the problems of market research, most works stress several other difficulties of the Eastern market: the frustrations of dealing with a heavy bureaucracy, the 'lumpy' nature of business, and, above all, the long time required for results to be achieved - 2 to 4 years is generally considered about par for the course. The need for patience and perseverance in dealing with Eastern Europe is therefore commonly emphasised.

Business International expresses this in more concrete terms. The particular conditions in Eastern Europe make it essential for Western companies to develop a firm market strategy and stick to it. "The East European markets cannot be developed half-heartedly. A Western company must establish clear long-term objectives and a strategy for achieving them. It must be willing to invest sufficient money, as well as time and people, in the prolonged sales effort needed to crack the market. If there is not unanimous readiness among top executives to provide adequate market support and start up investment, it is hardly possible to launch an effective sales programme... A company should set up a two-year or even five-year plan and budget for penetration of the market - and stick to both even if little or no results are achieved for one or two years". (Business International, 1972; p.50).

Published sources fail to point out that herein lies a fundamental dilemma of marketing to Eastern Europe: if success is to be achieved, a long-term strategy is usually required, involving a substantial commitment of resources. Yet the problems of market research mean that this major decision must frequently be made with little certainty as to what the return on the investment will be. It is not surprising, therefore, that one of the first problems facing salesmen is to get the support of senior management within the company and their commitment to a planned strategy - an 'inside selling job' may be necessary (see Business International, 1980; p.I.4-5; also Nevill, 1978; p.9).

Giffen (1973) sees the development of an effective marketing programme as involving three basic steps: an analysis of the company's own possibilities and desires with regard to the market; an analysis of Soviet potential; and development of a workable strategy: "However", he argues, "before any action is initiated, a company must give some thought to its own operating structure". (Giffen, 1973; p.63).

(iv) Organising for Eastern Europe

Is a special sort of internal company organisation required to deal effectively with Eastern Europe? This important question is examined in depth by Business International (1980; pp.II.3-14, and Appendix 2-3a, pp.1-6). Like Giffen, Business International argues that, for the larger, multi-divisional companies, some form of centralised co-ordination of Eastern operations is a must: "If opposition from individual divisions to a central sales office is too strong, a company may prefer to let each of its divisions continue to do its own exporting to and importing from Eastern Europe. However, in such a case it is strongly recommended to appoint a co-ordinator whose major function is to prevent costly errors arising from communication gaps and crossed wires". (Ibid., p.II-21). The most important advantage of central co-ordination is the possibility this gives of linking sales and purchases to Eastern Europe and thereby capitalising on countertrade opportunities, (a consideration unique to countries with a state monopoly of foreign trade - see Zentner (1967), pp.78-9). Business International cites several examples of deals lost through a company's failure to link a proposed sale with purchases

already being made by other divisions. Other advantages of central co-ordination include increased leverage vis-a-vis the powerful FTOs, possible centralisation of costly desk research activities, sharing of executive expertise and contacts, and helping to promote the product of smaller divisions, for whom selling to Eastern Europe would otherwise be uneconomical. In his survey of U.S. companies, Basche (1974) reports that over two-thirds of those questioned had found it unnecessary to make any internal organisational changes for Eastern Europe, though this was partly attributable to the low volume of business with the area. However, those that had introduced changes strongly emphasised the advantages of co-ordinating for most of the reasons given above. Several respondents also stressed the need for flexibility in the internal organisation, the ability to mobilise resources in an ad hoc way in response to opportunities that arise. Similar opinions are expressed in Hill's survey of U.K. companies: the following points (with strong implications for organisation) are identified as influencing successful selling in Eastern Europe:

"(a) an ability to react successfully to the purchasing procedures of the socialist countries of Eastern Europe.

(b) an ability to react in an entrepreneurial fashion to the 'opportunistic' markets of Eastern Europe.

(c) expertise, frequently centred in one executive, as a result of several years experience of operating in this market".

(Hill, 1978; p.195).

As for the type of executive suitable for dealing with Eastern Europe, a definite stereo-type is painted in the literature. He (not she, it is assumed) should have the authority to take decisions without referring back to head office, have a thorough technical knowledge of his products and be willing to spend a substantial amount of time abroad. Furthermore, "Generally speaking, the man who goes down well in Eastern Europe is a man's man. The man who likes football ... who likes his slivovice, vodka and barrack and who is conscious of the other sex. That's the sort of man the local businessmen respect and with whom they feel at ease". (Zentner, 1967; p.115). Business International even seriously suggests testing prospective salesmen's ability to hold alcohol at the recruitment stage. Many successful executives no doubt correspond to this description, but, certainly not all - some of them, in any case, are women!

Published sources are less united on whether it is advisable to sell to Eastern Europe directly, using company sales staff, or whether it is better to use the services of Eastern or Western agents. Agents, it is argued, have inside contacts, experience of local conditions, and, in the case of East European agents, may have advance knowledge of useful information, easy access to end-users and can help speed up correspondence. Against this it is argued that FTOs prefer to deal with the suppliers directly, and object to paying commission for Western intermediaries, while East European agencies are frequently said to lack energy in promoting a company's product, and are viewed with suspicion

because their ultimate loyalty must be with their employer, the State - that is, with the customer. (See Business International, 1972, pp.51-58; also Stowell, 1975; pp.373-380). There is of course the possibility of combining direct selling with use of agents; it is argued, for example, that agents' experience is particularly useful in the initial stages, but that they can be abandoned once a foothold in the market has been gained. Larger companies may also consider the expensive option of establishing a representative office within Eastern Europe (see Hambleton, 1973; pp.78-82; Hertzfield, 1974; and Goldman, 1978).

The choice of internal organisation and between direct selling and the use of agents will be influenced by the size of the company and the nature of its products. Every option has a cost, a cost which must be justified by the size of the potential business.

(v) Promoting Sales in Eastern Europe

(1) General Aims and Approaches

"The sales promotion work of Western companies in Eastern Europe has an overall aim: to get their products included in the import plan". (Business International, 1972; p.37). This is no easy task. Most works emphasise that a positive and intensive promotion campaign is required: "The Western exporter wishing to do business with East Europe must usually take an active approach to the market. Only rarely is it possible to adopt a passive approach ... and this can only occur if the product or service is unique and in great demand by the East European

buyers". (Douglas, 1979; p.146; see also Wilmott, 1977). Consistent presence in the market place must be sustained: "Successful companies consider two visits to each of the six countries per year an absolute minimum for maintaining and extending personal contacts". (Business International, 1972; p.63). This promotional work requires careful planning and timing. "The foreign exporter who intends to have an FTO specify his product in the import plan should launch his effort long before the FTO's counter plan is drawn up, i.e. early in the summer. If his product is not specified in the final draft he will probably be unable to persuade the FTO to add it during one of the quarterly revisions, since these exercises have a different purpose. Unless the exporter is successful in having his product specified, he may find it difficult to sell it to the FTO during the plan year", (UNCTAD/GATT, 1971; p.50).

In fact, due to 'centralised pluralism', getting one's product specified in the plan usually involves convincing not only the FTO, but also the various other bodies involved in the decision-making process, as is noted by the UNCTAD Secretariat: "If, as explained above, decision-making in respect of imports in the SCEE integrates the views of the various groups of officials and end-users (consumers) concerned, the technique of approaching the end-users with a view to influencing and developing their opinion plays a very important part in successful marketing". (UNCTAD Secretariat, 1972; p.22). Writing conventional 'promotional letters' is unlikely to achieve this alone; the vast, paper-pushing East European bureaucracy ensures that

correspondence has little impact, and frequently receives no reply¹. Advertising may help: Hanson (1974b) reveals the surprising extent and growing importance of advertising in Eastern Europe, and practical advice on foreign trade advertising is given in most marketing guides (for example, Business International, 1971; pp.62-67; 1972; pp.77-83).

In Eastern Europe, however, there is no substitute for the impact of personal contacts, and it is here that the value of the experienced executive really lies: "The importance of personal relations cannot be over-emphasised. More than in any other part of the world, it is necessary to have good personal relationships with business partners in Eastern Europe. This may appear paradoxical in a state-controlled economy where decisions are theoretically taken by an anonymous authority and not by an individual person. But it is the very bureaucracy and clumsiness of the state administration that make personal relations so important in speeding things up". (Business International, 1972; p.62). This view seems to be universally held; Hill, for example, reports that, "All of the companies encountered in the survey found personal contact with Eastern European nationals

1. Though the importance of quotations, technical literature and follow-up correspondence should not be underestimated: on the contrary, particular care should be taken over presentation to ensure that they receive due attention - see Business International 1972; p.73.

involved with the import decision to be the most important means of product promotion. It was even considered by many of the firms surveyed that many means of product promotion (e.g. exhibitions) were thought of not only as product promotion procedures in themselves, but as means of building up further personal contacts". (Hill, 1978; p.172).

We have seen above (section 3.ii) that it can be difficult to locate and meet the numerous decision-makers. The annual trade fairs and specialised exhibitions do indeed provide a valuable opportunity to meet a far wider range of contacts than is possible in a normal sales visit; for this reason, participation in exhibitions is seen as a particularly important element of sales promotion in Eastern Europe. Nevertheless, opinions vary as to the attractiveness of exhibitions: it is argued that participation is expensive, and there is no guarantee of doing business at the exhibition; against this, the value of contacts, building for the future and the cost of non-participation are stressed (see Business International, 1980; pp.III, 11-13). Another effective way of reaching decision-makers is through symposia, which have the added advantage of focussing attention on one's own company with no competition present (see Stowell, 1975; pp.266-7). But this, too, is expensive. Business International stresses the importance of follow-up work to exhibitions: "Western companies should participate in fairs, specialised exhibitions, or private displays only if they are prepared to follow up with more promotional activity. Otherwise the whole effort is wasted. The importance of follow-up

promotion after such events cannot be over-emphasised. In most cases, fairs, exhibitions and symposia only prepare the ground for the further work that can lead to business". (Business International, 1980; p.III-35; for practical advice on how to organise fairs and symposia, see appendices 3.4 and 3.5 in this work).

(2) Marketing Tools

In order to gain competitive edge in Eastern Europe, various 'marketing tools' can be manipulated by the Western exporter. The most obvious is price. (Once again, the most extensive treatment of this question is to be found in Business International, 1980; appendix 4.5; also 'Company Pricing Policy: Tactics and Pitfalls', in Business Eastern Europe, April 4, 1980; pp.108-9). Because of the hard currency shortage, Eastern Europe is a price-sensitive market. Western companies are faced with the systemic factors which should influence their pricing policy. First, FT0 officials generally expect a discount on the original price quoted: "One of the questions they [the Eastern negotiators] have to answer, formally on paper for their own records, is: by how much were they able to reduce the price of the original offer? The bigger the 'savings', the greater the credit for the enterprise and the executive. It is therefore important to be prepared, to come down from a stated price". (Zentner, 1967; p.63). Secondly, there is a tendency for Eastern negotiators to add niggling clauses after a price has been fixed, thereby eroding profit margins. Thirdly, the East European system does not recognise inflation, and expects prices to remain constant for long periods to facilitate planning. Finally,

allowance should be made for the unusually high costs of promoting sales in Comecon. Pricing for Eastern Europe is therefore something of a game between the company and the FTO - there is a balance to be found between leaving adequate margins for selling costs, discounts and inflation, and giving an inflated price which will lead to rejection out of hand in favour of competition.

The shortage of hard currency has generated enthusiasm on the East European side for financial credit, and for various forms of countertrade; that is, for imports from the West to be linked in one of several ways to purchases from Eastern Europe. This may involve simple barter, or more complicated counterpurchase or compensation agreements¹. A flexible approach to these forms of business arrangements is therefore an asset in marketing to Eastern Europe; as Business International puts it: "Western companies that can find ways to help their Eastern customers increase their export earnings will continue to enjoy a substantial competitive edge in the foreseeable future". (Business International, 1972; p.23).

1. These terms have been defined by Matheson et al. (1977). It should be noted, however, that the terminology of the various forms of countertrade is often used loosely, and the same word is found to refer to different types of transaction in different sources - for example, the definitions used in Business International (1981) are not the same as those in Matheson et al.

Similarly, Western companies who are prepared to propose or accept forms of industrial cooperation will also tend to receive favourable treatment. Some forms of countertrade can be classed as industrial cooperation, but the term generally has a wider meaning: it refers to (often quite complex) medium or long-term business relationships, usually with an element of technology transfer; industrial cooperation may involve, for example, co-production, licensing, or joint marketing or R and D¹. Industrial cooperation has been growing (though it still probably accounts for less than 10 per cent of East-West trade turnover²), and so too has the literature on it. There are now a number of case studies examining the experiences of Western companies. Studies by Hayden (1976) and Hill (1980), for example, reveal both the advantages (e.g. access to and permanent foothold in the market, spin-off sales, cheap production facilities etc.) and the possible pitfalls (e.g. poor quality of East European production, high selling costs, East European failure to meet obligations etc.) of industrial co-operation - but the essential point that emerges is that such agreements can be profitable to the Western partner and place him in a strong competitive position; Hayden concludes that, "... most of the eight firms have come to see that their

1. See McMillan (1977; p.1182) for a fuller list of what industrial cooperation can refer to. As McMillan discusses, there is no generally accepted definition of the term, which greatly complicates measurement and assessment of the phenomenon.
2. According to Hill (1980).

flexibility in adapting to their partners' needs establishes them in an excellent marketing position from which to reap subsequent sales of product and/or technology". (Hayden, 1976; p.107).

Another marketing tool that can be used by the Western exporter is gifts. This delicate subject is ignored by many published sources, yet it is an essential feature of marketing in Eastern Europe, a reality that can scarcely be avoided. It is linked to the need to establish personal contacts (it is a way of cementing these), and this in turn is linked to the way the whole system operates, with the importance of unofficial channels, black markets and the shortage of consumer goods.

Zentner points out how deep-rooted gift-giving is: "It is not a question of bribery, it is a question of custom", (Zentner, 1967; p.116). (Less charitably, one could say there is a custom of bribery). A fuller examination of the subject is given by Business International (1980; pp.III.41-5), with some sound advice as to what can be done perfectly legally (putting a car at the disposal of an agent, invitations to visit the West, presentation of small gifts such as cigarette lighters, whiskey, perfume etc.). The dividing-line between gifts and bribery is difficult to determine, however, and Western companies must beware lest the East European authorities view such 'sales promotion' as corruption. It is unfortunate that commercial secrecy has prevented a more detailed examination of the question of gift and incentive-giving¹.

1. In Chapters 11 and 12 below we attempt to fill this gap.

It is not difficult to see that the various forms of promotional activity described above are related to each other: as Zentner observes, "In a sense, the whole of one's campaign in East European markets is a public relations campaign". (Zentner, 1967; p.106). A public relations campaign necessary to create demand for one's product and convince the planners by pressure from all sides that it should be included in the import plan.

(vi) Negotiations and Contracts

"The Western firm must be prepared for the fact that negotiations might be very expensive, time-consuming and risky because this is a fact of life in the Soviet Union and Eastern Europe". (Marer, 1978b; p.38). This is the view expressed in all Western sources. The reasons are again rooted in the East European economic system: several authorities are involved in the negotiating process, and the personal accountability of East European negotiators leads to an obsession for spelling out every detail of the contract. Business International (1980; pp.175-6) divides the negotiation process into three phases:

- (1) Invitations to tender.
- (2) FTO stirs up competition among short-listed Western companies.
- (3) Final stage of negotiations with choice narrowed to one or two companies.

The same source (pp.IV-13-16) also provides a detailed analysis of the subtle bargaining tactics used by East European negotiators.

The various legal problems that can be met in negotiating contracts are dealt with by Maguire (1975), Starr (1974) and Winter (1980). In particular, the need to have everything in writing is stressed. In addition, "Because of the economic background of Eastern Europe, East European contracts are 'performance oriented' and therefore contain very many provisions whereby a Western seller is penalised for failing to perform the contract." (Winter, 1980; p.17). It is therefore vital that companies only give those guarantees which they are absolutely sure they can meet. Possible areas of misunderstanding - such as in the interpretation of force majeure - should also be clarified. The involvement of a lawyer, possibly even a specialist East-West lawyer, in the negotiating process is usually recommended, though precisely how great this involvement should be is a controversial issue, with the arguments once again varying according to the size of the company, (see Stowell, 1975; pp.259-260).

(vii) A Profitable Market?

The system of economic management in Eastern Europe presents the Western exporter with special marketing considerations which, almost without exception, make selling to this area more problematic than elsewhere. The question must therefore be asked: is selling to Eastern Europe profitable?

Certainly, the costs of selling are high. Stowell (1975; pp.247-251) identifies the unusually high costs of market development, of executives' time, and of post-contract difficulties. One could add less visible costs, such as that of organising for Comecon, of providing more technical data than is usually required in other markets, of acquiring expert knowledge of the area, and the cost of uncertainty. At the same time the exporter is faced with skilful negotiators in the powerful FTCS, and probably with strong Western competition. All this must be offset by the prospect of a large new market - here the centralised foreign trade system can work to the exporter's advantage, since a 'customer' buys for the whole country; the effort needed to win a contract can thus be rewarded by the size of the deal (see, for example, Kilosh, 1973; p.69).

Business International stresses that profitability can only be judged over a long period of time: "Because of the higher launching costs, business with Eastern Europe pays off only if it is planned on a long-term basis. If a company wishes to maximise profits in the immediate future, Eastern Europe is not the place to look. However, the higher sales costs in the beginning can be offset when business is running smoothly after several years". (Business International, 1980; p.IV-5). This raises the question of how success is to be judged in the initial period (see Basche, 1974; pp.55-6). It also poses serious problems to the smaller firm, which may not be able to afford the necessary 'start-up' investment,

and is one of the reasons why it is sometimes argued that Eastern Europe is a market for large companies¹ (see Basche, 1974; chapter 3 for arguments for and against this). Hoyt (1978) also points to the difficulties created by the time factor, the lack of convertible currency and equity participation in calculating profit in compensation deals, especially when the product payback is viewed by the Western company as a long-term 'investment'; these factors, Hoyt argues, raise accounting problems which call for the working out of 'suitable and appropriate standards of accounting for East-West trade agreements'.

One thing is certain: Eastern Europe is not a market for the faint-hearted. This is clear from the 'golden rules' of trading with the East stated by Stephen Lazarus, former head of the East-West Trade Bureau in the U.S. Department of Commerce. These rules provide a fitting summary to the marketing issues discussed above:-

- Do not begin unless you are prepared to make a substantial front-end investment without early return.

- Do not begin unless you are prepared to negotiate the first transaction for one to three years.

- Do not begin unless you are prepared to commit substantial amounts of senior executive time.

- Do not begin unless you are prepared to walk away from a negotiation at any time. If you go to Eastern Europe with the idea that you must come home with a contract in your pocket, the chances are you will make a very bad deal.

1. Or that small companies should group together and form consortia to face the powerful FTOs - see "Vertriebskooperation..." (1980).

- Do not reject unusual transactions out of hand
Barter transactions and co-operation agreements can be profitable.

- Concentrate on personal relationships and the
establishment of mutual trust and respect. This plus quality
performance is the base for follow-on business.

- Substantial market research is feasible: good
advance work is imperative. Do not make a trip to Eastern Europe
without adequate preparation.

(Quoted in Business International,
1980; p.I-3).

5.4. CONCLUSIONS

This discussion has illustrated the complexity of the forces involved in East-West trade, and has shown how these forces interreact to create a solid subject which is continually developing. We have seen throughout that there are unifying threads behind almost all the issues raised: the difference in political outlook between East and West and the difference in the system of economic management.

We have shown that there is a tendency for the literature to fall into two categories: theoretical and marketing. Although this separation is in many ways natural, it is, in our view too rigid. There have been some attempts to bridge the gap: Nove and Donnelly (1960), Pizar (1971), and Goldman (1975) are examples, but the separation remains all too evident even within most of these works. This separation is less serious in the case of the theoretical, 'macro' literature, though even here there is a tendency for the realities at the 'micro' level to be ignored for the convenience of broad hypotheses and explanations. For example, when assessing the extent to which East-West trade affects Western employment levels, overall trade figures tend to be taken, rather than looking at the importance of East-West trade to particular firms or in particular sectors of the economy; there is general agreement that East Europeans are inhibited by the system from entrepreneurial activity, but the true extent of entrepreneurial activity amongst Eastern trade officials has not been examined; discussion of how the foreign trade system is supposed to

operate tends to neglect the day-to-day realities of how it actually functions. Many Western observers have extensive contacts with businessmen who are active in the market; what is lacking, perhaps, is first-hand experience of trading which would bring home the practical perspective.

From the point of view of the marketing literature, the separation is more serious. The marketing literature concentrates on suggesting HOW to set about trading with Eastern Europe, with little explanation as to WHY this is so. The emphasis is on how Western companies should organise and behave, but there is generally little attempt to see things from the East European point of view. It would seem logical that, given such an understanding, the Western exporter would be in a better position to take initiative (rather than follow blindly advice from marketing guides), to appreciate the position and motivation of his East European contacts and thereby help cultivate better relations with them, and, last but not least, to save time and frustration. In short, understanding the system and appreciating wider issues can lead to creative, as opposed to imitative, marketing.

In general, then, a basic criticism can be levelled at the extensive literature on East-West trade: lack of attention to the roots of the subject. The theoretical literature tends to ignore the nitty-gritty of trading that creates its subject matter, while the marketing literature pays insufficient attention to the fundamental principles which generate

the practical problems discussed. The explanation probably lies in the fact that the subject is still young and has developed in a haphazard manner. It would be healthy for its future development to take stock of its achievements and firmly establish the basic principles on which the subject is built. Such an appraisal would help to distinguish the general assertions that can confidently be made, and those areas where there must be allowances for specific circumstances. The subject has tended to suffer from a precocious desire for generalisation which obscures practical problems and interesting 'exceptions to the rule' at the operational level (hence, for example, the failure to distinguish sufficiently between the different conditions in different Comecon countries, or between the problems faced by small and large companies). This point will be illustrated by the detailed study of the experiences of a medium-sized company, Angus Fire Armour Limited, in researching and developing the East European market.

6.1. Angus Fire Armour Limited

Angus Fire Armour Ltd. was, during the period of collaboration on this project, a wholly owned subsidiary of Dunlop Ltd.¹, with sales and administration based at Thame, Oxfordshire and factories at Lancaster and Bentham in North Yorkshire. The company employed one thousand people, and had a 1978 turnover of approximately £15 million, of which two-thirds was earned in exports. This export strength was provided by a large export sales staff, regular travel abroad, and an extensive network of agents throughout the world. In addition, there was a UK subsidiary, HCB Angus Ltd. (manufacturing fire engines), and overseas subsidiaries in Belgium, Canada, France, Sweden, South Africa and the United States. World-wide turnover was roughly £40 million in 1978.

The company manufactured a wide range of fire fighting and fire protection equipment, including fire hoses, foam and foam-making equipment, extinguishers, pumps, and fittings. As well as this portable equipment, Angus also supplied fixed fire protection systems, such as sprinkler systems, through a separate department. The core of the business (over 60% of Thame's turnover) was in hoses and foam products, which was where the greatest technical expertise was centred.

1. As mentioned in Chapter 1, the company was sold by Dunlop in November 1980. The present analysis and recommendations relate to the period of Dunlop ownership.

The company boasted the largest fire hose factory in the world and to have been the first European manufacturer to develop fluoro-protein foam, and its ability to supply a broad range of equipment was considered a strength. The company's largest markets had been in the less developed countries, above all those with oil (Nigeria, Kuwait, Iran, Saudi Arabia, Iraq). However, the fire fighting equipment (FFE) market had become increasingly competitive, especially in Europe; Angus had enjoyed a decade of prosperity and expansion, but 1979 was a difficult year, as the export sales figures in Table 6.1 show.

TABLE 6.1: EXPORT SALES FOR FIRST SIX MONTHS 1978 AND 1979¹⁾ (£s)

Product	Jan.-June 1978	Jan.-June 1979	% Change
Fire Hose & Fittings	2,134,315	1,398,076	-34
Extinguishers & Hose Reels	1,461,300	738,032	-49
Foam & Foam-making Equipment	1,551,335	1,099,062	-29
Protective Clothing	409,840	216,012	-47
Pumps	392,697	182,084	-54
TOTAL	5,949,487	3,633,266	-39

NOTE: 1) Deterioration in sales began in the second half of 1978; therefore, the 6-month comparison is more revealing than a full year comparison would be. The figures do not take inflation into account, and therefore somewhat understate the scale of the decline in sales.

In particular, the patent on covered hose had expired, leaving the door open for competitors' products, there were patent problems with an important foam compound, while the situation was aggravated by world recession, a strong pound and the loss of major markets for political reasons. The company has reacted to these circumstances, however, and the eighties should see the introduction of several new products.

When the project started in September 1978, the export department at Thame was organised along product lines, but in June 1979 a regional structure was introduced, including a section to handle all business with Eastern Europe. (See Appendix 6A for a more detailed description of the company's products, and Appendix 6B for its export organisation).

6.2. The Project

For several years Angus had been interested in selling to Eastern Europe, yet success in lucrative third world markets meant that their stretched resources were mainly directed elsewhere. Once this success had been consolidated, attention was again turned towards Comecon. The company's previous contacts with the area had left them interested, but unsure as to precisely what potential the market held, and it was therefore felt that concentrated research was required. This led to the setting up of the present project, with work starting in September 1978.

The objective of the project was to answer the following two questions:

Is there a market for Angus products in Eastern Europe?

If so, what selling strategy should the Company adopt?

Research parameters were also established:

- 1) Time. The project was to be completed within a period of eighteen months.
- 2) Resources. The company judged that approximately nine weeks travel in Eastern Europe would be necessary, and was prepared to pay for this, though no precise budget was fixed.
- 3) Area. It was initially decided to concentrate on Czechoslovakia, Hungary, Poland and the Soviet Union (see section 6.3 below), since it was thought that a thorough study of all seven countries would not be feasible in the time available.
- 4) Products. The emphasis was to be on hose and foam products¹, since it was assumed that these offered the best chances of success, being the areas in which the company possessed the greatest technical strength.

On the last two points, however, the attitude was to remain flexible, open to opportunities in other Comecon countries and for other products.

1. The attachment at Angus was with the export department, which handled only loose or portable FFE; the department responsible for fixed fire-protection systems (including sprinklers) was organisationally separate (see Appendix 6B), and there was no brief to work on its behalf.

6.3. The Company's Position in Eastern Europe

The most important initial task was to gain a thorough knowledge of the Company's position in Eastern Europe. This was a significantly difficult operation: information was dispersed amongst the files of the various product units (see Appendix 6B), important details were not on record, but emerged only in discussions with company executives, and, above all, no single executive had a comprehensive knowledge of past and present contacts with Eastern Europe. The picture that emerged from piecing together this fragmented information is briefly summarised below.

Several abortive attempts had been made to approach the market through UK agents. Angus had in fact signed an agreement with Morganite International, but this did not seem destined to last (the agreement was in fact terminated at the end of the year). By far the greatest source of insight had come from direct visits to the Comecon countries, primarily for participation in exhibitions. Bulgaria, East Germany and Romania had hardly been approached, but Angus were about to exhibit in Poland under the auspices of a British Technical Week. The company had already taken part in a specialised exhibition in the Soviet Union (1975), and a Budapest Spring Fair (1978); useful contacts had been made, but there had been virtually no follow-up and - although there was continued dialogue with the Russians on the possible sale of covered hose technology¹ - very little business had materialised.

1. In December 1978 a seminar on this subject was given in Moscow by the then deputy managing director of the company.

The most intensive activity had been in Czechoslovakia, where the company had also taken part in a specialised exhibition (1976), and had since been working through the Czechoslovak State agency, Tradex. Angus products had become widely known in Czechoslovakia, but even here the level of sales (consisting of 'Turbex' generators and 'Duraline' fire hose) was disappointing, as Table 6.1 shows:

Table 6.2: INVOICED SALES TO COMECON COUNTRIES 1978 (£)

BULGARIA	NIL
CZECHOSLOVAKIA	18,990
G.D.R.	1,023
HUNGARY	4,250
POLAND	4,864
ROMANIA	NIL
SOVIET UNION	NIL
<hr/>	
TOTAL	29,127

Altogether, the company's approach had been one of 'trial and error', had proceeded by fits and starts, and had lacked direction. Comecon still seemed an area surrounded in mystery, the way the system worked there was not well understood. There was some confusion as to which East European organisations - in particular FTOs - were important for Angus products, and what their precise areas of responsibility were. Above all, there was as yet no clear idea of what the sales potential was, not even in Czechoslovakia: in all the countries visited, interest seemed high amongst end-users, but this was not resulting in business.

It was concluded that, despite many negative factors, a certain amount had been learnt, contacts had been made, and the company was no longer a complete beginner in the market. However, this amounted only to superficial knowledge and penetration; to achieve the research objective it was evidently necessary to look more deeply at conditions in the market and at how decisions were made. The Comecon countries were ranked in order of priority, which suggested that research should concentrate on Czechoslovakia, Hungary, the Soviet Union and Poland, largely because these were the countries where the company had developed most contacts. Information was required in two main areas:

- 1). On the state of the market for FFE: how large was the market, what was being produced within Comecon, what imported and from where?
- 2) On the precise workings of the Comecon system: exactly who was involved in the decision-making process and what was their function, and what constraints were imposed by the system?

The research undertaken to obtain this information broadly followed the path suggested by Zentner (1967 and 1972), and can conveniently be divided into three types of activity:

- (i) Seeking 'expert opinion',
- (ii) Desk research
- (iii) Visiting the market.

It should be stressed that research was a continual process; the description that follows should not be regarded as strictly chronological, since all three types of research overlapped and influenced one another.

6.4. Seeking 'Expert Opinion'

(i) Businessmen and Specialists in East-West Trade

In the initial stages of the project visits were made to the East European sales executives at Dunlop and Wilkinson Sword, several academic experts were consulted and Chamber of Commerce seminars attended; during visits to East European countries (see section 6.6 below) every opportunity was taken to meet other visiting businessmen. The aim was to benefit from the experience - practical or academic - of those who were familiar with the problems of trading with Eastern Europe. Advice was generously given, this being naturally only of a general nature, not specifically related to FFE.

ii) Official Bodies

British governmental organisations - the East European Trade Council, the London and Birmingham Chambers of Commerce - as well as the commercial sections of the East European embassies were also consulted. It was disappointing to find that, here too, the information supplied was only of a general nature. Moreover, there was little to be learnt here that could not be learnt from the

literature on East-West trade: one was told what the situation should be, how the system should work, but little insight into practical realities was given. FFE seemed to be too 'minor' a product category for officials to have any detailed knowledge of it.¹.

(iii) Outside Research

The option of commissioning a market survey in order to obtain more precise information was rejected for several reasons: the company had already experimented with Western agents, with disappointing results; the possibility of using East European agents for research purposes was investigated, but found to be expensive; and in any case, the company's attitude was, 'we don't need outside researchers, we have you'. Many of such agencies' research techniques and sources of information would in all probability have been the same as those used within the scope of this project, and which are described below.

6.5. Desk Research

(i) Strategic Lists

No Angus products were affected by strategic export controls (see "Security Export Control", supplement to British Business, 28 March, 1980).

1. In defence of the Birmingham Chamber of Commerce, however, it should be mentioned that its 'outward missions' to East European countries can provide an excellent (and inexpensive) platform for exploring market potential.

(ii) General Literature Research

This involved a study of the literature on the Soviet-type economic system and East-West trade, as described in the previous chapters - an aspect of desk research not generally emphasised in marketing guides. Even in the early stages this background reading helped develop ideas on the methods of research that could be tried (study of national plans, consulting East European commercial representatives in London etc.), and on why Angus had achieved little success (lack of follow-up, lack of contacts beyond FTOs, failure to appreciate the importance of currency shortages etc.).

This could not, however, give direct insight into the market for FFE. For this, several other sources were consulted.

(iii) Five-Year Plan Information

Five-year plan information proved difficult to obtain and of limited value. Fire-fighting equipment was not a sufficiently 'main-stream' product area to merit much specific mention. The only direct references to FFE came from Hungary and the Soviet Union. A Ministry of Defence analysis (unpublished) of the 1976-80 Hungarian plan stated that: "The Government has said that equipment will need to be imported for the coal development programme. Problems of firedamp in the Mecsek mines and the high water tables in the Dorog and Transdanubia soft coal area require specialised equipment, and there is a growing need for longwall mining equipment, including safety equipment ..."

The "Basic Guidelines for the Development of the USSR National Economy 1976-80" (in Pravda and Izvestia, 14 December, 1976) contained the following statement of improvements to be made in forestry: "To ensure the further improvement of forest-fire prevention work and the protection of forests against harmful insects and diseases". It can be seen that even these references were vague, giving no indication of precisely what type of equipment (if any) would be imported, how much, and when.

A look at the main consumer industries for Angus equipment - chemical, petrochemical, mining - offered some signs of encouragement. Thus, for example, in Poland a new \$365 million petrochemical complex was planned, where the majority of contractors were British, and there was a proposal for large ethylene plant at Plock; the Soviet plan explicitly stated that amongst major priority industrial areas were the chemical and petrochemical industries; while in Romania, several large petrochemical installations were planned, and particular emphasis was given to the future development of the hitherto neglected coal industry. Once again, however, this provided no direct indication of potential demand for Angus equipment, and the apparently favourable prospects had to be set against the background of Comecon hard currency problems and reduced growth in East-West trade; for example, a Financial Times report stated that: "The boom in Comecon's trade with the West, which reached its peak in the early 1970's ... petered out

altogether in 1976-77 ... The prospects for Western trade with Comecon for the rest of the FYP [Five Year Plan], and into the early 1980s, depend on the same conditions as those laid down at the beginning of this FYP: until Comecon can find ways to increase its exports, it will have to restrain imports, other than those concluded on a self-financing basis, such as cooperation or compensation trading arrangement" (Lascelles, 1978; pp. 29-30).

The intergovernmental agreements between the U.K. and Comecon countries contained no direct reference to FFE, though again there was encouragement in the emphasis given to FFE consumer industries (see Hill, 1978; pp. 31-49).

(iv) Fire Statistics Comparison

International comparisons of fire statistics are notoriously problematic, even between Western countries, owing to differences in national reporting procedures (see the studies by Wilmot, 1978, 1979a and 1979b). Nevertheless, some indication of the scale of the fire problem in individual countries is given by the number of deaths caused by fire as reported to the World Health Organisation. Table 6.2 shows how deaths per head of population resulting from fires in Bulgaria, Czechoslovakia, Hungary and the Soviet Union compare with the figures for the United Kingdom (East Germany, Poland and Romania do not report figures under this category).

Table 6.3: DEATHS RESULTING FROM 'ACCIDENTS CAUSED BY FIRE',
PER MILLION INHABITANTS, 1970-1977

<u>Year</u>	<u>United Kingdom</u>	<u>Bulgaria</u>	<u>Czechoslovakia</u>	<u>Hungary</u>	<u>Soviet Union</u>
1970	17.5	8.5	10.8	11.5	NA
1975	15.8	10.5	12.7	16.7	NA
1976	15.8	14.2	NA	17.3	NA
1977	14.7	13.6	NA	19.2	25.8

SOURCES: Derived from World Health Organisation, World Health Statistics Annual, Geneva, W.H.O. 1970, 1977, 1978, 1979; and CIA, Handbook of Economic Statistics, 1979. The fatality figure for the Soviet Union is from Zhurnalist, September 1978, p.47.

Table 6.2 shows that, while fatalities in the UK have decreased since 1970, the opposite trend can be observed in Eastern Europe. The Soviet figure is particularly large, though this may be due in part to difficulties caused by geographical factors (size and climate). There is a suggestion, then, that fire is an increasingly serious problem in Eastern Europe; if this is so, one might expect increased priority to be given to fire-protection measures, and to modern fire-fighting technology.

(v) The East European Press

There are, unfortunately, no Western studies on the state of fire-fighting technology in Eastern Europe. However, a substantial amount of information can be gathered from specialised East European publications; Soviet sources are the most extensive, but the

periodicals produced by the fire services in other East European countries also give valuable insight into FFE production¹.

Table 6.2 suggested that the extent of fire-losses in the Soviet Union might give cause for concern. Such concern was in fact reflected in a number of articles in the general press calling for increased publicity for fire-fighting and fire-prevention work (see Literaturnaya Gazeta, 5 February, 1975, p.11; and Zhurnalist, September 1979, pp.47-9), and stressing the damage caused, in particular, by forest fires (see Izvestia, 26 April, 1977, p.2; and Pravda, 28 December, 1977, p.3). Above all, the seriousness with which the problem was viewed was reflected in the passing of a decree by the USSR Council of Ministers on 15 July, 1977, entitled "On measures for the improvement of fire protection in populated areas and industrial installations" [O merakh po povysheniu pozharnoi bezopasnosti v naselennykh punktakh i na ob'ektakh narodnogo khozyaistva]². This important decree... "embraces a

1. The monthly periodicals of the fire services in each country are: Pozharnoe Delo (Soviet Union); Przeglad Pozarniczy (Poland); Unser Brandschutz (G.D.R.); Pozarni Ochrana (Czech) and Pozniarnik (Slovak); Ogneborets (Bulgaria), and Paza Contra Incendiilor (Romania). No reference could be found to a comparable Hungarian journal. The Soviet Union also produces a monthly abstract journal on fire-fighting and protection literature, entitled Referativny Zhurnal: Pozharnaya Okhrana, as well as a series of books containing studies by the All-Union Scientific-Research Institute for Fire Protection (VNIPO).
2. The decree is not recorded in the Sobranie Postanovlenii Pravitel'stva SSSR, but is summarised in the editorial of Pozharnoe Delo, October 1977, pp. 1-3. It would appear to be the most significant national decree on fire-prevention measures since Lenin's 1918 decree "On the organisation of state measures for fire-fighting" [Ob organizatsii gosudarstvennikh mer bor'by s ognem] .

large package of state fire-fighting measures in the conditions of the scientific technical revolution ... Special attention is paid to the wide-ranging application of scientific-technical achievements in the fire-protection field" (Pozharnoe Delo, October 1977, p.2). It represents a recognition of the importance of fire-protection work in a developed economy, of the need to have up-to-date fire-fighting technology, and stresses, in particular, the priority to be given to automatic fire-prevention systems (e.g. sprinklers, fire alarms etc.).

To what extent advanced FFE was to be provided by imports of equipment and technology from the West was difficult to assess, since there was little mention of imports of foreign production in Soviet publications. Soviet research and production appeared to be extensive, but not without shortcomings. Thus, while there were over 200 scientific-research institutes, design institutes, laboratories, teaching establishments and other bodies concerned with the development of fire-protection, "Nevertheless, practical experience persistently points to the need to widen this research activity still further" (Pozharnoe Delo, April 1978, p.18). FFE production also appeared to be affected by problems familiar in the Soviet-type economy: there were complaints of shortages and shoddy production, of poor coordination between research establishments and producing enterprises, excessive delays in the development process from design work to serial production, and insufficient product specialisation between FFE-producing enterprises (see Pozharnoe Delo, October 1977, p.18; May 1978, p.18; and August 1978, pp.21-3). This suggested that, in certain areas at least, there might be scope for imports.

As far as Soviet production of portable FFE was concerned, the picture that emerged from Soviet publications was mixed. A full range of fire extinguishers was produced in the Soviet Union; foam and dry powder extinguishers seemed to be of sufficiently high quality to satisfy international standards, but CO₂ and halogen extinguishers 'did not conform to contemporary demands' (see Pozharnoe Delo, June 1978, pp. 23-4).

The latest generation of Soviet foam compound production dated from developments in the mid-sixties (see TsNIIPPO; 1967, pp.8-9). A range of high- and medium-expansion synthetic foam compounds had been developed, with medium-expansion foam being the most widely used. According to Pozharnoe Delo (July 1977, pp. 17-18), "Industry has mastered the technique of producing the new foam compounds. Output has expanded significantly. The high fire-extinguishing effectiveness of medium-expansion foam has been confirmed by practical experience". However, it was not clear whether sufficient quantities of foam compounds could be produced to satisfy domestic demand, nor how their quality compared with Western alternatives. There were some indications that Soviet foam compounds (though they apparently performed satisfactorily) were inferior to those produced in the West. The Soviets had been unable to use high-expansion foam on board ships, because the foam compound ('PO-1') was adversely affected by sea water; furthermore, the induction rate¹ for 'PO-1' was 12%, compared with only

1. The induction rate is the rate at which foam compound is drawn into water to form the foam solution; a 12% induction rate indicates that there are 12 parts foam compound to 88 parts water in the foam solution.

1%-2% for Angus 'Expandol', so that the Soviet compound was far from economical (See Volkov et al., 1976); and a comparison of Soviet foam compounds with 3M's AFFF showed the latter to be clearly more effective (see Baratov et al., 1977)¹. A range of medium-expansion foam generators was produced in the Soviet Union, but there was no indication of an indigenous water-turbine HEF generator comparable to the Angus 'Turbex'.

As for fire hose production, there was clearly dissatisfaction with both the quality and its quantity of existing Soviet production. Referring to a Soviet conference on FFE technology, Pozharnoe Delo (June 1979; pp.22-23) reports that the participants spoke of the need to improve the quality of fire hoses, pointed out that fire hose was in short supply, and "also spoke of the necessity of introducing up-to-date technology for the production of fire hoses which in strength and other qualities would correspond to world standards." Expansion of capacity at textile plants was planned, "in order to increase production of synthetic yarns for the manufacture of latex and PVC fire hoses." (Pozharnoe Delo, May 1978, p.18). This indicated that the Soviet Union was still producing flax and cotton hoses, as was the case in the sixties (see TsNIIP0, 1967; pp.32-5); there was, in other words, a considerable technological lag between Soviet and Western fire hose production.

1. Pozharnoe Delo (June 1975, pp. 26-7) reports on fire-tests carried out on 3M's AFFF in Baku; the foam compound was shown to be highly effective, but it was indicated that none was imported (at the time) because it was too expensive.

To provide a comparison with the Soviet Union, East German and Polish publications were also consulted. In FFE production (though possibly not in research), East Germany appeared to be more advanced than the Soviet Union¹. There, too, a full range of extinguishers was produced, by the enterprise Neuruppin (see Unser Brandschutz, August 1977, pp. 31-2). The synthetic foam compound 'Finiflam-Allround', developed in the mid-seventies, had replaced protein foams in the G.D.R. (see Unser Brandschutz, January 1976; pp.30-1); like Angus 'Expandol', it could be used to obtain low-, medium- or high-expansion foam, and was claimed to be of the highest quality: "According to extensive world-wide comparisons, we have in the foam compound 'Finiflam-Allround', a leading international product, which satisfies all modern fire-fighting demands." (Unser Brandschutz, September 1979; p.31). Lined fire hoses made with synthetic yarns were widely manufactured, but there was no mention of covered hose production (see Unser Brandschutz, September 1979; p.31).

Polish production of portable FFE seemed to be comparable to that in East Germany. As well as a full range of extinguishers, the Poles had in 1977 developed a water-turbine HEF generator similar to the Angus 'Turbex' (see Przeglad Pozarniczy, September 1978; pp. 2-4). 'Notable improvements' had been made in the manufacture of foam compounds: a protein foam, 'Spumogen', was produced, as well as a synthetic compound for medium- and high-expansion. 'Deteor 1000' - the latter, it was

1. The Bolshaya Sovetskaya Entsiklopedia (1975, p.439) lists East Germany and Czechoslovakia as leading foreign producers of FFE.

claimed, 'matched up to the exacting standards set by the very best European foam compounds'; these advances meant that the Poles no longer needed to import protein or synthetic foam compounds; an alcohol resistant foam compound - in the past imported from the UK - had recently been developed. However, production of fire hose with synthetic yarns suffered from shortcomings in quality, though not in quantity (see Przegląd Pozarniczy, October 1978; pp.13-16).

In general, then, East European publications suggested that increased priority was being given to FFE, and that some significant improvements in FFE production had been made in recent years, especially as regards synthetic foam compounds. This did not rule out the possibility of exporting other types of foam compound (fluoroprotein, alcohol resistant, AFFF), and there appeared to be general interest in improving fire hose production, which lagged well behind the quality achieved in the West. At least some Western FFE manufacturers had succeeded in exporting to Eastern Europe; indeed close East-West cooperation was suggested by the fact that some West European fire engine manufacturers had produced vehicles on Soviet, Czech and Polish chassis (see Pozharnoe Delo, September 1975; pp.15-16; and June 1975; pp. 26-7).

(vi) Specialised International Exhibitions

Further evidence of increased priority for FFE were the specialised international exhibitions that had taken place or were planned in Eastern Europe. Such exhibitions had been held and were to

be repeated in the Soviet Union (1975 and 1979), and in Czechoslovakia (1976 and 1980); the Romanians also planned to hold an exhibition (1980). This was probably the most positive indication of these countries' intention to import, and of the planners' priorities. However, the catalogues for the Soviet exhibitions suggested that Western competition was intense, with most of the major West European companies present.

(vii) East-West Trade Press

Specialised East-West trade periodicals (e.g. Moscow Narodny Bank Press Bulletin, Business Eastern Europe, Eastern Europe) were monitored in a search for business opportunities - in particular reports of large contracts awarded or under negotiation for which Angus might hope to become a subcontractor for FFE - and for information on changes in the climate of trade which might affect the company.

These sources also provided some interesting information on Western companies in direct competition with Angus or in closely related product fields. In 1978 company symposia were held in Moscow by: the Finnish company Samutin (suppliers of a range of FFE), and the French companies Camiya (fire-fighting vehicles) and Biro (vehicles and general FFE)¹. The following references to contracts concluded were also found:

1. See Business Eastern Europe, 1978; pp. 142 and 363.

Samutin: "will supply specialised fire-protection equipment for the computer centres of the 1980 Olympics, as well as those of Tass, Machinoexport and a number of other Soviet Computer installations. Samutin equipment has been tested by the Soviet Marine register and will be installed aboard 158 Soviet ships. Eleven automatic fire protection systems of Samutin design are in use at the Svetogorsk paper mills." (Business Eastern Europe, 1979, p.191).

Silvani (Italy): "Is working with Vneshtekhnika to design fire-fighting equipment to be mounted on Soviet truck beds. Silvani builds specialised mobile fire-protection equipment and has supplied nearly \$2 million worth of fire-fighting gear for Soviet pipelines." (Business Eastern Europe, 1979, p. 191).

Werner (West Germany): "concluded an agreement with Fire Extinguishers Manufacturing Cooperative in Budapest covering 2 kg. extinguishers for use in trucks and buses. The West German partner will supply know-how, production machinery and technical assistance, and will take completed units as part payment". (Business Eastern Europe, 1979; p. 254).

Although not mainly concerned with the particular products Angus were interested in selling¹, these references did suggest that in closely-related product areas some substantial trade was being conducted with the Soviet Union and Hungary, and they gave some indication of which Western competitors were active in the market.

1. Extinguishers (the Werner agreement) excepted. Angus could supply specialised vehicles (through HCB Angus), and fixed protection systems for computers (through the fixed installation department); however, as mentioned above, these sections of the company were organisationally separate from the export department for loose equipment.

(viii) Trade Statistics

Further indication of the extent to which Western competition had been successful was given by a study of UK and other EEC countries' export figures for fire fighting equipment. Figures at the greatest available level of disaggregation were obtained from HM Customs and Excise, and from the EEC Analytical Tables of Foreign Trade. Even at this degree of disaggregation, the practical value of the figures was severely limited, because the commodity classes did not refer to sufficiently precise product categories. Nevertheless, it could be seen that the volume of fire-hose exports to Eastern Europe had been negligible, while exports of extinguishers had been small in relation to world exports, but not insignificant in value terms and for certain partner countries. Meanwhile there had been some substantial exports of the commodity class covering foam compounds, especially to Poland and Romania, although there were signs that the Polish market was declining (thereby tending to confirm information on the state of the foam market in Polish publications). As more information was obtained from other forms of research, it began to be possible to interpret these trade statistics in more concrete terms, and to associate particular figures with individual companies and FTOs (see Appendix 6C for the data, and for a more detailed discussion of their limitations and the conclusions that could be drawn).

(ix) Estimating Market Size and Potential

Helpful as these trade statistics may have been in giving an idea of past Western exports of FFE, their limitations were such that they could not be expected to indicate reliably what the future potential for Angus products might be. Indeed, none of the sources so far described

could give a quantitative indication of this. Nor could any quantitative indication of the overall market size be found in published sources - for example, there was no mention of FFE production in the main Soviet statistical yearbook (Narodnoe Khozyaistvo SSSR v ...). In view of the company's uncertainty as to the market potential in Eastern Europe, some sort of quantitative yardstick was evidently desirable, a concrete estimate of the size of the market. Since such information could not be directly extracted from published sources, it was necessary to find some means of using the limited data available both within and outside the company to give an idea of the order of magnitude that the East European market represented.

The only feasible solution was to use a technique closely resembling the multiple factor analysis described by Samli (1977): to work on the assumption that there exists a constant relationship between the market for FFE and GNP in any given country, the only other independent variable being the 'market quality index' of each country, dictated by such indicators as the level of industrial development and the size of the oil industry. This relationship can be expressed as follows:

$$\frac{\text{Size of market for FFE}}{\text{GNP}} \times \text{market quality index} = \text{constant}$$

Details of the calculations, of the assumptions made, and an analysis of the results are given in Appendix 6D. The estimated East European market size for hose and foam products (in 1978 prices) was as follows:

TABLE 6.4: ESTIMATED EAST EUROPEAN MARKET SIZE, 1978 US \$mns¹⁾

Country	Estimated Fire Hose Market Size	Estimated Foam & Foam Equipment Market Size	Estimated Total Market Size
Bulgaria	0.19	0.22	0.41
Czechoslovakia	1.12	1.31	2.43
G.D.R.	1.37	1.60	2.97
Hungary	0.29	0.34	0.63
Poland	1.46	1.71	3.17
Romania	0.78	0.91	1.69
Soviet Union	24.37	28.43	52.80
TOTAL	29.58	34.52	64.10

NOTE: 1) See Appendix 6D, Table 6D.4

Now it is clear from the calculations (see Appendix 6D) that these figures were intended to provide only a broad guideline, but they could help in the formation of company strategy and priorities. Taken in isolation, they suggested a slightly different order of priority to that established at the beginning of the project (see sections 6.2 and 6.3 above); the USSR represented by far the biggest market, the markets in Poland, East Germany, Czechoslovakia and Romania were also sizeable, while the potential in Hungary and Bulgaria appeared to be limited. Overall, the potential was large - a 5% share would, according to the estimate, have made Eastern Europe the company's second largest export market in 1978. However, precisely what share, if any, the company

could expect to capture could only be judged in the light of East European domestic production, planners' priorities, and the strength of Western competition.

(x) Summary of Market Indicators From Desk Research

As we have seen, some of this information could be gathered from published sources. The various forms of desk research combined to give a valuable preliminary impression of the market, showing that there were both positive and negative indicators, as summarised in Table 6.4 below.

TABLE 6.5: SUMMARY OF MARKET INDICATORS EMERGING FROM DESK RESEARCH

Positive Indicators

- Large market
- Planned growth of FFE consumer industries
- Indications of growing fire problem
- Indications of increased priority for FFE (Soviet decree/specialised exhibitions)
- Signs of production problems, in both quantity and quality (particularly for fire hose)
- Trade statistics suggest substantial EEC exports of certain types of FFE (especially foam to Poland and Romania).

Negative Indicators

- Hard Currency problems, general slowdown in East-West trade.
- Signs of East European production improving quite rapidly, especially foam compounds.
- Major Western competition active, some companies apparently well established.
- Declining trend in UK FFE export figures.
- Brightest opportunities apparently for fixed installations - Angus interested predominantly in selling portable FFE.

The overall picture was thus a fairly neutral one: there was nothing to indicate that the company should abandon hopes of selling to the area, but there were sufficient obstacles to suggest that success would not be easily won.

In order to assess the true balance between these positive and negative indicators, and before recommendations for company strategy could be made or sales targets quantified, more information was required on a number of counts:

- Further details on the ability of domestic production to satisfy domestic demand in quality and quantity;
- Further details on the activities of Western competition;
- Details of planned FFE imports, as well as an impression of East European 'propensity to import', given adequate persuasion through effective marketing; and
- Details of the organisations involved in the import process for FFE (about which desk research had so far only yielded scanty information).

Clearly, then, there were limits to the degree of detail that could be gathered from desk research alone; moreover, the claims for the efficiency of certain domestic FFE production made in official fire service journals had to be treated with caution. To progress further it was necessary to have direct contact with those involved in import decisions for FFE, including the end-users themselves.

6.6. Visiting the Market

Of all the means used to obtain information, visiting the market proved to be the most productive, but it also presented many difficulties.

First, there was the problem of identifying which organisations should be seen, and, within these organisations, who the relevant people were. In order to do this effectively, it was necessary to make creative

use of knowledge of the system, and take the initiative in contacting organisations who would not (or could not) approach the company of their own accord.

Secondly, the amount and quality of information gathered depended to a considerable extent on the way in which the interviews were conducted. Here again, a knowledge of people's position in the system and their probable motivation was invaluable.

Thirdly, it was necessary to judge the reliability of the information supplied. Generally information was only fully accepted when confirmed independently by two separate sources; even so, it was essential to be sensitive to the true meaning of what was said, since FTO officials tended to bluff knowledge or conceal information.

It should be stressed that the Comecon countries could not be visited as 'a researcher'. In order to meet the relevant people and have any credibility in front of them, it was necessary to act as an Angus sales representative, actively promoting the company's products. In fact, this added an extra dimension to the research. It gave practical experience of how best to promote Angus products in Eastern Europe. It also provided the chance of assessing reaction to concrete business proposals - a most important contribution to research. For the company, too, the research was thus more cost-effective, since company presence in the market was maintained and its products promoted, as well as information gathered.

Hungary, the Soviet Union, Czechoslovakia and Poland were visited. The first trip was to Hungary in March 1979, the aim being to gather more precise information than had been obtained at the exhibition the previous year, and a week was spent visiting as many relevant organisations as possible. The visit to Moscow in April 1979 involved sole responsibility for setting up and running the Angus stand at the ten-day exhibition, "Technical Means of Preserving Public Order and Fire Technology - '79" (this delegation of responsibility reflected both the company's confidence in my own 'expertise' and their desire to minimise costs). The three days in Czechoslovakia in November 1979 were spent in the company of the Angus agents (Tradex), who organised a programme of meetings: the aim was primarily to assess Tradex's performance and the possibility of increasing the modest turnover in that country. Also in November 1979, a week was spent in Poland, with objectives similar to those for the Hungarian visit. Two days were also spent in Vienna, the aim being to investigate the possibility of selling to Comecon via this city, the nerve centre of East-West trade.

On each occasion much was learnt, both on the state of the FFE market and on how best to organise sales promotion. Efficiency increased as the experience from previous visits could be applied. However, gathering information was a complex task. Increasingly it became evident that no single Comecon organisation could provide a complete picture of the FFE market in any country. This meant that collecting information could be frustrating, and that many organisations had to be visited before a reasonably complete picture could be constructed.

To a limited extent it was also possible to learn from observing the equipment in use in these countries - for example, in undergrounds or hotels, or industrial installations such as Poland's Plock refinery. This gave information both on domestic production and on Western competition. FTOs also tended to provide some information on Western competition.

As an example of the sort of information that was obtained during these visits, and of how this could add to the picture gathered from desk research, extracts of the report written on the Soviet Exhibition are included in Appendix 6.E, while Appendix 6.F describes how a £45,000 order for fire hose (discussed during the Soviet Exhibition) was narrowly lost to Norwegian competition.

These were not the only trips to Comecon for the company. In October 1979, Mr. Alec Johnson - who started working full-time on Eastern Europe after the sales reorganisation in June 1979 - went to Bulgaria and Romania. This meant that, with the exception of East Germany, all the Comecon countries were visited during the period of the research.

6.7. Summary

In essence, the methods that can be used for researching an East European market are similar to those applied in Western markets. Thus, most of the broad categories described by Wilson (1973) were used in this study: use of primary sources, use of secondary sources,

interviewing, and observation¹. In the Angus experience, it was found that no single technique, published source, or East European organisation could provide a comprehensive assessment of the market for FFE; instead, the jig-saw had to be pieced together bit by bit through consulting many sources and by using the combined input of several techniques, while planners' priorities - as distinct from end-user demand - could only be inferred on the basis of a number of market indicators. As a result, researching an East European market was arguably even less of a 'scientific' process than conducting a comparable survey in the West, where questionnaires, more structured interviews, more meaningful demand indicators etc. might have been used.

Nevertheless, valuable research was found to be feasible in Eastern Europe; although our knowledge of the market was not 'perfect', a sufficiently complete picture could be assembled to answer the questions posed by the company. Those findings are described in Chapter 7.

1. The major exception was the postal questionnaire, which was scarcely applicable in Eastern Europe, owing to the extremely low response rate to mail of any sort, to the difficulty of locating relevant respondents, and to the questionable reliability of any information they might supply.

CHAPTER 7: REVIEW OF THE FIRE FIGHTING EQUIPMENT MARKET IN EASTERN
EUROPE AND RECOMMENDATIONS FOR COMPANY STRATEGY¹

In this chapter, we answer the questions posed by the Company, which were:

Is there a market for Angus products in Eastern Europe?

If so, what selling strategy should the company adopt?

The opportunities and constraints facing the company are assessed by analysing:

- (i) The organisational structure of the FFE import market, and the consequences for sales promotion; and
- (ii) The state of the FFE market in Eastern Europe: domestic production, Western competition, and the prospects for Angus products.

With the situation confronting Angus thus clearly established, the final section of the chapter sets out strategy recommendations for the Company's future operations in Eastern Europe.

1. This chapter is based on a report submitted to the Company in December 1979.

7.1. The Organisational Structure of the FFE Import Market and the Consequences for Sales Promotion

During the course of the research it became apparent that far more organisations, especially FTOs, were involved in importing FFE than had previously been thought. Angus had come into contact with a large number of FTOs and industrial ministries, and it was likely that still more would prove to be of interest. In this section we attempt to clarify the organisational structure for FFE imports in Eastern Europe, and discuss the problems this raises for conducting an effective promotional campaign.

(i) Foreign Trade Organisations

Angus could be forgiven for supposing that a single FTO would be responsible for all FFE imports in each East European country, for this is what one is constantly led to believe through the relevant literature and advice from official bodies. For example, in October 1979 a senior member of the East European Trade Council wrote to the company: "You are no doubt aware that all foreign trade in Eastern Europe is a state monopoly conducted by designated Foreign Trade Organisations only one of whom in each country will have the authority to purchase fire fighting equipment". This was simply not the case; in practice, the division of responsibilities between FTOs was far more complicated¹. It was found

1. The reasons for this are also complex. In this section we concentrate on the more immediate factors affecting the Angus case; this provides a detailed illustration of broader, systemic considerations, which are discussed in Chapter 10.

that:

(i) While Angus saw their product range as linked under the generic term 'fire fighting equipment', the East European import system tended not to treat it as a homogeneous group, and separate FTOs handled different parts of the product range (i.e. one FTO for fire hose, another for foam compounds etc.).

(ii) However, this division of responsibility was neither completely clear-cut nor consistently applied: between FTOs there was duplication, competition, and considerable confusion.

The clearest illustration is provided by the situation in Poland. It was found that either 'Textilimpex' or 'Ciech Stomil' might be responsible for importing fire hose while similar types of miscellaneous FFE was imported by both 'Varimex' (for industry in general) and 'Kopex' (for the mining industry); however, the Company's biggest sale to Poland of such miscellaneous equipment came in early 1980 via the seemingly less likely channel of 'Polimex-Cekop'. Yet the commercial section of the Polish embassy in London had previously written to assure the Company as follows: "We wish to inform you that fire fighting and fire protection equipment is in the range of VARIMEX activity. Varimex Foreign Trade Enterprise is the Sole Exporter and Importer of the above equipment, having customers from many different industries in Poland". Thus, the real functioning of the FTO system markedly differed from the 'official' version of it.

Discovering which FTOs dealt with FFE imports was therefore no easy task. For some products already imported regularly (notably foam compounds) there were few problems; more often, though, FFE was only a minor part of an FTO's business, and was not specifically written into their published 'profiles', so that even when approaching a relevant FTO directly, it was easy to fall on the wrong department and be turned away. The problem was compounded by the false information supplied by some FTOs, who liked to think they had the monopoly on imports of a certain type of product when this was not in fact the case (for example, conflicting claims were made by the FTOs 'Ferunion' and 'Nikex' in Hungary); as well as by changes in responsibility (such as the re-allocation of hose imports from 'Centrotex' to 'Merkuria' in Czechoslovakia): and by the occasional absence of any obvious FTO for a particular product (see the description of the sale of the Angus Turbex to the USSR in Appendix 6E.)¹. Failure to identify relevant FTOs could lead to missing important opportunities; for example, it had been supposed within the company that all imports of FFE in Hungary were handled by 'Nikex' and/or 'Ferunion', with the result that the principal FTO responsible for imports of both fire hose and foam compounds ('Chemolimpex') had simply not been contacted.

1. It is interesting to note that similar problems of duplication and division of responsibility apparently affect Soviet FFE production, which is dispersed amongst several different ministries. Problems of coordination arise, and... "specialists often talk of the rationality of creating a single organ for fire fighting equipment manufacture in the country, which would break organisational barriers and encourage the truly constructive cooperation of all branches of production." (Pozharnoe Delo, August 1978, p.22).

Despite this confusion, a pattern of responsibility for FFE did emerge. Two or three FTOs in each country could be seen as the most important for Angus - those importing the general range of FFE, and those dealing with hose and foam. Where there was duplication on any product, this could usually be explained by the nature of the relationship between the FTO and the end-user (e.g. if a large factory regularly used one FTO for its imports it might use the same FTO to purchase FFE, even where this clashed with another FTO importing the same equipment). The following table, then, shows the general pattern of FTO responsibility for FFE which, with minor variations, seemed to be repeated in all the Comecon countries:

Table 7.1.: Pattern of FTO Responsibility for Fire Fighting Equipment

TYPE OF FFE	TYPE OF FTO	PROBABLE MAIN CUSTOMERS OF FTO
GENERAL RANGE OF EQUIPMENT (May include: foam equipment, hose, extinguishers, fittings, pumps, sprinklers).	FTO with miscellaneous range of light industrial goods.	General industry. Possibly Brigades.
FOAM	FTO for chemical products.	Petrochemical - chemical industries.
HOSE	FTO for rubber goods and/or textiles.	Brigades.
FIRE ENGINES (Including possible purchases of equipment to be mounted on vehicles)	FTO for special vehicles.	Brigades and large factories.
FFE FOR PARTICULAR INDUSTRIES. (e.g. Chemical, Shipping, Petrochemical).	FTO (if it exists) for the industry.	The relevant industry.
FFE FOR INSTALLATION IN NEW FACTORIES/REFINERIES, including those constructed in Third Countries by Comecon Partner.	FTOs for construction of complete plants	The relevant industries.
GENERAL RANGE OF EQUIPMENT	Enterprises with foreign trade rights.	Themselves.
FFE TECHNOLOGY	FTO specialising in purchase of licences and know-how.	The relevant producer industry.

Fitting into this pattern were the FTOs we knew to import FFE. Thanks to this ordering, it was also possible to predict, with some success, which other FTOs previously not contacted might be involved. The state of the Company's knowledge at the end of 1979 is shown below:

Table 7.2: FTOs Importing or Likely to Import Fire Fighting Equipment

TYPE OF FTO	FTOs KNOWN TO IMPORT FFE	POSSIBLE IMPORTERS
Miscellaneous range of light industrial goods - dealing with general range of FFE.	Technoimport (Bul.) Merkuria (CSSR) Union (GDR) Nikex (Hung.) Ferunion (Hung.) - extinguishers only Varimex (Pol.) Budimex (Pol.) - sprinklers only Mechanoexportimport (Rom.) Raznoexport (SU.)	
Chemical products - dealing with fire hose.	Chimimport (Bul.) Chemapol (CSSR) Chemie-Export-import (GDR) Chemolimpex (Hung.) Ciech-Organika (Pol.) Chimimportexport (Rom.) Danubiana (Rom.) Soyuzchimexport (SU)	
Rubber and/or textiles - dealing with fire hose.	Ciech-Stomil (CSSR) - Covered hose. Textilimpex (CSSR) - Plain hose. Chemolimpex (Hung.) Hungarotex (Hung.) Raznoimport (SU)	Chimimport (Bul.) Centrotex (CSSR) Chemie-Export-import (GDR) Textilcommerz (GDR) Danubiana (Rom.) Chimimportexport (Rom.) Romanoexport (Rom.)

Table 7.2. Cont.

TYPE OF FTO	FTOs KNOWN TO IMPORT FFE	POSSIBLE IMPORTERS
Special vehicles - dealing with fire engines.	Pol-Mot (CSSR) Moguert (Hung.)	Bulkancarimpex (Bulg.) Motokov (CSSR) Transportmaschinen Export-Import (GDR) Auto-Dracia (Rom.) Avtoexport (SU)
FTOs serving specific industries.	Including: Chemokomplex (Hung.) - Chemical. Centromor (Pol.) - Shipping Kopex (Pol.) - Mining. Glavmorneftegas (SU) - Offshore oil/gas. Sudoimport (SU) - Shipping. Industrialexportimport (Rom.) - Chemical	Including: Koraboimpex (Bul.) Schiffescommerz (GDR)
Construction of complete plants.	Including: Technoexportstroy (Bul.) Technoexport (CSSR) Komplex (Hung.) Polimex - Cekop (Pol.)	Including: Uzinexportimport (R.) Strojexport (CSSR) Skodaexport (CSSR) Limex (GDR) Invest-Export (GDR) Industrieanlagen Import (GDR)
Enterprise with foreign trade rights.	Including: Ganz Mavag (Hung.) Malev (Hung.)	Including: Raba (Hung.)
Specialising in licenses and know-how.	Polytechna (CSSR)	Including: Technika (Bul.) PolSERVICE (Pol.) Arcom (Rom.) Licensintorg (SU)

(ii) End-Users

It was found that the nature of end-user contact largely depended on the size and type of the contract under discussion. In the case of straight product sales of FFE there might be some ministerial involvement, but it was likely (especially outside the USSR) that the FTO and the industrial enterprise would be the main contacts. In the case of industrial cooperation, however, the bulk of negotiation was likely to be at a higher level: both consumer and producer ministries of the technology in question were likely to be involved, with, possibly, participation of the State Planning Committee and the State Committee for Science and Technology.

Only limited contacts had been made beyond the FTOs. Representatives from ministries had been met (especially in the Soviet Union), and this was found to be useful, but penetrating to Ministry level was difficult, and generally only possible when there was a matter of special interest to discuss. Table 7.3 shows those ministries (whose precise name may vary from country to country) and the type of enterprises that come under their authority, which were likely to be the main customers for FFE:

Table 7.3: Main Consumer Ministries for FFE

Ministry	Enterprises under its control
Ministry of Internal Affairs	Fire Brigades
Ministry of Petrochemical Industries	Oil Refineries
Ministry of Chemical Industries	Chemical Works
Ministry of Light Industry	Textile/Clothing Enterprises
Ministry of Mining Industry	Mines
Ministry of Shipping	Shipbuilders and Ship Repairs
Ministry of Heavy Industry	Heavy Engineering Enterprises

Access to end-users ranged from being extremely difficult (Soviet Union) to comparatively straightforward (Hungary, Poland, Czechoslovakia). However, the Fire Brigades were, in the main, military organisations, and, as such, difficult to meet.

The Company's information on potential end-users was limited: there were the few enterprises to which Angus had been introduced, those which had been mentioned by FTOs, and the lists (particularly of enterprises in the oil industry) provided by the export services division of the BOTB. Due to the scarcity of published lists of East European enterprises a more complete picture could only be acquired by gradually compiling information from a number of different sources¹.

(iii) Research Institutes and Approvals

Equipment used by the Fire Brigades, whether produced domestically or imported, normally first had to be tested and approved in the relevant country: Western approvals (e.g. D.I.N., D.T.I.²) were generally not sufficient, and approvals granted in one Comecon country were not transferable to others. For equipment to be used in industry it was helpful to have formal approval, but not always necessary (those

1. Suggested channels to pursue included: The British Embassy Commercial Sections; requests to enterprises with which the Company already had contacts to provide names of other enterprises in the same field; monitoring of the East European press and East-West Trade journals for mentions of relevant enterprises; and following up contacts from trade fairs and/or symposia.
2. Deutsche Industrie - Norm; Department of Trade and Industry.

responsible for importing unapproved equipment had to take the responsibility if it turned out to be faulty). Testing could be a lengthy and costly process.

Testing of fire fighting equipment was usually carried out by the Ministry of Internal Affairs, with approval certificates issued by the country's specialised testing body (USSR Vneshtekhnika, CSSR Inspecta etc.). In Poland and the Soviet Union (and probably in the other Comecon countries too) there were special research and testing institutes for FFE. These were important organisations, primarily serving the Fire Brigades, but industries under the authority of other Ministries could also consult them. In addition, the greatest knowledge of what was used, produced and imported in a given country was to be found here.

The whole process of testing and the issuing of approvals was somewhat mysterious. There were some state standards covering FFE, but these seemed to be primarily directed towards ensuring quality control of domestic production¹. There were official channels for obtaining approvals, but if the equipment was really in demand and one

1. For example, in the Soviet Union, GOST (short for Gosudarstvenny Standart - 'state standard') 9603-69 covers the technical specifications for the foam compound 'PO-6'; GOST 6948-70 covers the foam compound 'PO-1'; GOST 12962-80 covers the medium-expansion foam generators 'GPS-200', 'GPS-600' and 'GPS-2000'. There are two Soviet standards for fire hose: GOST 472-75 (for flax hose) and GOST 7877-75 (for lined synthetic hoses). Comparable Angus hoses appeared to fall well within the technical specifications laid down in the latter.

had good contacts with the people involved in issuing the approval it seemed that shortcuts were possible. For example, in one country the relevant official was prepared to draw up the necessary documents for approval of Angus equipment 'in his spare time' and subject to an unofficial hard currency payment; the company had no official approval certificate for Duraline hose in the USSR, but the recommendation of the research institute VNIPO was obviously sufficient; the sale of miscellaneous FFE to a PVC plant in Poland was made without any testing of the equipment at all. In general, it was a question of satisfying the relevant decision-makers, who were worried about their personal accountability, that the equipment was reliable; an approval certificate was ideal for this purpose, but other means were possible, too. Table 7.4 shows the approvals obtained by Angus products in the USSR and Czechoslovakia, the only two countries where the company's equipment had been extensively tested.

Table 7.4: Formal and Informal Approvals for Angus Products in the USSR and Czechoslovakia¹⁾

<u>Country</u>	<u>Formal Approval</u> (i.e. with Approval Certificate)	<u>Informal Approval</u> (Products Accepted for Import but NO Approval Certificate Issued)	<u>How Obtained</u>
<u>Soviet Union</u>	USSR Register of Shipping for Duraline and Firechief (for use on board Soviet ships)		Through formal channels, including payment
		Duraline	Tested by VNIIPO
		Polydol	Tested by VNIIPO
		Turbex	Tested by Min. of Petrochemical Ind.
<u>Czechoslovakia</u>	Polydol Turbex Turbex Trailer AFIOO		Obtained through Tradex - No Charge
		Duraline	Accepted and demanded by end-users, but has to be imported as 'part of' Turbex due to currency shortage

NOTE 1): The table relates to the situation at the end of 1979.

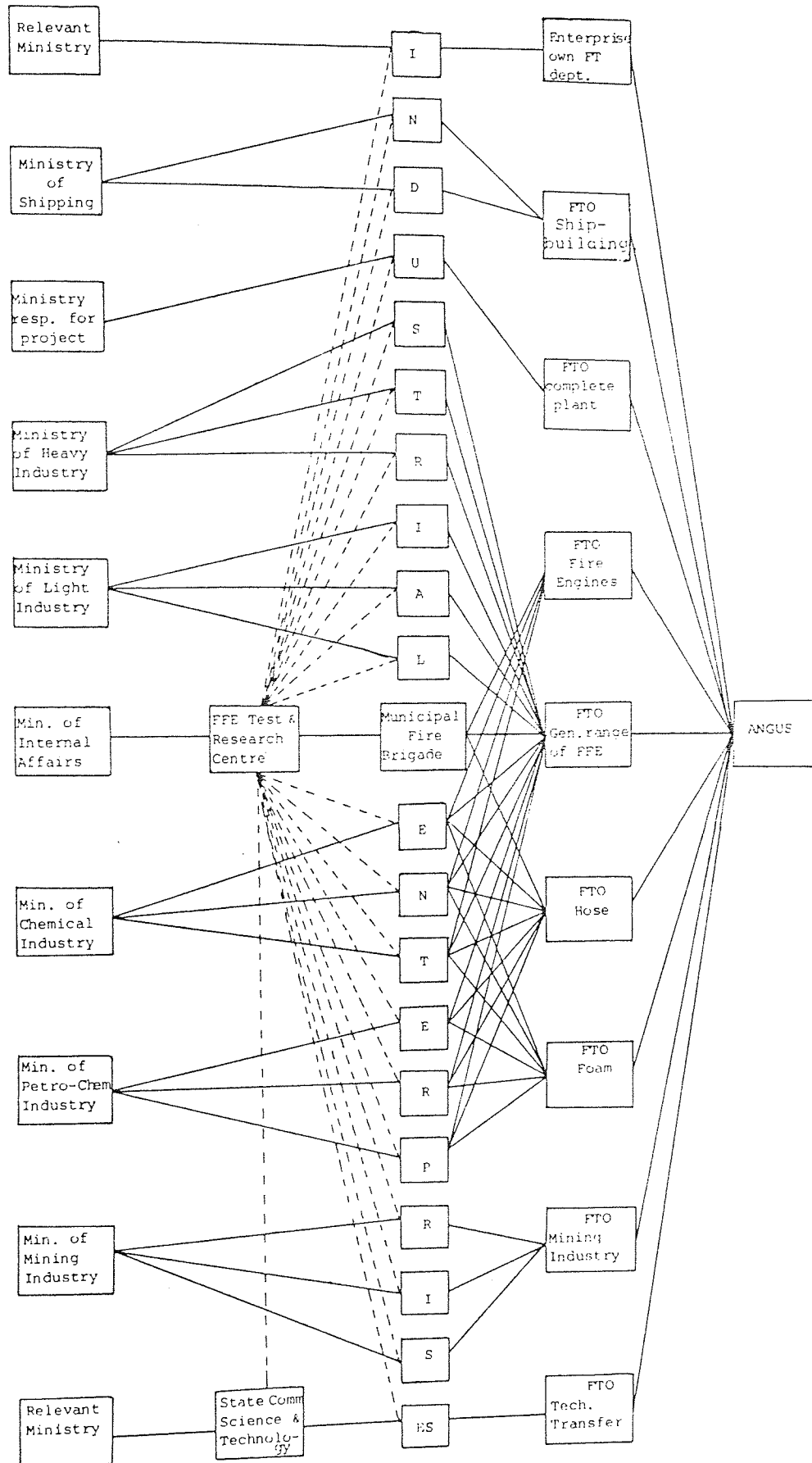
(iv) The Complexity of the FFE Importing System

Figure 7.1 below shows how the organisations involved in importing FFE relate to one another. The figure should be regarded as a simplified illustration of the actual situation: all lines of communication are two-way, some other organisations may also be involved and the Company may communicate directly with ministries or enterprises.

The complexity of the system is clearly illustrated; not surprisingly, the decision-making process was found to be lengthy and bureaucratic, and far removed from the orderly, organised mechanism it is supposed to be. Instead, it was considered healthy to view the system as organised chaos: A 'surface structure' of organisation and official channels existed, but beneath this there was a powerful 'deep structure' of unofficial channels, personal influence, opportunism. It was found that what was imported, by which organisation, and from which company, depended only partly on natural forces of demand in the economy, on planners' priorities and on rational choice between competitive offers; of great importance, too, was the battle for allocation of scarce currency resources and the influence exercised by individuals in positions of power.

Figure 7.1. : Organisations involved in importing Fire Fighting Equipment

(KEY : — Formal Communication Channels - - - - - Information/Consultation)



(v) Consequences for Sales Promotion

In this situation, a passive approach to the market could have little success. It was considered that Angus would need to promote its products actively in Eastern Europe if results were to be achieved: organisations at all levels must be made aware of the company; and good relations with important decision-makers cultivated. The latter point was particularly stressed: good personal contacts were of the utmost importance in order to push things through the impersonal bureaucracy and natural inertia of the official system. Gift-giving was found to be a fact of life in all the East European countries visited, the concrete manifestation of the vital role played by unofficial channels.

Effective sales promotion should aim to establish the company as a 'concept' in Eastern Europe, so that, whenever its name was mentioned, the reaction was a nod of familiarity and approval. It was a question of building up goodwill and confidence, so that, eventually, officials had no fear of signing the necessary papers approving the company's products. Ultimately, East Europeans liked to deal with a company whom they could regard as 'one of us' - a company that understands and respects their way of working, which has become familiar and proved its reliability.

For Angus to become established in this way, and to keep abreast with competition, regular presence in the market would be required. Only through repeated visits (two a year to any country should be regarded as a minimum) could the company hope to become 'accepted'.

Particular problems were created by the existence of several FTOs responsible for importing fire fighting equipment. First, it takes time and regular personal contact to establish good relations with any one FTO; clearly, additional effort is required when several FTOs are involved. Secondly, according to the logic of the Soviet-type system Western firms are normally expected to deal through the tip of the organisational pyramid, the FTO, which contacts all relevant end-users for a particular product; however, when the responsibility for the product is not clearly allocated (e.g. the Angus Turbex in the Soviet Union), the company cannot expect to reach all possible end-users by relying on an FTO. Furthermore, since FFE is often only a small part of an FTO's business, the latter is unlikely to devote much time to contacting interested enterprises, but will tend only to react when requests from such enterprises are received.

There were, therefore, compelling reasons for suggesting that the Company's marketing effort should in future be specifically directed at end-users, over and above the more general arguments in favour of such an approach (as discussed in Chapter 5, section 5.3(v)). By contacting FTOs alone, there was the danger that the marketing effort would become too dispersed, and there would be no guarantee of reaching all or even most of the potential end-users; by stimulating demand amongst end-users, the Company would be more likely to overcome the bureaucratic barrier represented by the FTOs.

Such an approach would involve a change of emphasis for the Company, whose contacts had so far been mainly with FTOs. Visits to the market had been irregular and exploratory; the Company had tended to believe that "We cannot sell to them - they buy from us", a negative attitude which was clearly untrue. In short, the only way forward was to actively stimulate demand at enterprise (and possibly Ministry) level; this might be achieved in a number of ways: by frequent direct visits, through trade fairs, symposia, advertising or through the intermediary of agents¹.

Such clarity of objectives had been significantly absent in the past. Indeed, it was fair to say that the company's activity on the

1. There were pros and cons for each of these options, and for which method or combination of methods was best suited for the conditions of individual countries. For example, a problem with direct visits was accessibility to enterprises (e.g. in the USSR) and finding out who potential customers were; contacts could be made through trade fairs and company symposia, but these were also more expensive options; the value of agents varied from country to country, with Tradex in Czechoslovakia reasonably successful in establishing contacts with end-users, but Novasider in Moscow less so, while Western agents had proved ineffective.

market had been maintained at a 'trickling' level, lacking both the intensity and the direction to achieve significant success, with the result that money, too, had been 'trickling' away. An effective marketing programme for Angus in Eastern Europe would involve commitment of resources over a substantial period of time, since any strategy adopted (in December 1979) could only be expected to bring real results during 1981¹. Therefore, there had to be a firm commitment to this investment and an understanding that the expenses involved would not be recovered for some time (if ever!). What was to be avoided was a compromise approach, economising on expenditure with the result that money was still being paid out, but the intensity of promotional work (frequency of visits, participation at trade fairs etc.) was not sufficient to be effective.

Clearly, then, effective sales promotion would involve substantial costs. This could only be justified if sufficient market opportunities were seen to exist.

1. This was because it was too late for products to be included in the 1980 plan - and as a rule even small items of equipment had to be budgeted for in the plan, exceptions being unforeseen urgent requirements, enterprises using their own hard currency to import, and special budgets made available for trade fairs.

7.2. The Fire Fighting Equipment Market in Eastern Europe

(i) Domestic Production

There was, it transpired, a certain similarity in the stages of development reached in the various East European countries, although FFE production in Romania and Bulgaria (about which we had more limited information) appeared to lag somewhat behind that of Czechoslovakia, East Germany, Poland, the Soviet Union and Hungary.

In the period immediately after the War FFE production was clearly neglected in the face of more pressing needs: reconstruction of industry took precedence over 'non-productive' fire-fighting equipment. More recently - and very noticeably in the past few years - greater priority had been afforded it. By the end of the seventies, development of new FFE production was proceeding at a fast pace - Eastern Europe had emerged from its backward position and was catching up with - and trying to export to - the more stagnant West.

a) Fire Hose

Poland, Hungary, Czechoslovakia and the Soviet Union all had growing capacity, with significant developments in the past few years. Poland stopped importing hose around 1975, and had just developed a new hose which it planned to export to the West; the Hungarians had also recently started their own hose production; in Czechoslovakia (according to Tradex) a capacity of 10 million metres per year by 1982 was planned;

the Soviet Union, still producing much flax hose, began volume production of synthetic hose in the early seventies but had plans eventually to standardise on covered hose. In all these countries it was only recently that synthetic yarns had been made available for fire hose production.

The quality of these plain lined hoses was, as far as we were able to judge, quite good, and certainly improving. Samples of Soviet and Polish hose obtained during visits to these countries were tested at Bentham: the Polish plain lined hose was found to be a perfectly satisfactory commodity fire hose; the Soviet samples were more primitive, though Soviet research (as could be judged from the expertise at VNIPO) was clearly far in advance of production.

Thus, if East European hose production might have been described as primitive a decade ago, it had become adequate; it could not be called sophisticated, however, with as yet no covered hose produced.

b) Foam Compounds

All East European countries were known to have their own synthetic foam compound production. We knew East German foam production to be particularly strong, and it was exported to other Comecon countries. There was a tendency to standardise on synthetic foams and (imported) AFFF, though some protein foam was produced in Romania, East Germany, Poland and the Soviet Union, and both Poland and Czechoslovakia had imported small quantities of protein-based foam. In the Soviet Union

and Poland a synthetic-based alcohol resistant foam had recently been developed.

In general, East European synthetic foam compounds appeared to be mostly of good quality, and (as was the case with fire hose) had improved significantly in the seventies. At the same time there were indications that alcohol resistant foam compounds were still unsatisfactory, and that sufficient quantities of foam compound could not always be produced to satisfy domestic requirements (especially in the USSR).

c) Foam-making Equipment and Extinguishers

Foam-making equipment had been a neglected area in the past, but it seemed that more sophisticated production was starting in some countries. East Germany produced foam monitors, Poland was just beginning to do so and had also developed an HEF generator very similar to the Angus Turbex.

All types of extinguishers (including, more recently, BCF) were manufactured in Comecon. Poland and Hungary had plans to export to the West. East German extinguishers were noted in Czechoslovakia.

Once again, significant progress had been made in recent years, though some forms of specialised equipment were still not produced

domestically (e.g. large capacity BCF extinguishers, mobile foam units, foam trailers).

In general, these improvements in FFE production had been achieved at the expense of variety: in most cases, only one or two types of fire hose and foam compound had been developed, and there was a standardised range of extinguishers and foam-making equipment. While this had certain advantages (intensity of development, familiarity of end-users with products) it was also likely to result in a certain lack of flexibility, so that adequate protective equipment might not be available for certain specialised situations.

(ii) Imports-Motivation

It can be seen from the above that the East European countries were becoming increasingly self-sufficient in FFE. Some products were not produced domestically (or not in sufficient quantity) and had to be imported: some foam compounds (especially AFFF); some foam-making equipment, monitors, trailers; and covered fire hose.

Apart from this, the superior quality of Western products was the main incentive to import. This was obviously attractive to end-users, while there was also a certain prestige attached to having Western

products and being in contact with businessmen from the West. However, in view of the squeeze on hard currency, it was difficult to justify imports where Comecon equipment was of adequate, albeit inferior, quality. Thus, for example, although considerable demand for Duraline existed amongst end-users in Czechoslovakia, hard currency could not be made available because of domestic hose production. One way round this problem would be to engage in barter transactions, thereby reducing the hard currency outlay for the East European countries, and there was indeed pressure from the FTOs (e.g. Varimex, Soyuzchimexport) to buy from them in order to stand a chance of selling (see section (v) below). It seemed that the Fire Brigades rarely received permission to purchase from abroad; new factories, on the other hand, did tend to have currency provided to buy quality goods. Superior quality goods (and sometimes products made to foreign norms) were often required for projects undertaken by Comecon countries in third markets. In general, there had to be a special justification for importing superior quality FFE from the West; it was no coincidence, for example, that the only purchase of covered hose by the USSR was for the oil-producing region of Baku, where fire risk was probably high.

The drive towards increased production of FFE in Eastern Europe, coupled with hard currency problems, had also lead to a desire to enter into co-operation agreements with Western companies and to buy FFE technology (e.g. the Hungarian-West German agreement on extinguishers, Silvani's agreement with Vneshtekhnika, discussion on fire hose technology).

(iii) Imports from West

There had been something of a boom in Comecon imports in the seventies as Eastern Europe woke up to advances made in FFE technology in the West (while there may also have been alarm at the number of serious fires). However, imports seemed to be falling off as domestic production increased (as reflected, for example, in the declining trend noted in U.K. exports to Eastern Europe in the previous five years - see Appendix 6.C).

Certain Western companies had taken advantage of this situation by intensive, effective marketing. Rosenbauer (Austria), Total (FRG), Silvani (Italy), Werner (FRG) and 3M (USA) in particular had established very strong positions. They had developed extensive contacts, their products had become familiar in Eastern Europe, where there is little incentive to take the risk of 'experimenting' with alternative suppliers¹. In some cases, specifications had been written around the products of these companies, giving them a virtual monopoly of the market. Amongst other companies who had had some success in Eastern Europe were Chubb (UK), Preussag (Austria), Esser (FRG), Mandals (Norway), and Hoechst (West Germany).

1. It should be noted, however, that in certain cases there was a desire amongst FTOs to break the monopoly position of Western suppliers, notably of 3M (for AFFF). Angus could not take advantage of this because of patent problems on AFFF (See Chapter 6, section 6.1).

(iv) Angus Fire Armour: Position and Prospects

Angus sales in 1978-9 and outstanding quotations for 1980 were as follows:

Table 7.5.: Angus Sales to Eastern Europe 1978-9 and Outstanding Quotations for 1980

COUNTRY	INVOICED SALES 1978 (£)	INVOICED SALES 1979 (£)	OUTSTANDING QUOTATIONS FOR 1980 (£) ¹
BULGARIA	NIL	NIL	122,098
CZECHOSLOVAKIA	16,990	8,492	75,214
G.D.R.	1,023	314	NIL
HUNGARY	4,250	11,426	1,584
POLAND	4,864	9,305	121,317
ROMANIA	NIL	1,815	7,573
SOVIET UNION	NIL	1,082	1,965
TOTAL	29,127	32,434	329,751

NOTE (1): As at the end of December, 1979.

It should be pointed out that some of these figures (in particular the outstanding quotations for Bulgaria and Poland) referred to products offered to or ordered by U.K. companies, or by Comecon countries for use in third markets. The value of outstanding quotations was nevertheless encouraging, and indicated the scope for obtaining sub-contracted work.

In general, however, there were only limited opportunities for regular product sales direct to Eastern Europe. Angus had definitely suffered from late entry into the market. Not only had the East European countries become more advanced in their own production, but also, where they did import from the West, they tended to have familiar suppliers, putting Angus in a weak position. In Czechoslovakia, where Angus were already well-established, sales could be expected to be between £20,000 and £30,000 in a good year (excluding possible sprinkler sales), and there seemed little hope of a substantial increase in view of domestic productions and strong competition, particularly from Rosenbauer and Total. In the other countries the situation was similar, apart from the fact that the Company was not yet well established, and as we have seen, in order to gain a firm foot-hold a great deal of investment would be required, a level of expenditure not justified by the results that could be expected.

(v) Countertrade and Industrial Co-operation

The above discussion has painted a somewhat gloomy picture of the prospects for direct product sales. On the positive side, however, it must be emphasised that, although East European production had improved, Angus products were generally of significantly superior quality and enjoyed a good reputation. As far as was possible to judge from discussions with end-users, there was considerable 'frustrated demand' for quality products: fire brigades and factories would have liked to have quality products (in particular, covered hose, Turbex, AF100, foam compounds) but hard currency stringencies forced them to 'make do' with domestically-produced equipment.

One means of overcoming this obstacle was to consider the possibility of countertrade, of buying from Eastern Europe, thereby eliminating or partially eliminating their need to make scarce currency available for the purchase of non-priority FFE. As noted above, there was pressure from FTOs towards this type of arrangement. The possibility of buying raw material inputs for Angus products was a possibility to be investigated. For example, the Russians had in the past offered hoof and horn meal (used in the production of protein foams); Polish hose was being offered at prices below Angus production cost for equivalent hose - the possibility of marketing this hose in Europe in exchange for sales of quality covered hose to Poland could be considered.

The East Europeans' obvious efforts to improve the quality of their own production of FFE could also be seen as an opportunity. Angus could capitalise on this and the trend for 'industrial co-operation', and help the East European countries develop this production with mutual benefit. The Soviet Union certainly intended to start covered hose production, but had indicated that it was interested in a more complex arrangement than the straightforward purchase of the technology, in particular wishing to use a domestically developed jacket in the process. Willingness to enter into a more complex agreement would give some advantage over the main Western competition, Mandals. The Poles had expressed interest in co-operation in the production of foam compounds (though precisely what form this could take remained unclear), while their interest in Angus continuous vulcanisation (CV) linings also offered possibilities for co-operation on hose production. Such arrangements could be expected to put the Company in an advantageous position for spin-off product sales.

These ideas were only examined tentatively, because the Company's attitude towards business other than straight product sales had remained unclear (see Chapter 8). In general, though, it can be said that the East European countries (with the possible exception of Romania and Bulgaria), given their hard currency constraints and the protective nature of their import system, were too 'developed' for large quantities of direct product sales to be possible: they had sufficient know-how to produce most types of FFE, albeit of inferior quality. In this situation, countertrade and industrial co-operation seemed to offer the best chances of success.

(vi) Fixed Fire Protection Systems

Visits to Eastern Europe confirmed the desk research findings that there were good opportunities for fixed fire protection systems. Prospects for sprinklers were particularly bright in Czechoslovakia, where (according to Tradex), imports of over 600,000 heads were planned for the next five years. However, as already noted, there were internal organisational obstacles to exploiting this opportunity (these are discussed in greater detail in Chapter 8).

(vii) Opportunities and Constraints

The picture of the market that emerged can be briefly summarised as follows:

On the positive side, the total market size was large: Angus products were generally of superior quality to those produced domestically; in Czechoslovakia and the Soviet Union Angus were well-known and enjoyed a good reputation; the Company had established contacts with most of the relevant FTOs in the other countries, and a good understanding of the way the FFE import system worked had been developed.

Acting against these were several important constraints:

- Domestic production of FFE had progressed and was improving rapidly.
- The foreign trade system by its nature restricted imports. This was aggravated by the hard currency shortage, forcing end-users to 'make do' with domestically produced FFE where at all possible.

- Where imports were necessary, several Western competitors had already established strong positions.

- Possibly the best opportunities appeared to lie with forms of business other than straight product sales, and with fixed fire protection systems, but there were obstacles within the Company in both cases.

- A particularly large number of organisations were involved in importing FFE, and in order for Angus to make progress, demand would have to be stimulated amongst end-users, so that effective sales promotion would demand a considerable investment of time and money.

7.3. Strategy Recommendations

(i) Choosing the Strategy

Three possible strategies for the Company's future operations in Eastern Europe were considered in the light of the findings described above:

- (i) Full-scale developments of the market in all East European countries for all products;
- (ii) Complete abandonment of the market;
- (iii) Selective but intensive pursuit of known opportunities.

The main consideration in choosing between these strategies had to be profitability. The first option could be rejected because the market constraints (in particular: improving East European production, Western competition, and hard currency shortages) were considerable, and it was judged that the large promotional expenditure the strategy would entail would be unlikely to be justified by sales. The option of abandoning the market completely was also rejected, because the Company was doing some business with Eastern Europe, and there were some opportunities which, it was felt, could be profitably exploited. The most important of these were:

- Continued sales to Czechoslovakia.
- Hose technology and covered hose sales to the Soviet Union.
- New foam compounds¹, especially AFFF to Romania.
- Investigation of industrial co-operation, especially in Poland.
- Consideration of increased sales through countertrade.
- Sub-contracted business via Western companies.
- Sprinkler sales, especially to Czechoslovakia.

It was therefore recommended that the option to be followed was that of selective but intensive pursuit of known opportunities; at the same time, it was strongly recommended that the Company should be able to react swiftly and positively to any new opportunities that arose as a result of the wide range of contacts that had been established or through the monitoring of published information on East-West trade that was now regularly received. It was considered that, given such a strategy and its proper implementation, the sales and profitability could be expected to correspond to the figures given in Variant 1 of Table 6.D.5; that is, an average sales turnover approaching £200,000 per annum.

The suggested strategy was formulated as follows:

To pursue the limited openings that have already been identified, and to follow up swiftly new opportunities as they arise.

1. New foam compounds, including a newly-formulated AFFF, were due to be released by the Company in early 1980.

This implied a principle which we have already mentioned but which deserves stressing again: that sales activity should be directional - countries should be visited only when there was a specific issue to discuss or promote. However, when such a pretext did arise, the Company should be prepared to respond with speed.

(ii) Implementation

To implement this strategy, the following action was suggested for 1980:

- Czechoslovakia: two visits, the first to meet end-users, the second to include participation at the Ostrava specialised exhibition.
- Soviet Union: keeping alive communications on the sale of covered hose technology by, if possible, receiving Soviet specialists at Bentham.
- Poland: a visit in May to discuss the possible sale of Duraline to the Plock refinery; this opportunity to be used to visit other end-users.
- Romania: sending of samples of new foams for testing, to be followed by a visit.
- Sub-contraction: more active pursuit of Western companies awarded construction contracts in Eastern Europe.
- Sprinklers Department: to be encouraged to take greater interest in Eastern Europe.

- Industrial
Co-operation &
Countertrade:

the company's attitude to these forms of business to be clarified and, if positive, concrete proposals to be made, especially in Poland and Czechoslovakia.

Other new opportunities, it was suggested, should be pursued positively and efficiently. If, for example, a large (and obviously serious) enquiry from an FTO was received, the Company should be prepared to visit the country concerned without hesitation, and to use this opportunity to keep in touch with developments at other FTOs and on other products, as well as to make new contacts with potential end-users. In this way the door would also be left open for those countries (i.e. Hungary, Bulgaria, East Germany), which did not at the time justify a visit, to be 'reactivated'. The Company should also be prepared to hold a symposium if sufficient interest was expressed in a particular product (e.g. low temperature hose in the Soviet Union), and this again should be used as an opportunity to make new contacts with potential end-users.

Recommendations were also made on pricing policy, and on organisation for sales.

(iii) Pricing

This always proved a difficult issue. It was often impossible to judge when the order from a particular enquiry might be placed. Validity limits tended to be ignored by the FTOs, who preferred to disregard

inflation: the initial price given was used for planning purposes, and when the time actually came for purchasing, they expected the same price to be valid. It was for this reason that FTOs often requested, in the spring of one year, prices valid for the whole of the following year. This was obviously difficult, given the unpredictability of inflation, but it was suggested that Angus should endeavour to comply. The uneasy course to steer was between over-inflated prices which mean that Angus are rejected in favour of competition and prices which lead into unprofitable business as inflation catches up.

FTOs expected to be given some price reduction - between 5% and 10% was normal - and this should always be allowed for in the initial quotation. The personnel at FTOs were judged on their ability to negotiate good commercial terms: they therefore wanted to be seen to obtain a discount, the larger the better.

The level of profit aimed for had to depend, in each case, on the Company's judgement of its competitive position. In order to break into a new market it might be justified to make very little profit or even a loss on the first order. Whenever special reductions were given, however, it should be made quite clear to the FTOs what the normal selling price was, and why a reduction was offered in this case.

In general, then, a flexible pricing policy was suggested (in line with the Company's approach in other markets), but one which followed clearly-defined objectives.

(iv) Organisation for Sales

As for the internal organisation, it was recommended that all dealings with Eastern Europe should continue to be concentrated in one specialised department. The establishment in mid-1979 of such a department had been a significant development: the dispersion of energy and lack of communication that existed under the system of product units was replaced by a far more concentrated, efficient organisation. This made matters easier for East European organisations, who knew immediately whom to contact at Angus, while the service they received was quicker and more informed. The flexibility to visit an East European country at short notice was also required, and it was felt that this, too, would be facilitated if responsibility for the area clearly lay with a specialised department. It was anticipated that the work involved would require one salesman to be occupied full-time on Eastern Europe.

Further recommendations for organisation related to increasing the efficiency of communication within the Company. One problem was that matters arising from visits to Eastern Europe often required decisions of a strategic nature to be taken. Such decisions had to be taken at a senior level, but communication links between the East European department

and senior management were too distant, inhibiting speedy reaction to business opportunities, and it was proposed that efficiency would be increased if the East European department were made directly responsible to the Export Director. The need for improved co-operation with the sprinkler department and with Dunlop was also stressed.

The general need for greater communication and coordination within the Company and with Dunlop is discussed in more detail in Chapter 8.

7.4. Conclusion

A clear 'yes' or 'no' was originally hoped for in answer to the question of whether or not there was a market for Angus products in Eastern Europe. It transpired that the issues were not so straightforward, and, in effect, the answer was 'yes, but.....'.

We have seen the special problems posed by the import system in Eastern Europe, and that the ideal way forward would be through intensive marketing with the aim of stimulating demand amongst end-users. However, in view of the state of domestic production and entrenched Western competition, the cost involved was not justified when we assess Angus prospects realistically.

Nevertheless, in some specific areas, there were chances of success, and for this reason it was suggested that Angus should not abandon

Eastern Europe altogether. A low-key but carefully directed policy was therefore proposed; if carried out, it was believed that steady sales on a modest level could be generated, giving the base from which large-scale business could be built should the opportunities arise.

CHAPTER 8: PROBLEMS OF ADAPTATION TO EASTERN EUROPE

The previous two chapters have concentrated primarily on the conditions of the East European market for FFE, and the opportunities and problems these represented for Angus - in other words, attention has been focussed on the external environment. In this chapter, we turn to the environment within the company and examine how this affected efficiency in selling to Eastern Europe.

8.1. The Company's Attitude Towards the Project

The very fact that the company decided to set up a project on Eastern Europe shows that the need for a clear assessment of the market was recognised, and that the company acknowledged that Comecon represented something of a special case. It also indicates that the market was taken seriously by the export director and export manager (who were responsible for initiating the project). It must be said that at all stages encouragement and support were given, and that there was a positive attitude towards the project throughout. On a personal level, the atmosphere within the company was friendly, and help was generously given during the initial period of adaptation.

There was, then, no lack of individual willingness to help. That problems of adaptation to East European conditions arose - as described below - must therefore be blamed not on any individual shortcomings, but on organisational barriers and a company 'culture' which inhibited individual talent and goodwill from working together.

8.2. Operational Difficulties

On a day-to-day level, problems were created by particular demands of East European customers. For example, FTOs generally wanted as much 'technical information' as possible on the products being offered. Little attention would be paid to a leaflet and accompanying letter, which was the standard form of promotional correspondence in the company's other markets; East Europeans wanted more (bulk often seemed to be more important than quality), a large package of technical data offered reassurance and ensured that the matters would be given due attention. The problem was that this sort of data was not readily available within the company, and preparing a suitable 'package' involved time-consuming research and chasing various departments for documentation. One instance of this was the attempt to compile technical material on Angus AFPF foam compounds for Romania, involving several weeks work with unsatisfactory results. Our competition (3M), on the other hand, had a substantial booklet ideally suited to East European thirst for technical documentation.

Pricing posed similar problems. As mentioned in the previous chapter, FTOs tended to demand prices fixed for a whole year, but it was virtually impossible to obtain firm factory prices from Bentham even for six months ahead. Indeed, an attitude of extreme suspicion developed between the East European department at Thame and the Bentham works, with the former demanding written confirmation of any 'long-date' price quoted by the latter, fearing that the information was not reliable. Breaking with established procedures thus proved a

taxing business, and the special needs of the East European department were met with little sympathy by those whose cooperation was required.

While such operational problems were irritating, they were secondary when compared to the more fundamental features of company organisation which inhibited the whole approach to Eastern Europe.

8.3. Lack of Internal Coordination; Communication; Short-Term Management

The first of these was the lack of coordination between different departments within the company. This was at its worst while the export department was organised by product units. Coordination of the activities of the various product units in Eastern Europe was virtually non-existent, as the problems in compiling the first report for the project revealed (see Chapter 6). Moreover, individuals were concerned primarily with the success of their own section rather than the company as a whole, and spheres of responsibility were jealously guarded - my own arrival caused ripples of concern amongst those dealing with Comecon in the various product units. Lack of coordination can partially explain the company's failure to follow up its initial approaches to the market: with responsibility dispersed between several departments, no single person took it upon himself to concentrate on Eastern Europe and pursue the market actively.

The situation improved considerably with the setting up of a department to handle all business with Eastern Europe, but 'company politics' continued to be a problem. In particular, the sales organisation for sprinklers and fixed installations remained separate, causing friction with the East European section. Thus, for example, the latter was not interested in selling sprinklers to Czechoslovakia unless it received some credit for it - sprinkler department did not contribute to travelling expenses, and any sale would not appear in the figures of the East European department. Nevertheless, when visiting the country, discussions on sprinklers inevitably featured prominently in the programme, the result being that the East European section resented doing the work for another department without any reward. In addition, the inactivity and inefficiency of sprinkler department in dealing with Czechoslovakia (partly due to its lack of specialised knowledge of the country), concerned the East European department, since this was seen to damage the prospects of selling loose equipment. The suggestion that the organisational barriers between the departments could be relaxed with regard to Eastern Europe, however rational, was seen to be unworkable¹. Evidently the idea that 'after all, we are one company, and should all work together' was in practice true only for senior management responsible for all departments, while at lower levels concern was only for the success of one's own section. There was a similar lack of coordination with HCB Angus, and interdepartmental barriers can also be blamed for difficulties experienced in drawing up a list of input requirements that might be used in countertrade.

1. The suggestion was that the East European department should act as agents for sprinkler sales.

Secondly (and related to the above), poor communication within the company aggravated frictions and inhibited efficiency. 'Nobody tells me anything' was the constant refrain of one long-serving manager. In particular, communication between management and sales staff was poor; an example of this was the failure to inform the sales staff of discussions on the sale of hose technology to the Soviet Union.

The most damaging feature of company management, however, was the tendency for immediate problems to inhibit the development of long-term strategy. There was always a crisis which prevented discussion of important policy decisions. Thus, for example, the 1979 Exhibition in Moscow raised issues which required the attention of senior management (company policy on barter trade, pricing strategy, the approach to be taken on the sale of hose technology); a meeting with the board was arranged to discuss these issues, but was postponed because more urgent matters had arisen. The meeting never took place, and despite repeated efforts, a firm statement of company policy on countertrade and industrial cooperation was never obtained. Lack of budgeted follow-up to Exhibitions was another illustration of this short-term management.

8.4. Consequences

These features combined to make effective marketing to Eastern Europe particularly difficult. Customer service suffered: the

general speed of decision-making and reaction to enquiries was slow due to departmental barriers and poor internal communication, while FTOs found it hard to understand that the Angus sales representative did not speak for all parts of the company. Uncertainty as to company attitudes towards forms of business other than straight product sales inhibited the scope of business discussions: initiative on, for example, countertrade could not be taken for fear that this would meet with disapproval back home, while reactions to similar proposals made by FTOs had to be non-committal. More important still, crisis management inhibited formulation of long-term strategy, which, as we have seen, is essential for Eastern Europe.

8.5. Lack of Coordination of Dunlop's East-West Trade

Lack of coordination with regard to Eastern Europe was not confined to Angus Fire Armour, but could be observed in the Dunlop organization as a whole. Five (at least) Dunlop divisions had dealings with the same department ('Sovkauchouk') of the Soviet FTO Raznoimport, yet there was no coordination of their activities. Angus Fire Armour was not informed when a representative of, say, Dunlopillo was to visit Moscow - if it were, hundreds of pounds could be saved simply by asking the Dunlopillo man to mention fire hose, gauge current interest and relay any messages - thereby keeping the momentum going. Naturally, if technical issues on fire hose needed discussing, an Angus representative would have to go to Moscow (in

which case he could reciprocate the services rendered by Dunlopillo), but at a basic 'keeping-things-ticking-over' stage, coordination of this sort would seem to make a great deal of sense.

In addition to savings on travelling expenses, much could be gained by coordinating sales and purchases to Eastern Europe: smaller members of the Group such as Angus would be given considerable bargaining leverage thereby. Centralised market research and exchange of information gathered by salesmen on visits would again benefit smaller divisions, which could otherwise not afford extensive, time-consuming desk-research. Furthermore, smaller divisions would profit from the contacts already established by Dunlop; access to influential people becomes easier the larger a salesman's 'portfolio'; Comecon organisations tend to be impressed by size; there is the possibility of coordination (and economy of costs) at trade fairs and symposia; there could be coordination in the use of agents, thereby ensuring better service from them; and a closer-knit 'team' of Dunlop East-West salesmen could benefit from an exchange of expertise and experience.

Altogether, then, the case for some form of coordination between Dunlop divisions in their trade with Eastern Europe - be this in the form of a central coordinating office or simply through formal information links - seemed overwhelming. Yet, from what I could observe from my position at Angus, there was very little such

coordination, apart from the activities of Dunlop International Projects (DIP) for large-scale sales of technology. (DIP were involved in discussions on the sale of covered hose technology to the Soviet Union). This 'atomisation' of the Group's presence in the Soviet Union was criticised by its Moscow agent, Novasider, and contrasted with the more unified approach of Dunlop's 'sister' company, Pirelli.

What prevented coordination? The causes were, apparently, the same as those observed within Angus, only on a larger scale: company politics, sectional interest, and jealous guarding of spheres of responsibility. The most depressing aspect was that these attitudes were so deeply ingrained that suggestions of commonsense rationalisation were countered with a resigned acceptance of the impossibility of change: 'What you say makes sense, but you'll never get it to work...'

8.6. Conclusions

In the Angus case, it was clear that top management involvement would be required in order to arbitrate over interdepartmental conflicts, pronounce company policy on 'unorthodox' forms of business, and generally ensure the backing for the intensive investment Eastern Europe demands. Only top management, moreover, could assess the opportunities in Comecon in the context of the company's overall opportunities, and therefore assess its priority. The problem was that time was never given to discussion of these issues: I believe that much could have been achieved simply by meetings between all

concerned, but such meetings never took place.

The sort of difficulties described above no doubt affected the company's dealings with all areas, but I would argue that they were particularly damaging for Eastern Europe, because of the need for a long-term strategy and the need to consider countertrade and industrial cooperation as 'marketing tools'. Doubtless, too, problems were aggravated by the fact that Angus was going through hard times, while communication breakdowns can be partly attributed to the transition of a small 'family' company into a medium-sized company which needed to develop formal communication systems. Nevertheless, the fact that similar features were observed in the Dunlop Group as a whole suggests that Angus represents the rule rather than the exception.

This leads to an important conclusion: that efficiency in East-West trade suffers not only because of the shortcomings of central planning, but also because of the difficulties experienced by Western companies in adapting to conditions in Eastern Europe. Most marketing guides concentrate on the strategies Western companies should adopt, but scarcely refer to the practical problems of implementing such policies. In general, the Angus/Dunlop experience illustrates how important internal considerations are when tackling the East European market, and adds a complex set of variables to those already examined in the literature: after examination of the

conditions of the East European market, the 'rational' strategy may not be workable due to the environment within the company itself. East European rigidity is often contrasted with the flexibility and adaptability of private enterprise. As a broad generalisation, this may be true, but the experiences discussed above suggest that, in practice, there are interesting parallels between East European departmental barriers and 'crisisphilia', and the real obstacles to efficiency in Western companies.

CHAPTER 9: ASSESSING THE ANGUS CASE

The research undertaken for Angus Fire Armour is assessed from two perspectives in this chapter. First, we consider what was achieved for the Company, and at what cost; secondly, we discuss the more general significance of the Angus experience, the insight it gives into the problems of marketing to Eastern Europe (particularly with regard to market research), and how it confirms or contradicts what has been written in published marketing guides.

9.1. The Company Perspective: What Has Been Achieved?

As discussed in Chapter 5, measuring progress in Eastern Europe is not simple. Ultimately, success must be judged by profits, but in the shorter term, other indicators - such as the number and importance of contacts made, the degree of interest shown in the company, its reputation - may be the prime measure of 'progress' (See Basche, 1974). The current research must be assessed largely in such qualitative terms, though some quantitative evaluation is also possible.

(i) Qualitative Progress

The research provided answers to the questions posed at the outset, even if the findings were less comfortingly simple than had originally been hoped. Comparing the company's position in Eastern Europe at the

commencement of research with that at the end, progress had been made on the following counts:

- The complexity of the FFE import system had been clarified so that the company no longer risked missing business through failure to contact the right FTOs.
- Knowledge of East European FFE production had significantly improved: the general technical level of production had been established, along with a clearer idea of where strength and weaknesses lay.
- There was a clearer understanding of the degree of priority afforded to FFE, and of the constraints resulting from hard currency shortages.
- The major Western competition had been identified, and the degree of its penetration gauged.
- New contacts had been made, old contacts revisited, and in general the company's presence in the market sustained.
- A department with specialised knowledge had been set up to deal with Eastern Europe.
- It had been clearly established how future promotional effort should be directed in order to progress further.

In general, a solid base of knowledge had been built up, and proposals made on future company strategy towards Eastern Europe.

(ii) Quantitative Progress

Sales to Eastern Europe in 1980 reached £100,000; this represented a 300% increase compared with the previous two years. Meanwhile, there were outstanding quotations for 1981 to the value of £400,000 (compared with an equivalent figure of £330,000 the previous year), indicating that this higher level of sales was likely to be maintained.

To some extent at least this success must be attributed to the concentrated attention Eastern Europe received as a result of this research. The broad principles of the suggested strategy were adopted. In addition to (and, no doubt, as a consequence of), improved sales, there were indications that the company was developing a more positive attitude towards the market, and was becoming more open to the possibility of some form of industrial cooperation.

It would be dangerous to judge success in Eastern Europe on the basis of one year's results. Much will depend on the company's readiness to maintain momentum in the future. The marked improvement in sales achieved in 1980 should encourage it to do so.

9.2. The Cost of the Research

The cost to the company of the work done on this project was approximately £15,000 (comprising salary paid to myself, travelling

expenses, and a generous allowance for administrative costs). This figure covers the considerable amount of promotional work undertaken in the course of the project, including the total cost of the Moscow Exhibition, and the visits to Hungary, Vienna, Czechoslovakia and Poland. When the additional costs of all other work on Eastern Europe undertaken by the company in the same period are taken into account (I do not have access to data, but it is likely that the total would be at least a further £15,000), then sales of around £130,000 in 1979-80 leave little or no net profit. Sales have probably been just sufficient to cover expenses.

9.3. Evaluation from the Company Perspective

The original objective was met and there are signs of concrete improvement as a result of the research. Given the 'multidirectional' approach that the research entailed and the extensive nature of the Angus product range, it is unlikely that the required information could have been obtained other than by concentrated research undertaken from within the Company.

The East European market may not yet be profitable for Angus, but this is normal in the start-up period. The important point is that the gradual losing of money due to the sporadic, non-directional approach that had previously been employed had been stopped, and a base on which future, profitable business could be built had been established.

9.4. Wider Implications of the Angus Case

It is of course necessary to be cautious when generalising from the Angus case. The particular experiences and problems encountered may not necessarily be shared by other companies; Angus represents one very small sample of East-West trade activity. With this reservation in mind, however, it is nevertheless possible to draw some conclusions of a general nature. Indeed, there are several features of this particular case study which distinguish it from others (e.g. those by Basche, 1974; Hayden, 1976; Hill, 1978), and give it special interest:

- The Degree of Detail. The present study is more detailed than most published cases, which enables a more realistic impression to be given of the complexities of marketing to Eastern Europe.
- The Size of the Company. The majority of published studies are of large, often multinational, companies; few concentrate on the experiences and problems of small- and medium-sized companies.
- The Nature of the Product Mix. Angus products are used in many industries and several different types of product come under the generic term 'fire fighting equipment', giving rise to demarcation problems - hence interesting marketing issues.
- The Stage Reached by the Company. Most case studies are of companies that have achieved a measure of success in Eastern Europe. This study is concerned with the early progress of a company for which success in the market is by no means guaranteed - a less spectacular but equally valid perspective.
- An Inside View. Since the research is undertaken from a position within the Company, there is an unusual opportunity to observe and analyse the internal problems of adapting to and organising for Eastern Europe.

The link with Dunlop also gives the case a broader dimension. In general, therefore, the study of Angus Fire Armour can raise interesting issues and presents some new perspectives on the problems of trading with Eastern Europe.

9.5. Market Research and Strategy Formation for East European Markets

The Angus case is concerned principally with the problems of the initial stages of a campaign in Eastern Europe, with researching the market and developing a strategy for sales promotion. This is probably the most difficult phase of all, since it is the period of greatest uncertainty when sales alone do not yet justify the intensive campaign the market demands. Once some success has been achieved it becomes easier to win approval for further visits and promotional activity, which in turn is likely to generate more business; success, in other words, breeds success, and the campaign takes on its own momentum. What general conclusions emerge from the Angus experience of this difficult period before a momentum has been established?

In his study of the value of desk research for the Soviet machine tool market, Hill comments: "Additional studies are required on other product types to assess the overall scope of Soviet published information". (Hill, 1979; p.283). This research presents one such study¹; it focuses on products which are less 'mainstream' than machine tools, and it therefore provides an interesting comparison.

1. It should be noted that in the present case the task is wider, with all Eastern Europe to be investigated, not just the Soviet Union.

Not surprisingly, the scope for desk research was found to be more limited than in the case of machine tools. The main reasons are:

(i) Lack of Previous Studies. For machine tools, a number of Western academic studies exist on the state of the industry in the Soviet Union, as well as official Soviet reports, which provide valuable information for assessing import demand. The same is true for many other 'mainstream' product categories, and in some cases detailed market assessments already exist¹. No such information exists in the case of fire-fighting equipment, which, in this respect, can be taken as typical of products which do not fall into 'mainstream' categories.

(ii) Limited Statistical and Five-Year Plan Information. Again because FFE is not a 'mainstream' category, trade statistics were found to be only of limited value, due to the insufficient disaggregation of product classes. Similarly, no information on FFE production is given in Soviet statistical publications, nor is there any detailed mention in Five-Year Plans². Moreover, FFE cannot be as readily linked to expansion plans for particular industries as, say, machine tools.

1. For example, Stein (1974) on computers, and Borissoff (1974) on polymerisation processes and related production equipment.
2. Insufficient disaggregation of statistics was also found to be an obstacle in the case of machine tools, but the problem is even more acute in the case of FFE.

Despite these apparently unfavourable conditions, desk research was found to be of considerable value even in the case of fire-fighting equipment. Multiple factor analysis; East European official publications; the East-West trade press; tentative indicators from national plans; trade statistics; and specialised international exhibitions - all these approaches combined to give a valuable background picture of the market. In addition, as we have seen, general reading on the East-West trade environment was essential, and can be viewed as an integral part of desk research. Our first conclusion, then, is that desk research is useful even in the case of products which do not appear as main headings in official publications, while the research methods used will differ in emphasis according to the products in question.

Even with machine tools it was found that desk research would have to be supplemented by field research in order to gauge in detail the potential for specific products. This case supports Hill's findings - and also the conclusion reached from our review of the literature (see Chapter 5, section 3.ii) - that while desk research can be useful, it is not to be relied upon alone. Gaps in knowledge must be filled in, desk research is unlikely to provide information on the possibility of stimulating demand, and - a less tangible but arguably the most important point - it is no substitute for the 'feeling' for the state of demand and planners' priorities that can be acquired through direct contacts with East European officials. Thus, the second important conclusion about researching East European markets is that a multidirectional approach is indeed required, combining both various methods of desk research and field research.

The third major conclusion to be drawn from the Angus study is that the objective of research should be to reach a clear decision as to whether or not to proceed with a promotion campaign in Eastern Europe (go/no-go decision)¹. This is because, as we have seen, an effective campaign involves considerable expense over a lengthy period of time; what is to be avoided is an unproductive compromise: a level of activity sufficient to sustain interest in the market, but insufficient to generate volume sales. The point must be reached, therefore, where a choice is made between abandoning the market - at least for the time being - and launching a major sales campaign. The dilemma is that the uncertainties involved in researching the market make it extremely difficult to take such an important decision.

With these points in mind, we can develop a model showing the general pattern of market research leading to strategy information in Eastern Europe. The model presents the different types of research which can be used to build up a picture of the market. The various methods are designed to establish: (i) the nature of the East European marketing environment and what effective sales promotion will entail; (ii) the company's competitive position against other Western firms; and above all, (iii) the level of priority attached to the products in question: what is the possibility of hard currency being allocated for their purchase, and, if such allocation is not planned, what are the prospects for stimulating sufficient interest? The purpose

1. The Angus case thus lends support to a similar point made by Zentner (1972).

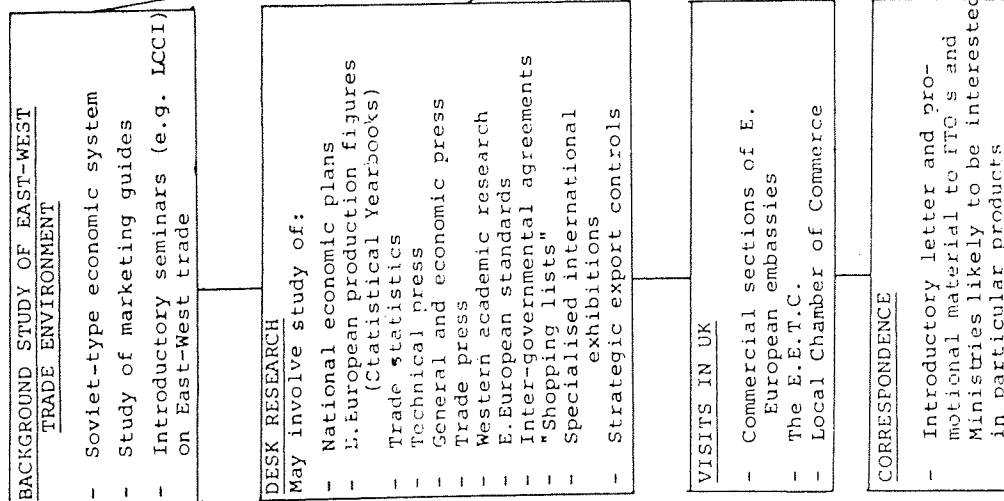
and scope of the different techniques have been described above (in Chapter 5, section 3ii, and in Chapter 6); what the model does is to group these together in an organised form and present a clear picture of the overall pattern of research.

It must be stressed, in the light of the discussion above, that there can be no single approach valid for all companies in all situations. Much will depend, for example, on how the company's interest in the market is stimulated, (is it the company's own initiative, or does the impetus come from an enquiry from an East European FTO or research institute?); and on the nature of the products in question ('mainstream' or otherwise: is it mentioned specifically in five-year plans? how informative are trade statistics? etc.); and on the resources available to the company. Such factors will influence the relative importance of the various elements in the model, which should, therefore, be viewed as a flexible framework which must be adapted to specific circumstances.

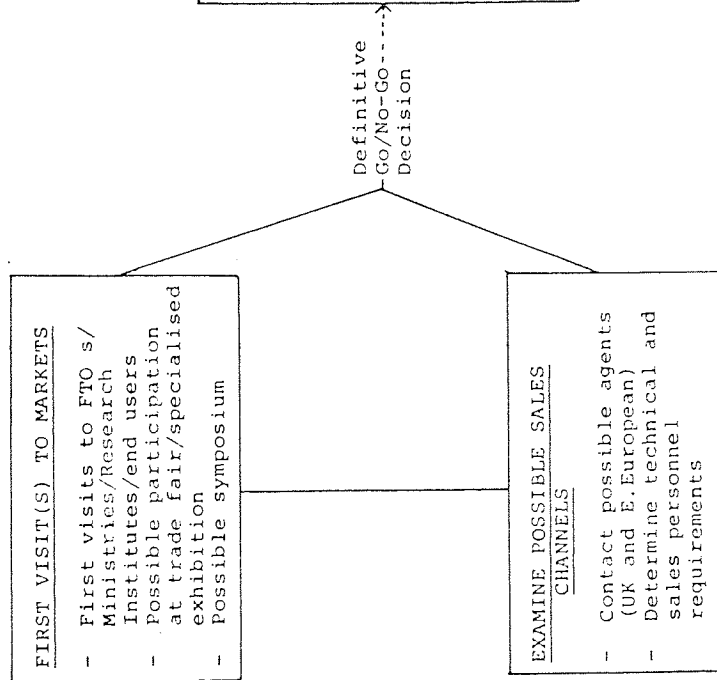
Assuming that a company undertakes its own research rather than commissioning a study from an outside body, the general pattern of research leading to strategy formation might look as follows¹:

1. The model is based on the experience of the Angus case coupled with the views expressed in the relevant literature (see Chapter 5, section 3ii).

Stage 1 : Preliminary Research



Stage 2 : Field Research



Stage 3 : Promotion Campaign

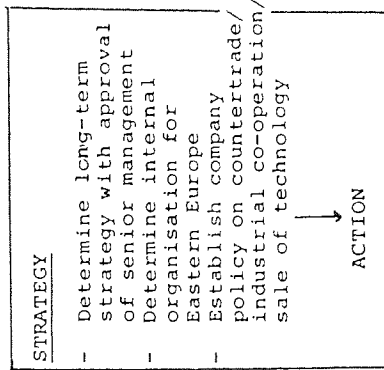


Figure 9.1. : A Model of Market Research leading to Strategy Formation in Eastern Europe

Research is divided into two stages: preliminary and field research. Preliminary research is conducted in the U.K. and can be undertaken relatively cheaply. The only significant cost involved is company time - this will tend to mean that the amount of research (especially desk research) undertaken will vary according to the size and resources of the company. Special emphasis is placed on study of the East-West trade environment. The information gathered at this stage should provide a preliminary idea of market potential, and if the indicators are overwhelmingly negative the decision can be taken to abandon the market before further expense is incurred. However, even an apparently negative picture may be misleading: priorities may be about to change, references to the product in question may simply not appear in printed sources, the market may be responsive to an aggressive sales campaign even if it shows no active interest etc. In all probability, the picture will be far from complete, and it will be necessary to proceed to the second stage of research before strategy decisions are made.

Field research involves greater cost, but can still be carried out quite economically. The action taken may depend on the results of the preliminary research: are there definite contacts to follow up, have the FTOs arranged meetings with end-users, have there been requests to test products etc.? If the response at the first stage was very positive, a company may consider straight away exhibiting at a trade fair or giving a symposium, which would have the advantage

of introducing them to a large number of contacts. In any case, the aim should be to meet as many relevant people as possible, and thereby piece together a relatively confident picture of market potential: Having done so, the definitive go/no-go decision must be taken, since if a promotion campaign is to be launched (stage 3) a significant long-term investment is likely to be required for such a campaign to be effective.¹ The question of internal organisation for Eastern Europe must be examined, and company policy on forms of business which are likely to come into question - such as countertrade industrial co-operation, and the sale of technology - clearly established by senior management.

It should be stressed again that this model is intended to provide a flexible framework for research and strategy formation. Different companies in different circumstances may find one or other channel of research particularly productive, and may not follow the model strictly chronologically - for example, field research may be undertaken concurrently with, or even precede, desk research. It is, however, considered that the main features of the model will be relevant to most companies: the importance of background study on East-West trade, a multi-directional approach to research, and the need to reach a firm go/no-go decision after preliminary and field research.

1. A 'no-go' decision does not necessarily mean abandoning the market forever, but may involve a decision to review the situation again at a later date.

9.6. Confirmation of Major Points in Marketing Literature

As well as in the specific area of market research, experience at Angus tended to confirm most of the major points made in the marketing guides. Thus, the following features, repeatedly stressed in the literature, were found to hold true in this case:

- The need for intensive marketing in Eastern Europe.
- The need for a committed, long-term strategy.
- The need for high level company backing.
- The importance of considering alternatives to direct production sales (e.g. countertrade, industrial co-operation etc.).
- The importance of personal contacts.
- The advantages of centralised co-ordination of a company's activities in Eastern Europe.
- The uncertainty of the East European market: long time lags, 'lumpy business', and the difficulty of forecasting demand accurately.

Many other points referred to in the literature were also reaffirmed: the problems arising from the separation of FTOs and end-users, the difficulty of locating the latter, and the general frustrations caused by the bureaucracy of the system; the advantages of sending senior executives to Eastern Europe; the importance of trade

fairs and symposia for promotion; the poor response rate to written correspondence and the consequent need for direct contact. These have been discussed above and need no further elaboration.

On the basis of the Angus experience, then, there seems no reason to question the established views on the broad problems facing companies when marketing to Eastern Europe.

9.7. Limitations of the Marketing Literature

At a more detailed level, however, the Angus case exposes several areas which receive insufficient attention in published guides; taken collectively, these tend to undermine the practical value of such marketing aids.

(i) Company Strategy and Organisation for Eastern Europe. As discussed in Chapter 8, conditions within a company can impede strategy formation, hinder efficiency and increase frustration in dealing with Eastern Europe. Thus, for example, it is simplistic for marketing guides to state that a long-term (i.e. 2-5 year) strategy is needed, without considering the very real problems which may be encountered in having such a strategy approved and implemented.

(ii) The Complexity of the Foreign Trade System. Most marketing guides refer to the frustrations arising from the foreign trade system, but the Angus case suggests that the system can be still more complex and

present the exporter with more problems than is generally supposed. The point is that, in practice, the system may not work as it is meant to - particularly in the case of the FTOs, where it was found that the division of product responsibility did not correspond to the view of the system expressed in published guides and by official bodies.

(iii) Gifts and Bribery. This subject, for understandable reasons, is either ignored or treated in passing in marketing guides. Yet experience and observation of doing business in Eastern Europe underlined the extreme importance of gifts as an essential element in many meetings and, in some cases, a prerequisite for obtaining an audience. The research suggested that in determining how decisions are really made, what is actually imported and from whom, gift-giving and bribery play a major role.

Taken in isolation, each of the above points is important; collectively, they are of even greater significance. They indicate that many of the real problems likely to be met when marketing to Eastern Europe are either unanalysed in published guides or concern unpredictable departures from the 'conventional' view of the system. Marketing guides present an ordered, organised depiction of the problems, involving, of necessity, great simplification of reality. A detailed case study, however, (itself necessarily simplified and knocked into 'logical' shape) highlights the complexity of the environment in which the businessman must operate.

This carries important implications for the practical value of existing marketing guides. It may be, however, that the Angus experience is not typical. With regard to the division of FTO responsibility, it is possible that Angus is exceptional due to the nature of its products (not 'mainstream', and used in many industries); and the Angus case provides no firm evidence as to the precise importance of bribery and gift-giving. Therefore, in order to investigate how typical the Angus experience was in these respects, and in order to fill a perceived gap in the existing literature, it was decided to conduct further research into the questions of FTO responsibility, and of bribery in East-West trade. This research is described in the following three chapters; discussion of the full implications of the points raised above is reserved for the concluding chapter, once the representativeness of the Angus experience has been established.

CHAPTER 10: THE MONOPOLY POSITION OF EAST EUROPEAN IMPORTING

ORGANISATIONS: A SURVEY OF UK COMPANIES' EXPERIENCE

The division of responsibility between FTOs for fire fighting equipment imports was found to be complex and to differ from the view of the system presented by marketing guides and official bodies. In order to assess the representativeness of the Angus case, a survey was conducted of the experience of other UK companies in this respect, and the findings are described in this chapter.

10.1. The Survey: Background and Aims

Under the traditional Stalinist model of foreign trade, in theory at least, an exporter should find that one FTO has a monopoly right to import a particular product, so that all sales will be filtered through one organisation (see Chapter 4, section 4.3ii). In 1971, in view of the changes taking place in this traditional system - notably the granting of foreign trade rights to certain large enterprises or industrial associations, and the increased control of industrial ministries over FTOs in some countries - an UNCTAD/GATT report predicted that, "Foreign exporters will find that ... they will have to intensify their sales efforts. Not only will the total number of potential buyers for their products multiply, but each buyer will be approached by increasing numbers of foreign suppliers." (UNCTAD/GATT, 1971; p.38). This would

appear to be a logical projection; the number of trading enterprises did increase markedly in most countries in the early seventies, though there has been some stabilisation since, as Table 10.1. shows:

Table 10.1: NUMBERS OF TRADING ENTERPRISES, 1968-1980

YEAR	Bulgaria	Czechoslovakia	G.D.R.	Hungary	Poland	Romania	USSR
1968	46	28	33	52	42	22	46
1972	36	50	50	75	41	58	50
1980	42	52	37	79	51	45	59

SOURCES: 1968 and 1972 figures from Matejka (1975). 1980 figures derive from London Chamber of Commerce (1980).

NOTE: The 1980 figures may not be strictly comparable to those for 1968 and 1972, but they do indicate the trend; included in the former are all foreign trade companies and organisations, excluded are organisations servicing foreign trade, and agency firms.

The most recent reforms tend, if anything, to reinforce the UNCTAD/GATT prediction. Thus, for example, in Hungary a new FTO, 'Generalimpex', was created in July 1980, whose activities are to cut across all product lines

and services, "in an effort to spur exports and introduce competition amongst FTOs". (Business Eastern Europe, 1 August, 1980), and the foreign trade rights granted to enterprises have recently been extended (see Business Eastern Europe, 27 March, 1981); in East Germany, the latest trend is for FTOs to be made subordinate to industrial combines (Kombinate), and for their number to increase (see Business Eastern Europe, 10 October, 1980; and Eastern Europe, 23 April, 1981); while planned reforms in Poland would abolish the product monopoly of FTOs altogether, except in the case of basic raw materials (see Eastern Europe, 9 April, 1981).

Despite these changes, there has been no detailed study examining the actual state of affairs following the UNCTAD/GATT prediction. In fact, more recent guides to exporters suggest that, broadly speaking, the monopoly of FTOs over specific products persists, and that exporters are still likely to be faced by one FTO alone. For example, Nevill (1978; p.5) states: "Foreign trade is a state monopoly. This means that one's commercial negotiations will usually, but not always be conducted with a single Foreign Trade Organisation... This FTO will probably have the sole right to buy your product." The recognised exception to this rule is when trading rights have been granted to large industrial enterprises. This is echoed in the official view presented by the East Europeans themselves (with Hungary and Romania notable exceptions) - for example, the Czechoslovak Chamber of Commerce (1979; p.23) claims: "Only one Foreign

Trade Organisation deals, as a rule, in a certain product, so as to make work on foreign markets as effective as possible. In exceptional cases, more corporations may deal in the same product, but principles are laid down to ensure concerted action on foreign markets."

Clearly, there is a contradiction between the UNCTAD/GATT prediction (as well as the Angus experience) and the picture presented by more recent marketing guides. This results from the fact that, generally, a 'received view' is presented of how foreign trade in Eastern Europe operates, or is supposed to operate. Little attention has been paid to what is actually going on with regard to the division of responsibilities amongst East European importing organisations.

The present survey aims to fill this gap by examining the experience of UK exporters in Eastern Europe. How many importing organisations are individual companies actually dealing with in each country, and how clear is the division of responsibility between them?

The survey tests the simple hypothesis that the majority of companies is faced by more than one importing organisation in East European countries. This hypothesis is confirmed and the Angus experience is thus seen to be far from unique; the reasons for this are examined - is this due solely to the reforms, or does even the Stalinist model fail to perform as it is 'supposed' to, according to the received view of the system?; the

marketing implications of the findings are also discovered, and some points of more general interest emerge from the study.

10.2. Methodology

Seventy-three companies were approached by questionnaire (the questionnaire and covering letter are shown in Appendix 10.A); the companies were predominantly Midlands-based and represented a random selection of those who, according to information gathered from a number of written sources, were engaged in trade with Eastern Europe. Of the 73, 29 were unable to reply for a variety of reasons (no longer trading with the area, experienced executive had left company, etc.); of the remaining 44 companies able to reply, 36 completed the questionnaire, a response rate of over 80 per cent.

All but four of the responding companies had been exporting to Eastern Europe for over 5 years. Only three companies were selling consumer goods; the majority were exporting manufactured goods and machinery, reflecting both the predominance of these categories in UK exports to Eastern Europe, and the Midlands bias of the survey. A wide variety of products was represented.

The questionnaire was deliberately kept simple. Potentially relevant but sensitive questions (such as the size of the company's business) were

avoided in order to encourage a high response rate. In several cases, replies were followed up by telephone to clarify specific points.

10.3. Principle Findings

The main findings of the survey are presented in Figure 10.1. below. First, however, some explanation is required to set these in context.

The importing organisations listed by the responding companies (in answer to Question 4) were predominantly specialised FTOs: there were only 15 mentions (3 per cent of the total) of organisations other than specialised FTOs and service agencies. Even allowing for possible underreporting, this is a surprisingly low figure in view of the rights now granted to many enterprises and trusts. A comment by a manufacturer of engineers' and hand tools may provide part of the explanation: "Experience has shown so far that although the number of organisations with own import rights has increased, these imports tend only to be in respect of specific products related to the production activity of that organisation. For example, if they require tools (as in our case) they still, in many cases, need to obtain these through the intermediary of the relevant FTO".

In response to Question 5, 21 companies said that they had listed all the importing organisations relevant to their products - but 14

companies were not sure that they had. There was also some uncertainty at the margin, as the following comments illustrate:

A manufacturer of paint spraying equipment: "Yes. At the moment but aware of possible changes."

A manufacturer of machine tools: "No, but they are certainly the principal ones in all cases."

A manufacturer of friction welding machines: "In the majority of cases, yes. Sometimes due to internal demarcation of products, some can slip the net."

These responses point to a certain fluidity in the system and indicate that Figure 10.1 may, if anything, understate the potential number of importing organisations per company. Significantly, of the 14 companies not satisfied that they had listed all relevant importing organisations, 10 had noted an increase in the number of potential importing organisations for their products since they began marketing to Eastern Europe (as indicated in the responses to Question 6). This compares with overall figures of 19 companies noting an increase and 16 not noting one.

Against this background we can now examine the main findings of the survey (emerging from responses to Question 4). Figure 10.1 shows how the distribution of the number of importing organisations used per company varies from country to country¹; it also illustrates strikingly that a large number of companies are dealing with at least two importing organisations².

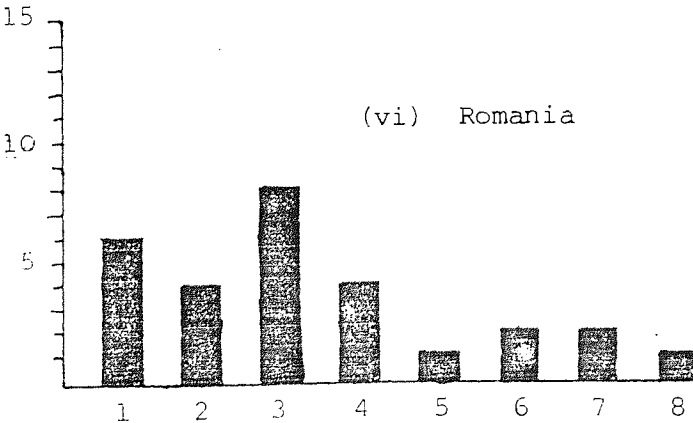
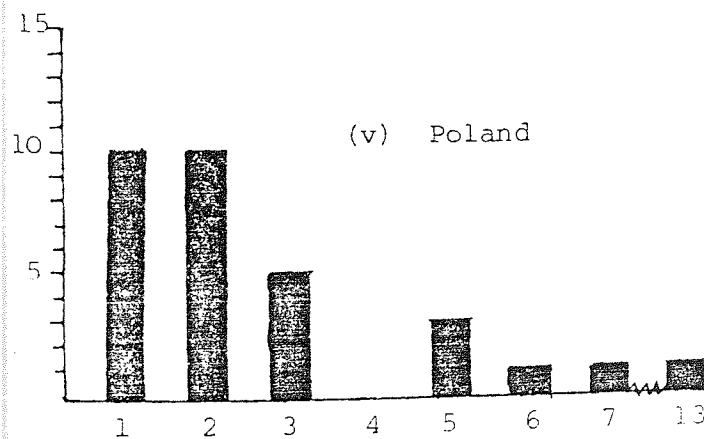
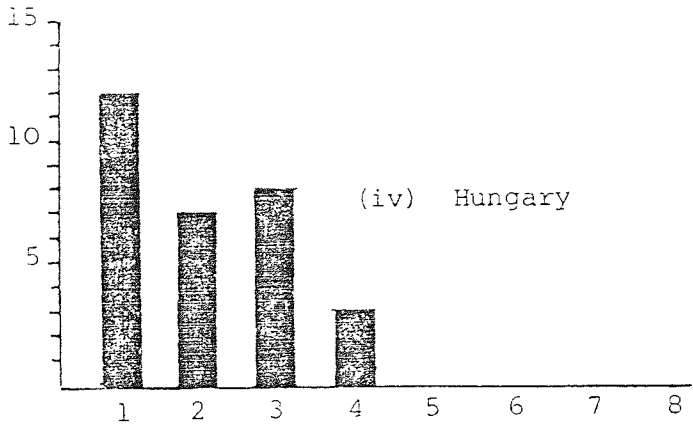
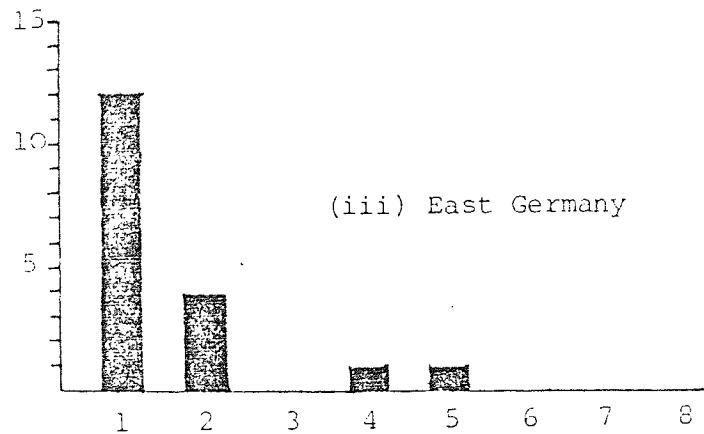
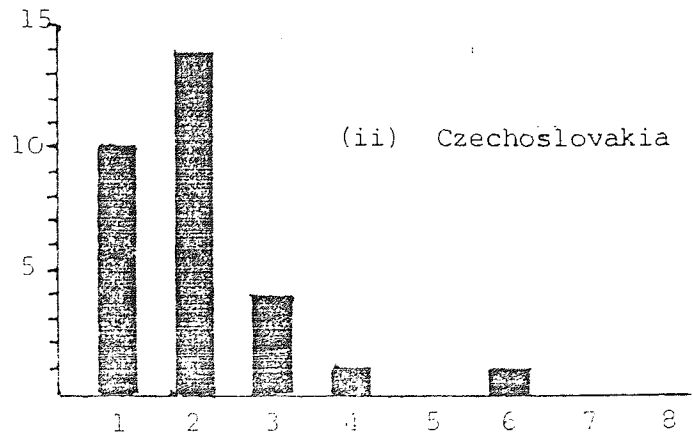
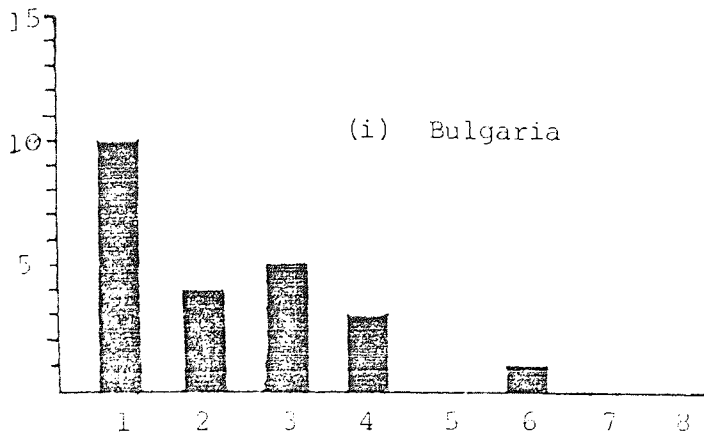
1. It should be noted that not all of the companies were dealing with all East European countries. For each country, therefore, the number of respondents varies as follows:

	<u>No. of Respondents</u>
Bulgaria	23
Czechoslovakia	30
G.D.R.	18
Hungary	30
Poland	31
Romania	28
Soviet Union	26

2. Two (possibly three) of the respondents were central East-West trade departments of large, multi-divisional companies, which might be expected to have contacts with more FTOs than a single division. However, it is not considered that this affects the overall findings significantly because: (i) the number of such respondents is small in relation to the total sample; (ii) Such coordinating offices frequently do not deal for all divisions of a company; and (iii) the type of transaction handled by centralised offices is likely to be quite specialised.

Figure 10.1: Distribution of Importing Organisation Usage,
by Country

(x-axis = number of importing organisations used by individual companies;
y-axis = number of companies for which that number applies).



In fact, as Table 10.2 below demonstrates, the hypothesis that the majority of companies is faced by more than one importing organisation in East European countries is confirmed.

Table 10.2: PROPORTION OF COMPANIES DEALING WITH MORE THAN ONE IMPORTING ORGANISATION

COUNTRY	Proportion of active companies dealing with two or more importing organisations (%)	Proportion of active companies dealing with three or more importing organisations (%)
Romania	79	64
Soviet Union	69	27
Poland	68	35
Czechoslovakia	67	20
Hungary	60	40
Bulgaria	57	39
East Germany	33	11

Only in East Germany does the majority of respondents deal with one importing organisation alone¹. Romania stands out as the country where exporters are most consistently faced with a number of importing

1. The explanation for this possibly lies in the fact that UK companies tend to be least active in East Germany (see note 1 on page 253) - a somewhat different response might be obtained from a similar sample of West German exporters. Alternatively, the East Germans may manage to organise this foreign trade system along more rigid lines than their East European partners.

organisations. More surprisingly, perhaps, is the high ranking of the Soviet Union in Table 10.2, and the relatively modest position of Hungary, which, as the most decentralised system, might intuitively be expected to offer the biggest range of FTOs and enterprises. This indicates that the existence of, as we shall call it, multiple importing organisations cannot be explained entirely by centralisation or decentralisation of the foreign trade systems.

The existence of multiple importing organisations for individual companies more often than not means that there are several importing organisations of roughly equal importance. In response to Question 3, of the 118 mentions of 'more than one' importing organisation being used, only 35 (30%) involved one main importing organisation and other subsidiary organisations. Therefore, the existence of multiple importing organisations cannot be dismissed as a 'peripheral' phenomenon. It is also interesting to note how responses to Question 3 break down by country; this is shown in Table 10.3 below - the lower the percentage in the third column, the lower the implied conformity to the traditional Stalinist model.

Table 10.3: RELATIVE IMPORTANCE OF IMPORTING ORGANISATIONS WHERE
MORE THAN ONE ARE INVOLVED

Country	No. of Mentions of More Than One Importing Organisation (a)	Including No. of Mentions of One Main Importing Organisation (b)	(b) as a Percentage of (a)
Bulgaria	13	7	54
Czechoslovakia	20	7	35
G.D.R.	6	4	67
Hungary	18	3	17
Poland	21	11	52
Romania	22	2	9
Soviet Union	18	1	6
Total All Countries	118	35	30

Very generally, then, the survey shows that exporters to Eastern Europe are likely to be dealing with more than one importing organisation in East European countries (except in East Germany). This simple fact sharply contradicts the received view presented by published guides - an issue we examine more closely when we consider the marketing implications of the findings in section 10.5 below. If the facts are simple, however, the explanation behind them is extremely complex, as the discussion that follows will show.

10.4. Explaining the Existence of 'Multiple Importing Organisations'

(i) Demarcation or Duplication?

When companies are faced with more than one importing organisation, is there a clear division of responsibilities between them, or does duplication occur?

It is hard to provide a simple answer to this question, not least because of the difficulty of defining 'duplication'. This, in turn, depends largely on how one defines a 'product' (a question which will be discussed in detail in Section (iii) below); however, even if clearly the 'same' product is purchased by different FTOs, but for use in different industries, does this constitute duplication? Perhaps it is most useful to define duplication in such a way as to imply 'confusion', indicating that the division of responsibility amongst importing organisations is unclear, and that the authorities themselves are unsure as to precisely who deals, or should deal with a particular product.

Few companies found 'confusion' to be the norm, although one manufacturer of fuel injection testing systems found that two FTOs in the same country frequently imported identical products - indeed, in Poland five FTOs were importing the same product. Most companies indicated that the division of responsibility was fairly clear (the criteria for demarcation are discussed in Section (ii) below); but several respondents commented that while there was broad demarcation, areas of 'confusion' did arise, and there could be surprise purchases from an FTO which would break the normal pattern.

For example, a manufacturer of induction heating equipment had sold the same equipment to both Avtopromimport and Stankoimport in the USSR, but it would be used in different industries. A manufacturer of automatic electro-plating plant commented that there was generally a clear distinction between FTOs by industry served (e.g. in Romania), and that the same enquiry was never duplicated; however, there had been duplication between Uzinexportimport and Mecanoexport in Romania, both of which had imported plating plant. A manufacturer of mechanical electrical presses dealing with Uzinexportimport and Masinexportimport in Romania said that the former generally imported complete plant, and the latter individual machines, but that sometimes enquiries were received for the same product from each. A manufacturer of earthmoving equipment found that there was generally a clear division of responsibility, either by product-type (e.g. in USSR) or by end-user (e.g. in Romania); on rare occasions, though, duplication did occur - usually by specialised FTOs catering for out-of-plan purchases with or without the knowledge of the normal FTO. Many respondents commented that the degree and nature of demarcation varied from country to country.

It was apparent from the responses of several companies that there could exist a degree of flexibility within the system, which also tended to blur rigid demarcation. Four companies referred to a 'certain amount of competition between FTOs': for example, one commented that "Where [there is] more than one [Importing organisation] they tend to compete for a larger share of the market". In such cases lines of responsibility

cannot be clearly defined. Similarly some companies spoke of the strong influence the end-users can exercise in determining which FTO is used. For example, an international engineering group said that in Romania some end-users have preferences for dealing with certain FTOs - often due to personal preferences between personnel - and they may even import through a different organisation from the export FTO to which they are tied. Two other companies referred to instances (both in Czechoslovakia) when the end-user had succeeded in changing FTO (again because of personal contacts); in one of these cases, the rejected FTO lodged an official complaint which was overruled. End-users do not always have this much power, however, and often they may have no choice in the allocation of FTO.

Several companies indicated that precisely who deals in what 'takes a great deal of sorting out': one commented that "The only way is to go to Eastern Europe, and start digging to find out which are the relevant FTOs"; another said, with reference to East Germany, that "Sometimes, FTOs don't know themselves who should be handling what product". This again illustrates that there can be a certain amount of 'confusion' amongst the authorities. This can be aggravated by changes in responsibility as new FTOs are created, as enterprises are granted foreign trade rights or as product profiles are reshuffled. A manufacturer of offset printing supplies said that one FTO sometimes takes over products which would normally be handled by other FTOs, because it imports the main product for the industry in question.

In general, then, if there is normally a reasonably clear distinction between responsibilities of FTOs, there is also a substantial grey area: in this grey area there is confusion, surprise purchases by 'unlikely' FTOs, flexibility and scope for competition - even intrigue - amongst FTOs.

(ii) Demarcation Criteria

It had been hypothesised that companies whose products were used in several industries would tend to be faced with the largest number of FTOs (hence the inclusion of Question 2 a). In fact, the eight 'heaviest' users¹ all exported products that were used in several industries². However, of the eight 'lightest' FTO users, four companies also dealt in products used in several industries. The products of these companies tended to be 'homogeneous' or uncomplicated: for example, steel strip, semi-finished titanium products and semi-finished steel. This suggests that 'heavy' FTO use is largely determined by a combination of (i) the degree of complexity of the products in question and (ii) whether or not they are used in more than one industry. Question 2(a) should perhaps have been reformulated to ask whether companies' products had to be significantly adapted to meet the needs of different industries.

1. i.e. those companies who use the largest number of FTOs per country.
2. Overall figures were 21 companies in this category, compared with 12 whose products were used wholly or predominantly in one industry; the remaining three were exporters of consumer goods.

Where division of responsibility between importing organisations was clear, two main criteria for demarcation were cited, corresponding to the variables mentioned above: division by product type, and by end-user/industrial sector. Several companies experienced a combination of these two distinctions, with variations from country to country. Obviously, the two factors may overlap, i.e. using a product in different industries may involve significant alterations to specifications.

The questionnaire was not sufficiently detailed to provide a clear picture of the different weighting of these criteria in different countries. However, it seems reasonable to assume that the predominance of multiple FTO use in Romania relates to the organisational structure of foreign trade in this country, with most FTOs being subordinate, not to the Ministry of Foreign Trade, but to Branch Ministries or industrial associations¹. This leads to the same products being imported through different channels for different sectors of industry, and hence to 'multiple FTOs' for exporters whose products are used in several industries. A similar situation can be assumed to exist in Poland where many FTOs are also subordinate to Branch Ministries, though this is less widespread than in Romania². We suggest, therefore, that in Romania and Poland the predominant criterion for demarcation between FTOs is

1. On the decentralisation of Romanian foreign trade organisation, see Brada and Jackson (1977).
2. The subordination of Polish FTOs is clearly charted in Business International (1980, 'Poland', p.iv-12).

industrial sector served. This does not, of course, mean that division by product-type does not also occur. Conversely, in the Soviet Union with its more traditional foreign trade system, the demarcation can be assumed to be most frequently according to product features; again there will be exceptions since some FTOs are clearly linked to specific industries (while still subordinate to the Ministry of Foreign Trade) e.g. Avtopromimport - and this can lead to sectoral demarcation¹.

Other criteria for demarcation were also given by the respondents. In the case of a manufacturer of textile machinery, FTOs were distinguished mainly along regional lines; a manufacturer of forging presses exported predominantly to a 'normal' FTO, but occasionally another FTO might buy if the product was for re-export. It may well be that still other criteria not mentioned by companies or referred to in the questionnaire may have a bearing on the division of FTO responsibility and the likelihood of finding more than one relevant importing organisation: for example, the size of a company's business in Eastern Europe; whether or not countertrade is involved, whether or not turn-key projects or industrial co-operation is involved, etc.

1. In addition, as discussed in Chapter 4, section 4.3ii, even in the Soviet Union several FTOs are subordinate to ministries other than the Ministry of Foreign Trade, and this might also lead to competition amongst FTOs.

Clearly, then, the factors that determine which, and how many FTOs are involved in the importing of a particular product are varied and complex. The simple view of the system - that the authorities decide who will import what - is misleading. In reality, it seems that the forces that determine who imports what are only partially under the control of the authorities; within the different frameworks established in different countries, numerous forces combine to push products through specific channels, including even 'subjective' forces such as the personal relationship between FTOs and end-users. Ultimately, there may be a certain logic to the pattern that emerges, but it may not be a pattern that is supposed to evolve according to the authorities' views of the system.

(iii) Definitions and the Problem of Scale

The issue of the division of FTO responsibility is clearly a complex one. It proves difficult to establish a simple set of rules which explain how products are divided amongst importing organisations, and to what extent the actual state of affairs differs from the model, or the supposed state of affairs. The core of the problem is the elusiveness of the central concept of product. What, precisely, is meant by a 'product'?

Under an extremely narrow definition of 'product' it could be argued that the system functions more or less in accordance with the traditional Stalinist model: if each slight modification to specification is seen as

creating a new product then, as long as there exist small differences between similar products handled by separate FTOs, the FTOs' monopoly over specific products could be said to be intact. Similarly, many of the companies in this survey were exporting not one product but a range of separate but related products; it could again be argued that if different products within the range are handled by different FTOs, this is perfectly in line with the traditional view of the system.

To take such a view would, however, be misleading and would only serve to obscure the true complexity of the issues involved. A number of points demonstrate why this is so:

- (i) If the definition of product becomes too narrow, so that two or more products defined as separate are clear substitutes, it becomes meaningless to talk of an FTO's monopoly position.
- (ii) FTOs might mark the dividing line between product categories in a different way from the exporting company.
- (iii) Products can be divided up between FTOs in different ways in different countries. This was shown in the responses to the questionnaire, since in many cases there was no consistent pattern of FTO responsibility in all the countries where a particular company was active.
- (iv) Even within individual countries, as we have seen, products can be divided according to different criteria.

At the heart of the problem lies the great complexity of products. With the possible exception of raw materials and semi-manufactures, most products can legitimately be categorised in a number of ways: by end-use, by constituent materials, by process of manufacture. As technology develops, as products become more sophisticated with still more properties, so the problem of classification is intensified. In the case of the East European economies, increased trade in increasingly sophisticated products has put tremendous pressure on the clear-cut demarcation that is supposed to exist between the few organs through which these products are funnelled¹.

This problem of product classification is fundamental, and has been directly or indirectly highlighted even by specialists in the Soviet Union, where the foreign trade system is commonly held to have remained close to the Stalinist model. Pozdniakov (1976) points to the problems that have arisen due to the increased range and complexity of

1. A poignant example of the complexity of product categorisation is the difficulty of comparing the UN Standard International Trade Classification (SITC) with the CMEA Standard Foreign Trade Classification (SFTC): "In respect of a number of items ... problems arise from differences in the classification criteria used in the two classifications. The SITC is throughout a classification by kind of goods. In the SFTC, on the other hand, two criteria are used: the kind of goods and the end-use". (United Nations Economic and Social Council, 1978).

traded goods and the proliferation of organs involved in the foreign trade process. The importance of maintaining the unity of the foreign trade apparatus is strongly emphasised, and, consequently, so too is the principle of the monopolistic specialisation of FTOs¹; however, in certain cases maintaining such specialisation is objectively impossible. Thus, Pozdniakov observes, there is de facto competition between: (i) FTOs responsible for complete projects and FTOs dealing in the separate import/export of the equipment involved; (ii) regional FTOs (e.g. Dalintorg) and product FTOs; (iii) FTOs dealing in technology (e.g. Litsensintorg, Vneshtekhnika); (iv) FTOs dealing in goods and/or services which can be substituted by goods and/or services handled by other FTOs (e.g. forms of freight transport; goods which can be made of either natural or synthetic materials); and (v) FTOs exporting products to a country and FTOs seeking to sell the means of manufacturing such products

1. Pozdniakov notes that: "The solution of the organisational problems involved in perfecting the system of foreign trade administration must have as its basic principle the need for the unity and mutual agreement of all the constituent parts of this system". (Pozdniakov, 1976; pp. 61-62). With regard to FTOs: "The specialisation of each FTO is, as a rule, monopolistic, so that the conduct of trade in goods and/or services in its 'nomenclature' by any other Soviet organisations is forbidden. Monopolistic specialisation allows each FTO to concentrate its efforts on a restricted range of goods and/or services, to study the foreign market better and exploit its fluctuations, to utilise in the most rational way the knowledge and experience of specialists in the trade of specific goods, and, in sum, to carry out its allotted tasks with maximum efficiency. The monopolistic specialisation of FTOs is also a most important prerequisite for the prevention of competition amongst them. This consequence of specialisation deserves particular attention, since in the socialist economic system competition is an organically hostile phenomenon; allowing it to occur can lead to great losses for individual organisations, and, in the last analysis, for the state". (Ibid, p.98).

(see Pozdniakov, 1976; pp.99-100). Another Soviet specialist, Gruzinov (1975), points out how the problem of classification complicates the internal structure of the Soviet Ministry of Foreign Trade: "The fact that the main product administrations [of the Ministry of Foreign Trade] in their functions work from both product and geographical principles, and that in a number of cases the 'nomenclature' of their products is also in the nomenclature of products traded by an FTO, leads to a situation where the FTOs are simultaneously subordinated to several main product administrations Of the 41 FTOs [subordinate to the Ministry of Foreign Trade], 26 have double subordination, 6 are under treble subordination, 8 are under single subordination, and one FTO is subordinate to 4 main product administrations". (Gruzinov, 1975; p.74).

Both of the above Soviet authors argue for reforms of an organisational nature, involving a clearer definition of the responsibilities of the various organisations involved. Our own analysis suggests that such a solution cannot be fully successful, since reforms that maintain the principle of monopolistic product specialisation do not tackle the essential problem of product classification: products cannot always be put in neat 'pigeon-holes' when they in fact have a number of properties or serve a number of functions.

Even in a traditional system, therefore, and regardless of decentralising reform, it seems inevitable that problems of demarcation will occur, that there will be confusion of responsibilities. This is

bound to happen in a situation where so many complex products are channelled through such a narrow system of categorisation. The high ranking of the Soviet Union in Table 10.2 can thus be explained; we would suggest, also, that the traditional Stalinist model of foreign trade structure has probably never functioned as it is supposed to in theory, and that, as trade increases and the number and complexity of traded products increased with it, the model will function more and more imperfectly. This is not to say that the reforms are irrelevant (more will be said on this below), but that the findings of the survey are not to be explained simply by the fact that the original Stalinist model had been decentralised. In short, the Stalinist model cannot in reality function entirely as it is 'supposed' to and, with or without reforms, there will be problems of demarcation, and some Western companies will find that there are more than one importing organisations for their products.

To what extent are the central authorities (e.g. Ministry of Foreign Trade) aware of the true state of affairs? This is difficult to judge; what is certain, however, is that the control they in fact exercise is far less complete than is commonly recognised. They are faced with an impossible problem of scale (see Chapter 3, section 3.6): the number and complexity of imported products and import operations is such that they cannot possibly control and decide in each case who should be handling which transaction. They can only set broad guidelines by giving FTOs a certain nomenclature of products, and by arbitrating in cases of inter-FTO disputes. But this structure is less rigid and clear-cut than it appears.

In all probability, the authorities are happy as long as FTOs seem to be handling equipment that conforms to their nomenclature; in a heavily bureaucratic system there is ample scope for bending the rules while appearing to conform to them.

10.5. Marketing Implications

If exporters are faced with more than one importing organisation, what effect does this have on marketing to Eastern Europe? Does it make marketing more difficult or easier?

Discussion of this question must be prefaced by a note of caution on the role and importance of FTOs in the East European importing system. In the past it was generally accepted that FTOs were the main points of contact for Western companies, and that they constituted a fairly rigid barrier between exporters and end-users. With economic reforms, as discussed in Chapter 4, contact with end-users - at least in some countries - became easier, and their influence in the decision-making process increased. Marketing no longer begins and ends with the FTOs (if it ever really did). The role of FTOs can, therefore, be seen as relatively unimportant: a manufacturer of friction welding machines made the following comment:

"Marketing in Eastern Europe is not dictated by the FTOs...The market exists outside the FTOs' control, they are only the mechanism of the system acting as buying agents - dictated by end-user requirements within

the scope of the general dictate of the five-year plan. It is important to remember: you can offer your products to these agents (FTOs) but the market itself is approachable outside the control of the FTOs - if general permission is obtained to approach the real market - the end-user."

This view that the division of responsibilities amongst FTOs really makes no difference to marketing was supported by another company: "In all probability we would be dealing with the same people, whether they were all part of one organisation or several more specialised organisations". Three other companies found that it "made no difference": other factors (especially the availability of hard currency) were of overriding importance.

Nevertheless, the division of responsibilities amongst importing organisations can affect marketing to Eastern Europe. In response to Question 6, 14 companies found that the existence of more than one importing organisation for their products made marketing easier, and 8 found that it made marketing more difficult.

Of those that found marketing easier, the reason most commonly given (8 responses) was that different FTOs were specialised in different product types or catered for specific sectors of industry, and this encouraged clear lines of communication. For example, a manufacturer of hydraulic access platforms and rescue appliances commented: "One is able to establish the sector of industry interested in the purchase, thus enabling correct specification of equipment to be offered". A manufacturer of earth-moving equipment noted: "Multi-import

organisations usually means vertical integration, i.e. importers are closer to users and more responsive to their wishes." Linked to this reason were the replies of two other companies who found that more than one importing organisation provided "more access points to the market, more opportunities to make favourable contacts". A third group of companies (3 responses) found marketing to be easier because of competition between FTOs, which made FTOs work harder and meant that if an order was lost with one FTO, there was still a chance to win business through another.

As for the companies who found marketing more difficult, this was due to "indecision, buck-passing" and because it was "more time-consuming". A comment by an international engineering group summed up the reasons of most companies: "Mainly, one has to maintain personal contacts - naturally, the greater the number of FTOs, the greater the investment in time and staff expenses".

The differences of opinion expressed in these responses arguably reflect a certain tension that exists with the East European foreign trade system. One set of responses refers to the advantages of a tendency towards decentralisation and features of an 'open economy' where producer and user are in close contact; another set of responses points to the disadvantages of such a state of affairs when it is still constrained by the traditional features of a centralised import system.

We have already mentioned that some companies had experienced difficulties in sorting out which were the relevant importing organisations. For most of the companies in the survey, however, this was no longer a significant problem, since they had several years' experience of exporting to Eastern Europe, and, no doubt, had well-established contacts with end-users who would tend to lead them through whichever importing channel was appropriate. However, it would be dangerous to underestimate the importance of identifying relevant importing organisations for companies new to the market. For many of these companies, the first contact is still likely to be an FTO: therefore, it is important that such companies should discover all the importing organisations relevant to their products, and not necessarily be deterred when, for example, one FTO expresses no interest, since there may well be others who are importing this product. In addition, while we have seen that FTOs may not be the only or most important point of contact, they can still wield considerable influence, and their importance is greater in some countries than others. In the Soviet Union, for instance, contact with end-users is far harder to arrange than in Hungary or Poland, and finding the right FTOs is likely to be essential.

It is therefore most important that exporters new to the market should be aware that, as we have seen from Figure 10.1 and Table 10.2, they are likely to be faced with more than one importing organisation. At present, however, they are far more likely to be misled by the received view presented in marketing guides. The following quotations

from such guides - taken from both the most simple and the most detailed - illustrate the point.

Hints to Exporters Series (British Overseas Trade Board):

- Bulgaria "Firms new to this market should, in the first instance, write to whichever Foreign Trade Enterprise appears most likely to have an interest in the purchase of their products. Usually, any one product will be imported by one trading enterprise." (BOTB, 1980-1a; p.32).
- Czechoslovakia "Each [Foreign Trade] Corporation is responsible for the import and export of a given range of products ... The first step in promoting sales to Czechoslovakia is to contact the appropriate Foreign Trade Corporation ..." (BOTB, 1979-80; pp.35-6).
- Poland "The most important first step is to identify the Foreign Trade Enterprise which deals with the item concerned." (BOTB, 1980-1b; p.38).

Doing Business with Eastern Europe (Business International)

- Czechoslovakia "Foreign trade is a monopoly owned and controlled by the state and carried on exclusively by duly authorised agencies. Import and export operations are conducted within a rigid system in which there is only one Czechoslovak buyer and seller for a definite range of products ... The Western exporter should promote his product wherever feasible among Czechoslovak institutions and organisations, but he will concentrate his commercial arguments and negotiate his sales contract with the appropriate FTO for his product." (Business International, 1980; "Czechoslovakia", pp.iv-3 and iv-8).

- Poland

"All sales contracts must be negotiated through authorised Foreign Trade Organisations, which may be directly subordinate to the Ministry of Foreign Trade and Maritime Economy, an industrial ministry, or co-operative or a large economic organisation (WOG). Some differences of approach exist amongst them; but since they are all specialised, Western firms have little room for choice - the FTO that a company will deal with depends on the product or service." (Ibid., "Poland", p.iv-15).

- Soviet Union

"Each FTO is responsible for all exports and/or imports of a particular group of commodities ... Within the framework of the state monopoly of foreign trade, each FTO is exclusively entitled to trade with other countries in its particular product line." (Ibid., "The Soviet Union", p.iv-5 and iv-9).

In the case of Romania and - especially - Hungary, it is sometimes recognised that more than one importing organisation may be involved. In general, however, the assumption is that the system does function according to rigid rules, that all products are strictly categorised, reference is made to 'the FTO', 'the appropriate FTO', 'the relevant FTO', etc. Exporters are not encouraged to consider the possibility that their products have not been neatly categorised, or that, if 'pigeon-holes' do exist, there may be more than one, whatever the reason¹. In view of the

1. Only one published source was found to refer to these complexities: "What he [the exporter] must certainly not do is limit himself to the necessary contact with one foreign trade enterprise only, the one enterprise most relevant to his sales drive. Restricted activity of this kind might well yield results but is hardly likely to yield maximum results such as an exporter should seek and which he has a right to expect... You have been selling to one enterprise over there. This may be the chief enterprise for buying your products, but are there other enterprises which can also buy from you, responsible for purchasing a different range of products which you also manufacture? Or are there other enterprises which could buy the products you are already selling out there because they have an application to different sectors of industry, and in this way come under the umbrella of other enterprises as well?" (Zentner, 1967; p.43). The fact that this work is old means that it is unlikely to be consulted frequently by exporters; it also supports our conclusions above that demarcation problems exist regardless of decentralising reforms, the most important of which were introduced after 1967.

findings of this survey, this situation should be changed, and in the next section we make some suggestions as to how this could be done.

10.6. Suggestions for Discovering Relevant Importing Organisations

Discovering which importing organisations are relevant can obviously be an extremely difficult and possibly lengthy process. The complexity of the system is such that official bodies - such as Chambers of Commerce (both East European and Western), and the East European Trade Council - are unlikely to be able to give precise information on most products. Moreover, since, as we have seen, the system does not always function as it is officially supposed to, advice from such organisations may be misleading. Some companies mentioned that the commercial sections of British Embassies in the East European capitals tend to provide the most accurate information - they are the most in touch with what is actually happening. Nevertheless, a painful (and costly) process of trial and error seems to be a common experience.

It would be naïve to suggest that there can be easy short-cuts to discovering which importing organisations are relevant to a particular company. However, it may be possible to avoid unnecessary frustration by taking a systematic approach. The following set of questions, based on the responses to the questionnaire and the points made above, is designed to help companies approaching the market for the first time. It may also be of use to those already exporting to Eastern Europe who may not be maximising their sales potential because they have not looked beyond the FTO(s) with which they are already in contact.

Table 10.4: CHECKLIST FOR DISCOVERING RELEVANT IMPORTING ORGANISATIONS

Question	Action
1. Is your product(s) mentioned in the lists of products covered by any individual FTO?	If it is mentioned, this is the obvious place to start, but it should not be immediately assumed that <u>the only</u> relevant importing organisation has been located. If it is not mentioned, try redefining the product; check related products; look for a broader category or categories which encompass the product in question.
2. Can official bodies help?	Consult the local Chamber of Commerce, East European Trade Council, commercial section of East European Embassies, commercial sections of British Embassies in Eastern Europe. Again, do not assume that the picture presented is definitive.
3. What are the main user industries for your product(s)?	Check with lists whether there is an FTO(s) serving these industries, particularly in Romania, Poland, Hungary.
4. To what industry does your company belong?	Check for FTOs serving this industry.
5. Is your product used as a component in other products?	Check for FTOs importing products in which your product is used.
6. What is the main constituent material?	Check for FTOs dealing in this material.
7. Do you sell a 'range' of products?	Try redefining, regrouping the range. It may be that the importing country does not recognise the same 'generic' range.
8. Might organisations other than specialised FTOs be interested in your product(s)?	Check for enterprises with foreign trade rights, especially in Hungary.
9. Might your product(s) be used for re-export?	Check amongst exporting FTOs, including, when relevant, those concerned with complete projects.
10. Might your product(s) be used in a turn-key project?	Check with FTOs importing complete plant for relevant industries.

The effectiveness of this set of questions would be enhanced if the various sources that must be consulted could improve the quality of the information they supply. First, official bodies should recognise the complexity of the system and encourage exporters to look beyond a single importing organisation.

Secondly, the information supplied in the listings of importing organisations could be improved. In particular, it would be useful to indicate (especially in the case of Poland and Romania) the formal subordination of FTOs - are they under the direct control of the Ministry of Foreign Trade, or under industrial Branch Ministries? In all countries it would be helpful if the principal customers - industrial ministries, even large enterprises or associations - of individual FTOs were noted.

Thirdly there was some evidence in the responses to the questionnaire that FTOs tend to be used in 'clusters': that is, certain pairs or groups of FTOs tend to be used together. The following table illustrates this, showing how frequently specific pairs of FTOs in Poland, Romania and the Soviet Union were being used together by the responding companies.

Table 10.5: 'PAIRING' FREQUENCY OF SPECIFIC FTOs

(a) Poland

FTO 'PAIR'	Nomenclature ¹	Total no. of mentions	No. of mentions with 'pair' FTO
METALEXPORT	Machine tools with spare parts and equipment; industrial workshop and power tools; abrasives; complete plants for metal working machine tool industry.	13	7
CENTROZAP	Machinery and equipment for the mining industry (other than coal); complete plant for the metallurgical and foundry industries; carries out mechanisation and automation of foundries and metallurgical plant; trains technical personnel.	8	7

(b) Romania

MAZINEXPORTIMPORT	Machine tools	11	6
UZINEXPORTIMPORT	Plants and complete installations for the mechanical engineering industry; equipment for boilers, turbines and metal surface protection; plating and tinning lines; complex installations for the food industry, scientific institutes and local industry; ships, boats and naval equipment; installation and equipment for cement factories etc., etc.	8	6

(c) Soviet Union

STANKOIMPORT	Machine tools; hard alloy products; abrasive products; ball and roller bearings.	8	7
AVTOPROMIMPORT	Complete plant and machines for the automobile and machine tool industries; stamping and pressing equipment; foundry equipment, etc.	11	7

NOTE 1: Nomenclatures are as listed in the London Chamber of Commerce (1980)

In the above examples, very broadly, one FTO deals in individual machines (machine tools), while the other imports complete plant and covers a broader spectrum of industries. Obviously, the nature of the sample of companies in this survey highlights the experiences of exporters of engineering products.

It should be useful for companies exporting, for example, to Stankoimport, to know that it is highly likely that their products will also be of interest to Avtopromimport. Further research might well reveal that similar 'pairings' or 'clusters' exist in other sectors.

If a general point emerges from the discussion in this section, it is that it would be constructive to change our 'atomised' perception of FTOs. Rather than viewing them only as discrete entities having a monopoly over a discreet range of products, we should also be grouping FTOs together in a variety of ways: by formal subordination to the Ministry of Foreign Trade or Branch Ministries, by sector of industry served, by 'clusters' of FTOs that tend to be used together. Such a perception would correspond more closely to the reality of the system.

10.7. Conclusions

The survey shows that the situation confronted by Angus is not unique, and that UK exporters' experience tends to confirm the predictions made in the 1971 UNCTAD/GATT report: namely, that exporters find that there is frequently more than one importing organisation

relevant to their products in East European countries. We have seen, however, that this is not necessarily or entirely a result of decentralising reforms to the import system. Even in the countries with more traditional systems exporters are often faced with several importing organisations. This is a result of the immense complexities of channelling all imports through the narrow funnel of the FTOs, and the problems surrounding rigid, one-dimensional classification of thousands of categories; within this framework real forces - such as links between FTOs and industrial enterprises or the rationality of combining small purchases of one product with a major purchase of a different category of equipment when the two are destined for the same project or factory - combine to create a degree of flexibility without which the system would simply be too unwieldy. In effect, it could be argued, there exists de facto some element of the sort of decentralisation to which reforms then give formal recognition.¹

This is not to say that reforms are irrelevant. In all probability, formal decentralisation allows the 'real' forces to operate more freely. Even if the fact that foreign trade rights have been granted to enterprises in some countries does not appear to have made a significant

1. This de facto decentralisation is consistent with the normative theory of foreign trade organisation developed by Brada and Jackson (1978), whereby as the size and complexity of trade increases there is pressure for closer links between producing enterprises and foreign trade departments.

direct impact on the number of importing organisations used by exporters, indirect effects are probably important: FTOs are made less secure in their monopoly position, and competition amongst them is stimulated. Liberal reforms have also created closer links between FTOs and end-users, which again gives scope for 'real' forces to operate, and the indications are that end-users can exert considerable pressure on FTOs, and may have some say in deciding which import channel is used.

Is the overall effect of the existence of 'multiple import organisations' to make the East European import systems more or less efficient? On the one hand, the flexibility this provides prevents the system from becoming too unwieldy, and allows closer contacts between FTOs and end-users. On the other hand, some of the features traditionally seen as advantages of the centrally planned foreign trade monopoly are partially eroded. In particular, the monopolistic position of an FTO over a specific range of products is seen to give bargaining leverage, reduce overheads, and concentrate expertise in one department. Even where this monopolistic position does exist in practice, there are reasons to doubt that the benefits are as great as they should be in theory¹. Obviously,

1. One manufacturer of textile machinery accessories commented: "Changes of personnel ... in FTOs are of major importance when selling and generally affect end-user/FTO/seller relations. The major commercial attractions (for them) of being able to buy in bulk and negotiate better is often more than offset by poor communications within buying organisations".

the theoretical advantages are further eroded if more than one FTO is, in fact, importing the same or similar products. For example, the survey suggests that the monopolistic bargaining power of FTOs - their ability to 'whipsaw' Western firms into unprofitable deals - is not as great as is sometimes supposed, and it goes some way to explaining why businessmen have tended not to find this a problem (see U.S. Department of Commerce, 1977; and Clawson and Kolarik, 1976). A comment by a manufacturer of offset printing supplies is revealing on the erosion of the monopolistic position of the FTOs seen from the exporters' perspective: "One buyer is a win or lose all situation. Several buyers allow several suppliers a chance to share the business". Once again, these advantages and disadvantages of 'multiple import organisations' reflect the tension that exists (in varying degrees in different countries) in systems caught between inoperable centralisation and uncontrollable liberalisation.

This survey fills a gap in our knowledge of the East European import system and how it really works. We have tried to show the complexities inherent in an aspect of the system which is commonly assumed to function smoothly: the division of responsibility amongst the importing organisations. Discussion is complicated by difficulties of definition - notably of what constitutes a 'product' - but it is this very difficulty which is responsible for the flexibility and confusion which can be observed within the foreign trade systems of Eastern Europe.

CHAPTER 11: BRIBERY AND CORRUPTION IN EAST-WEST TRADE:

BACKGROUND AND CASES

The second area suggested by the Angus study as deserving greater examination is the phenomenon of bribery and corruption in East-West trade.

The illegal private economy and corruption within East European countries (particularly the Soviet Union) has been the subject of a growing number of studies in recent years; similarly, the post-Watergate era has seen a surge of debate and literature on the issue of bribery in international business. Yet, surprisingly, there exists no detailed study of bribery and corruption in East-West trade.

Anecdotal evidence from the business community indicates that the phenomenon is quite widespread, but obvious difficulties complicate serious analysis: commercial secrecy, scarcity and sensitivity of the information required. Nevertheless, the present work seeks to show that progress can be made towards establishing more clearly the extent and nature of bribery and corruption in East-West trade, a subject not only of relevance to Western exporters, but one which also raises issues with wider implications for East-West trade and East-West relations.

In this Chapter, we define the subject and set it in its international and East European context. We discuss the method of research used, and present the evidence (consisting of 30 cases) of bribery and corruption in East-West trade country by country. These cases are analysed and their implications discussed in Chapter 12.

11.1. Definitions

Bribery in trade involving governmental contracts has been defined as:

"...a payment voluntarily offered for the purpose of inducing a public official to do or to omit doing something in violation of his lawful duty, or to exercise his official discretion in favour of the payer's request for a contract or privilege on some basis other than merit." ¹ (Kaikati, 1977; p.25)

In practice, the dividing line between a tolerated gift and a damaging bribe is often far from clear (on the 'grey' areas of bribery, see Ryans and Woudenberg, 1978). A distinction is frequently made between the lubrication bribe on the one hand, which "involves payment of relatively small sums of 'speed money' to make the wheels of administration turn more rapidly"; and, on the other hand, the whitemail bribe, which "involves an elaborate system for concealing the use of large sums of corporate cash. These payments are invariably accompanied by false accounting, fictitious book-keeping entries and bogus

1. This definition is consistent with that used in the US Foreign Corrupt Practices Act, and with the wording of East European anti-bribery laws.

documentation", and represent a true attempt to buy favourable decisions (Nehemkis, 1979; pp.7-9). There is a tendency for the former to be tolerated and regarded as unavoidable (though usually illegal) in certain countries, while the 'whitemail' bribe tends to be condemned¹. To some extent at least, a similar distinction seems to be made in East European countries but there can be variations from country to country, and according to the political climate at any particular time. The technical test is whether or not an illegal act is committed, but in practice, the more important question is how the authorities choose to apply generally-worded laws. We have to accept, therefore, that there is a grey area in which attitudes and distinctions are blurred. We shall concentrate primarily on the clearer cases of bribery, from which safe ground some reflections can be made on the more ambiguous areas².

1. Lubrication bribes or 'facilitating payments' are specifically excluded from the provisions of the U.S. Foreign Corrupt Practices Act, and from the rules of conduct laid down by the International Chamber of Commerce. See Beresford and Bond (1978; p.26); and International Chamber of Commerce (1977).
2. Under a strict interpretation of East European anti-bribery laws (see Appendix 11A), small 'lubrication bribes' would probably be considered illegal. There is some justification for this in such highly bureaucratic foreign trade systems. Western exporters are competing for the time and attention of officials; therefore a gift may have the apparently innocent effect that an official carries out his normal functions, yet as a result another company may be denied similar attention, and thus the outcome of business may be unfairly affected. In practice, of course, such a rigid interpretation would be virtually impossible to enforce.

It has been suggested that more questionable payments are initiated by governmental than by business employees, and are, therefore, closer to extortion than bribery (see Jacoby et al., 1977; pp.147-8). In practice, the distinction between bribery and extortion can be very fine; while we shall generally speak of bribery, it should be remembered that in many cases, at least some element of extortion is involved.

Our subject is not confined to bribery alone. We shall also consider other illegal methods of business involving transfer of money or anything of value from a Western company to private East European citizens. Some of these would be permitted in the West, but are illegal in the socialist countries where there is a state monopoly of foreign trade: for example, the hiring of private East European citizens to act as agents. In the absence of Western legislation covering corrupt practices abroad (the USA is an exception - see section 11.2 below), East European law must be the guide as to whether or not a particular type of payment is permissible. Offences most commonly fall under either anti-bribery provisions or laws prohibiting the disclosure of state secrets, or both¹. Examples of some of the relevant legislation are given in Appendix 11.A.

1. Some offences may be liable for prosecution under more than one article of the law. For example, the commentary to Article 173 of the penal code of the RSFSR, which covers bribe-taking, states: "If an official, in return for a bribe, commits acts which constitute criminal offences, then he shall be liable for prosecution under all relevant laws together - under Article 173 and under the Articles which cover the crime committed for the bribe." (Kommentarii... 1971; p.375).

Since we are concerned with more than just bribery, we can define our subject in a more general formula as being concerned with:

any illegal transfer of anything of value by or
on behalf of a Western company to East European
citizen(s), made in connection with import or
export operations.

11.2. The International Context

Bribery has long been known to be an almost inevitable feature of business in certain Third World countries (see Wraith and Simpkins, 1963). In the mid-seventies, however, stimulated by certain revelations that emerged from the Watergate scandal, a 'business Watergate' quickly gained momentum, and attention became focussed - in the USA at least - on the pervasiveness of various forms of pay-offs in business throughout the world¹. It became clear that bribery was not confined to a few under-developed countries, but that "payments by business enterprises are made in poor and in rich countries, in less- and more-developed nations, in communist and in capitalist societies." (Jacoby et al., 1977; p.43)².

1. Political and moral pressure led a whole stream of US companies to disclose questionable payments they had made abroad to the Securities and Exchange Commission (SEC), and hence to considerable publicity - see Barovick (1976).
2. The same work (pp.3-44) provides a brief summary and examples of business pay-offs throughout the world, and includes a section on communist countries.

As a result, a series of measures were taken in an attempt to curb questionable payments in international business. In the United States legislation was introduced in the form of the controversial Foreign Corrupt Practices Act¹; recommendations were drawn up by a number of international bodies, notably the International Chamber of Commerce and the OECD (see Organisation for Economic Cooperation and Development, 1979); and many companies reinforced their internal Codes of Conduct (see Woodman and Kverndal, 1976).

However, the validity and effectiveness of such measures have been questioned. It is argued, for example, that bribery must be accepted as a fact of life in many countries. Businessmen are faced with the dilemma of making 'questionable payments' or losing contracts, especially since other exporting countries, including Britain, adopt a more laissez-faire attitude². For example, one American businessman described anti-bribery

1. For a critical summary of the Act, see Ballinger and Dillard (1980). The Act has been attacked for being difficult to interpret and enforce, and for being counter-productive.
2. See, for example, Nossiter (1976). The debate surrounding the revised Code of Practice of the British Institute of Management also reflects the more tolerant attitudes this side of the Atlantic - see Barry (1979).

activists as: "A bunch of pipsqueak moralists running around trying to apply US puritanical standards to other countries"; when asked whether an employee should be fired for bribing foreigners, he replied "Hell no! Why fire him for something he was paid to do?"¹. Views such as this are consistent with Banfield's argument that the task of the business executive is to optimise rather than minimise corruption, and that one might expect the management of an organisation to try to discover the "level at which the marginal cost of anti-corruption measures equals the gain from them." (Banfield, 1975; p.590).

It has also been argued that legislation and moral preaching will have little effect². Instead, one must look to the structural or systemic roots of corruption³. A detailed discussion of these roots

1. Charles Bowen, Chairman of the consulting firm Booz, Allen and Hamilton, quoted in "American Grease Lines Foreign Palms", Business and Society Review, no.20, Spring 1977, p.23. The same article cites the views of other businessmen on the bribery question. Apologia for bribery can also be found in Deschampsneuf (1979), and Guzzardi (1976).
2. For example, Jacoby et al. (1977, p.143) conclude that: "Only reform proposals that fundamentally reduce the supply of, and the demand for, political influence and authority will be effective in changing the behaviour of world business."
3. Padioleau (1975, p.35) states: "The first danger in a study of corruption is to react as a moralist, in the name of civic virtue, to condemn the wayward actions of individuals. This reaction is ill-conceived, for it limits the depiction of corruption to a moral defect, and neglects its truly sociological aspect... it places the responsibility on individuals without taking into account the interplay of structural determinants giving rise to the exchange of favours."

is outside the scope of this study; we need only note that a heavily bureaucratic purchasing system is generally seen as providing favourable conditions for corruption. Banfield has written that, "Whatever their causes, every extension of government authority has created new opportunities and incentives for corruption" (Banfield, 1975; pp.603-4). Similarly, the International Chamber of Commerce (1979; p.11) recommends that: "When laying down any economic regulations or legislation, governments should, as far as possible, avoid the introduction of systems under which the carrying out of business requires the issue of individual authorisations, permits, etc. Experience shows that, in contrast with a legal framework within which business can operate freely, such systems offer scope for extortion and bribery, since the conclusion of business deals then often depends on decisions taken at a level at which it is almost impossible to ensure effective control and supervision."

The highly centralised foreign trade systems of East European countries would therefore seem to offer ample potential for corruption to flourish. In particular, the monopoly/monopsony position of the FTOs - even if this system functions far from perfectly - would seem almost tailor-made for bribery (or extortion), since the 'sole' buyer has more leverage over the seller than if he is subject to competition.

11.3. The East European Context

A growing number of studies present persuasive evidence that, at least within the Soviet Union, bribery and corruption are indeed extremely widespread¹:

"There can be little doubt that with regard to the magnitude of illegal economic activity and corruption, the USSR is far from 'underdeveloped' by world standards. It would be surprising, indeed a miracle, if it were otherwise, for the Soviet Union possesses nearly every favourable condition for the appearance of a larger illegal economy and of corruption of officialdom...Taken together, they amount to an unusually fertile ground for the flourishing of the illegal economy and the associated corruption." (Grossman, 1979; p.84).

The principal causes (apart from the less tangible influences such as cultural tradition and plain greed) lie in the very nature of the Soviet political and economic systems, and can be summarised as follows:

- An excessively centralised (hence unwieldy and inflexible) economic system;
- Disequilibrium prices which create the potential for black markets;

1. Grossman (1979) provides a concise overview of the phenomenon. Other academic studies include those by Simis (1977), Schroeder and Greenslade (1979) and Lampert (1980). Accounts by Soviet emigres also provide evidence of corruption - for example, Zemtsov (1976), Voslensky (1980). Further anecdotal evidence is given by Western journalists, such as Smith (1976) and Karol (1971). In addition, there are, of course, numerous Soviet and East European press accounts revealing various forms of corruption.

- Shortages, poor quality goods and chronic delays in services;
- Prohibition of most forms of private economic activity;
- Impersonal state-owned property; and
- Monopoly power of the Party and the personal power in the hands of bureaucrats.

Bribery itself is inextricably linked with the various forms of black market or 'illegal private economy' activities¹, not only through the acquisitive culture which these generate, but also because relevant officials must be paid to remain silent. More generally, "any person in a position of responsibility on whom the solution of a particular problem depends, is rewarded with bribes for the timely and meticulous performance both of those activities which come within the range of his professional duties and of activities which break the law." (Simis, 1977; p.50). Bribes are paid by enterprises, retail and wholesale stores, to obtain supplies; they are paid to auditors for passing exaggerated accounts of plan-fulfillment, to party officials to obtain 'election' to key posts, to university professors to obtain admission and exam passes... and for countless other services. The scale of payments can be quite staggering, especially when one bears in mind that the average monthly gross wage in the Soviet Union was 145.8 rubles in 1975: in Azerbaijan

1. A useful categorisation of the activities that constitute the illegal private economy is given by Grossman (1979; pp.835-840).

between 1970-72, for example, the 'going rate' for 'election' to the post of first secretary of the district committee of the party was 150,000-200,000 rubles; to that of head of the district militia, 50,000 rubles, and 30,000 rubles was the cost of being 'elected' a people's judge¹. In short, "bribe-giving and related methods are seen by the Soviet public as a major, regular method of solving one's problems in the social environment" (Grossman, 1979; p.840).

There is every reason to believe that the situation in other East European countries is similar. In Czechoslovakia, for example, there is a saying that "He who does not steal from the state, steals from his family", and jobs are popularly divided into the attractive and the unattractive, the latter being those in which the employee has no chance of earning extra money through bribes (see Radio Free Europe, Czechoslovak Situation Report, 21 December, 1978; and 18 June, 1980). Of Poland it has been said that, "One can make the generalisation that everybody in Poland who has the chance engages in a good deal of stealing, cheating and supplementing his own income by illegal means"²: theft, bribery, embezzlement and other kinds of economic offences account for an

1. These figures are given by Simis (1977; p.42). It must be said, though, that the Southern republics such as Azerbaijan and Georgia are particularly renowned for their corruption - lower rates might pertain in Moscow.
2. Prof. Andrzej Korbonski, quoted in Andelman (1979); see also the analysis of corruption amongst Polish Party members by Sabbat (1981).

estimated 20 per cent of all crimes committed in Poland, with the damages caused making up some 50 per cent of the total (BBC, Summary of World Broadcasts, 19 November, 1980). In all East European countries, press reports of such crimes are common (see Schöpflin, 1979, for other examples).

The Soviet Union has been described as a 'kleptocratic' state (Simis, 1977; p.31); it is probably not too much of an exaggeration to say that the term can be applied to all the countries of Eastern Europe.

11.4. The Conditions for Bribery and Corruption in East-West Trade

In the previous two sections we have seen that:

- (i) bribery is widespread in international trade despite various counter-measures, and that it is most likely to occur in countries operating a heavily bureaucratic importing system; and
- (ii) bribery is pervasive in the internal economies of Eastern Europe.

It would therefore be surprising if bribery and associated forms of corruption did not extend to the foreign trade sector of these countries' economies. The probability of this is further strengthened when one considers that Western businessmen are able to offer as inducement many goods and services that are in scarce supply and much in demand in

Eastern Europe: hard currency, travel in the West, quality Western consumer goods. Given the moderate (one presumes) official salary of East European foreign trade officials, the large size of the contracts at stake, and the generally intense competition amongst Western companies, bribery presents itself as a comparatively inexpensive means of sales promotion, of avoiding frustrating delays, and of cementing the 'personal contacts' which are usually seen as essential when exporting to socialist countries.

A priori, then, one would expect bribery and corruption to be deeply rooted in East-West trade. There are, indeed, some broad references to their importance in Western marketing guides¹, but there has been no systematic attempt to investigate the phenomenon.

11.5. Method of Analysis

By its very nature, bribery is a covert activity and is, therefore, difficult to analyse. One approach to a study of bribery in East-West trade would be to interview Western exporters - indeed, the foreign trade sector might, at first sight, appear an obvious starting point for a study of East European corruption since there is direct Western

1. See, for example, Zentner (1967; p.116), and Business International (1980; pp.III41-5).

involvement. However, the Western bribe-givers naturally have little incentive to publicise their activities; approaching exporters on this subject is sensitive, and the truthfulness of their replies would be open to question, since, in some cases, there may be every reason for them to conceal certain facts.

It was therefore felt that a more reliable approach - initially, at any rate - would be to look at the reports of cases of corruption involving foreign trade that periodically surface in the East European press, as well as some isolated cases not reported in Eastern Europe that are referred to in Western publications. Such reports usually relate to cases that have been brought (or are about to be brought) to trial. The East European press is, of course, censored; consequently, it is to be expected that not all uncovered cases will be reported, especially in view of the political sensitivity of corruption in which 'capitalist business' is involved. However, this is in itself an interesting aspect of the subject: the very fact that the censored press reports such cases can reflect official attitudes towards corruption in East-West trade, as can the tone of the articles themselves. As for the reliability of the information these contain, there may be some bias in the style of reporting, but there seems little reason to doubt the accuracy of the essential facts. Such data are, naturally, far from perfect but at the very least, a study of press reports can hope to provide some more concrete information on:

- (i) the extent of bribery and corruption in East-West trade;
- (ii) its nature (who is involved, how, and for what reason payments are made);
- (iii) the attitudes of East European authorities.

A search of secondary sources revealed 30 specific cases (as well as several general references) over the last decade; where possible (and language permitting), the original East European sources were also examined. The secondary sources¹, which collectively embrace all the main East European media, can be expected to provide a reasonably full coverage of the major reported corruption cases in foreign trade, since such items tend to be seen as newsworthy for the Western public. Some cases will probably have 'slipped the net', but the collection of cases described below - which includes all those referred to in the sources used - is, as far as one can judge, representative of all publicised cases; the analysis in Chapter 12 is based on this assumption.

The cases on which the analysis in Chapter 12 relies are described below, grouped by country, with an introduction to each country section. The following January 1980 value of the pound against the East European currencies provides a rough guideline for interpreting the sums of money mentioned in the cases.

1. The principle secondary sources used were: Business Eastern Europe; Radio Free Europe Research; The Current Digest of the Soviet Press; the BBC's Summary of World Broadcasts; and indexes to Western newspapers.

Table 11.1: VALUE OF £1 AGAINST EAST EUROPEAN CURRENCIES, JANUARY 1980

Country/Currency	Commercial Rate	Tourist Rate
Bulgaria (lev)	2.069	Same
Czechoslovakia (koruna)	13.30	22.58
East Germany (Ostmark)	4.695	Same
Hungary (forint)	77.1744	55.3787
Poland (zloty)	74.23	Same
Romania (leu)	10.70	28.72
Soviet Union (ruble)	1.5915	Same

SOURCE: Financial Times, 2 January, 1980.

11.6. Bulgaria

In addition to the cases described below, some minor trials involving bribery in foreign trade were also reported in Bulgaria in the early seventies¹.

It is hard to judge how widespread the phenomenon is on the basis of the cases presented, which range from large-scale operations involving numerous officials and substantial funds, to apparently minor abuses. In the Texim and Pirinimpex cases it is not explicitly stated that Western trading partners were involved, or that bribery took place, but the implications to this effect are strong. What is clear is that the situation was judged sufficiently serious to warrant press campaigns condemning corruption in foreign trade. From the cases presented it can be seen that there were two such campaigns: the first began in the autumn of 1969 and ended in the summer of 1972 (involving cases 4 and 5 below and the minor cases referred to above); the second took place in mid-1975 (involving cases 1, 2 and 3 below).

Bulgarian officials involved in large-scale bribery offences can expect long prison sentences, though in less serious cases (or possibly if they have 'protection') they may merely be dismissed from their posts. Western companies involved can expect to pay substantial fines.

1. Reference is made to these in Radio Free Europe, Bulgarian Situation Report, 20 March 1975, which in turn refers to Pogled, no.50, 14 December 1970, and no.3, 17 January 1972.

There appear to have been no publicised cases in recent years, possibly because the anti-corruption campaigns were successful, but more probably (in view of the relative ineffectiveness of similar campaigns against domestic corruption in, for example, Czechoslovakia and the Soviet Union) this is a result of a political decision not to publicise such cases ¹.

Bulgaria Case 1: RODOPAIMPEX

Source: Radio Free Europe, Bulgarian Situation Report, 20 March 1975.

In March 1975 Bulgarian newspapers (Rabotnichesko Delo and Kooperativno Selo, 15 March, 1975) reported the trial of officials of Rodopaimpex, the FTO responsible for livestock, meat and dairy products. The officials were accused of having received a total of 47,000 leva in bribes from a Western firm, thereby causing a loss to the state of about 755,000 leva. A representative of the Western firm (possibly Italian) had been required by the court to make good the material loss to the state.

The Bulgarians sentenced were:

Pavel Vishev, deputy director of the cattle office, sentenced to 15 years in prison, confiscation of half his property, a fine of 2,000 leva, and deprivation of the right to hold a managerial post for 17 years.

1. This possibly results from the trend towards liberalisation in the Bulgarian foreign trade system, which might be disrupted by publicity given to bribery scandals: such cases might give fuel to those conservative forces who would like to see the power of foreign trade officials limited, since they demonstrate that these powers can be abused.

Lyuben Palev, a department chief at the Ministry of Foreign Trade, sentenced to 8 years in prison, a fine of 1,500 leva, and deprivation of the right to hold a managerial post for 10 years.

Tsvyatko Borissov, a commercial attaché, 7 years in prison, a fine of 1,000 leva, and deprivation of the right to hold a managerial post for 9 years.

Ivan Karev, position unknown, 3 years in prison and deprivation of the right to hold a managerial post for 5 years.

Ivan Antonov, position unknown, one year in prison, a fine of 500 leva, and deprivation of the right to hold a managerial post for 3 years.

All the above were accused of receiving gifts from the representative of the Western firm (shirts, shoes, stockings, watches, fabric, suits, spare parts for cars, dollars and other Western currencies in considerable amounts, tickets for trips abroad, payment of hotel and restaurant bills, etc.).

In return, they had revealed the lowest prices Bulgaria could accept for transactions in which the Western firm was interested. One of the defendants was said to have admitted that he had been helping foreign customers to find "calves of better quality on which they would make larger profits". The defendants' frequent trips abroad were adduced as evidence against them.

Bulgaria Case 2: MODA-LUKS

Sources: Radio Free Europe, Bulgarian Situation Report, 10 April 1975.

BBC Summary of World Broadcasts, 8 April 1975.

Moda-Luks is a little known subdivision of the FTO Raznoiznos, exporting fashionable and luxury articles and, when a real need can be proved, importing small quantities of high-quality goods using hard currency of its own. Radio Sofia (1 April 1975) and Rabotnichesko Delo (2 April 1975) reported investigations carried out by the Committee on State Control. The managers of Moda-Luks were said to have exceeded their authority and failed to adhere to the regulations governing the enterprise's functions. They engaged more and more in foreign trade transactions of goods which did not always correspond with the categories set by the government, thus duplicating the activities of other FTOs. In many cases, they are alleged to have imported goods which were out of fashion, of poor quality.

The Moda-Luks managers were also accused of taking bribes: on business trips abroad, some officials had "received gifts" and "some of their expenses for "food, hotels, and others had been borne by their (foreign) partners".

The main culprit, Peter Petrunov (director of Moda-Luks) was dismissed from his post. "Strict punishment" was imposed on Donka Boricheva (head of Moda-Luks trade section), Angel Dobrinov (director-general of Raznoiznos).

Radio Free Europe concludes that: "The approach taken by the Committee on State Control and the publicity given the case, as well as its similarity to the Rodopaimpex affair, indicate ... that thorough checks are being made into the activities of foreign trade enterprises and that a resolute effort is being made to put an end to individual initiative on the part of foreign trade officials, and to discourage private profit, including small gifts and even invitations to restaurants. The two recent cases are obviously intended to remind all foreign trade officials of the strict discipline demanded of them".

Bulgaria Case 3

Source: Business Week, April 1976, p.41.

Business Week reports that, according to the West German Foreign Ministry, a German auto accessories supplier paid \$25,000 in 1975 to secure the release of a salesman sentenced to three years' imprisonment for alleged bribery. No further details were given.

Bulgaria Case 4: TEXIM

Sources: Radio Free Europe, Bulgarian Situation Report, 6 November 1969.
Radio Free Europe, Bulgarian Situation Report, 21 July 1972.

The scandal involving Texim, the former foreign trade company of the large economic grouping called Bulgarian Merchant Fleet (BMF) first

came to light in the Bulgarian Press in the autumn of 1969 (see Rabotnichesko Delo, 26 November 1969), and the disclosure was announced by Todor Zhivkov himself. However, the true scale of the affair became clear only in July 1972 when the case resurfaced with Radio Sofia's announcement of the outcome of the trial.

The case must be set against the background of changes in the economic system in Bulgaria's foreign trade sector, involving the creation of new FTOs and the inclusion of foreign trade activity within the sphere of competence of several of the large economic concerns, and the granting of a certain degree of independence to these FTOs and concerns in concluding export and import deals. Radio Free Europe stated in November 1969: "According to recent reports, the managements of several enterprises have, from the state's point of view, taken advantage of this independence by concluding deals which were not in the interest of the state. Cases of 'violation of state discipline', or corruption have been reported, in which enterprises only had their own profit in mind, and in which the managers had even made personal profits. Official trade representatives abroad are also believed to have engaged in such practices".

In July 1972 the Supreme Court passed sentences on former leaders of BMF and Texim. The accused were found guilty of having "grossly violated socialist legality, as well as state and financial discipline", of having used for their own purposes state-owned goods and funds, of having inflicted considerable losses on the national economy, and of having

violated foreign currency regulations and engaged in speculative dealings. The total funds embezzled are estimated to run into millions of leva and the affair had been investigated by a commission of 180 experts. There is, however, no indication of the extent or nature of the involvement of Texim's Western trading partners, and no details are given on precisely how the sums were embezzled.

The principal accused were:

Georgi Naydenov, former chairman of BMF and former director-general of Texim; sentenced to a maximum term of 20 years, loss of civic rights (including the right to live in Sofia) for 22 years, and confiscation of half his property. According to Radio Sofia, a claim for 20,000,000 leva against Naydenov alone had been submitted.

Metodi Antonov, former economic director of Texim; sentenced to 6 years imprisonment.

The rest of the defendants also received prison terms. Amongst these were Naydenov's former deputy, and the former head of Texim's Autotransport and Services Department; the total number of those found guilty was not disclosed.

Radio Free Europe draws attention to the length of time which elapsed between the discovery of the scandal and the trial of the accused. One explanation is the scale of the affair, but this alone, RFE argues, cannot account for the "snail's pace at which the enquiries proceeded".

It is suggested that the "activities and foreign trade deals of the Bulgarian Merchant Fleet could hardly have been possible without the consent, at least oral, of high-ranking party and government officials whose involvement in the scandal must have been very carefully examined. It is believed, for example, that the former Foreign Trade Minister, Lachezar Avramov, who was removed in April 1971 from both the Ministry and his candidate membership of the Politburo, was one of those involved".

At the time of the initial disclosure in 1969, BMF was immediately disbanded, while Texim was reorganised beyond recognition and demoted to an obscure branch of the FTO Intercommerce.

Bulgaria Case 5: PIRINIMPEX

Source: Radio Free Europe, Bulgarian Situation Report, 13 November 1969.

The case involves the foreign trade activities of the state economic concern Pirin and its FTO Pirinimpex, which handled all exports and imports of shoes and imports of machinery for the leather industry. No concrete indications were released concerning the violations committed, but it is probable that they were similar to those involving Texim and the Bulgarian Merchant Fleet.

Radio Free Europe refers to reports by Radio Sofia (10 November 1969) and the Sofia dailies (11 November 1969) that: "The Council of Ministers had discussed ... the results of an investigation made by the Committee

on State Control into the foreign trade activities of ... Pirin and ... Pirinimpex. Because of 'gross violations of planning, state and financial disciplines, and distortions in the applications of the principles of the new system of national economic management', the Council of Ministers decided to dismiss the concern's director-general, engineer Gani Ganev, and to assign him to a lower position. In addition, the Council of Ministers confirmed the penalties imposed by the Committee on State Control: dismissal of the concern's directors for economic and social questions, its deputy director-general, its chief accountant, and an acting office director at Pirinimpex".

As in the Texim case, no indication is given of the extent of the involvement (if any) of Pirinimpex's Western trading partners. The violation would appear to be on a smaller scale than in the Texim case, though probably still substantial, judging by the number and seniority of those dismissed.

11.7. Czechoslovakia

The cases presented below reflect two Czechoslovak campaigns condemning the phenomenon of bribery and corruption in foreign trade. The most recent took place in the first half of 1980 and may have been triggered by criticisms of the illegal economy based on bribery voiced in the Federal Assembly in July 1979 (see Comecon Reports, vol. 1, No. 3, January 1980). In addition to cases 1 and 2 below, publicity was given to an incident involving a German businessman whose car was found to be loaded with cameras, digital watches, tape recorders and undisclosed amounts of Deutschmarks and dollars, which the man claimed were needed for pay-offs to Czechoslovak foreign trade officials (Reuters from Prague, 14 April 1980). This incident was mentioned in an article in the popular Czechoslovak security forces periodical Signal, in which it is claimed that until 1968, Czechoslovak buyers were a "sturdy, moral lot". Since then, however, ethics had been diluted roughly in proportion to the number of Western suppliers willing to propose equipment for a given project. "Western businessmen are even (sic) learning some Czech or Slovak in order to facilitate their sales relationship in unsavoury ways", the article claimed (see Business Eastern Europe, 28 March 1980).

Cases 3 and 4 below mark the previous anti-corruption campaign which can be said to have begun in October 1974, when Radio Prague charged that some Czechoslovak foreign trade officials misuse their official positions, causing considerable damage to the Czechoslovak state. They sign contracts with their Western trade partners that are disadvantageous to

Czechoslovakia, but earn them handsome commissions, or disclose to one of the foreign firms competing for a contract the offers submitted by its rivals - naturally, in exchange for a bribe (see Radio Free Europe, Czechoslovak Situation Report, 2 April 1975).

Thus, although only a small number of specific cases have been given publicity in Czechoslovakia, the indications are that bribery and corruption in the foreign trade sector are widespread.

Czechoslovakia Case 1: OPTIMIT

Source: Radio Free Europe, Czechoslovak Situation Report, 18 June 1980.

On 5 June 1980, Police Major Josef Jelenik, appearing on Czechoslovak television, cited a recently uncovered case of bribery. It involved the deputy manager and later manager of the enterprise Optimit in Odry and the West Germany company Ludwig Schan. Over a period from 1972 to 1978 the Czechoslovak is alleged to have received gifts worth Dm 18,000 and cash commissions worth 116,000 valuta crowns. He kept part of the fortune in a foreign bank account and hid another part in his house. He was sent to prison for four years.

Czechoslovakia Case 2

Source: Business Eastern Europe, 28 March 1980.

Business Eastern Europe reported that Western embassies had confirmed that in at least two cases "in recent months", Western businessmen had been detained, convicted and jailed on charges of attempted bribery of Czechoslovak buyers of Western plant and equipment. It was not clear whether the businessmen had, in fact, overstepped legal bounds or whether their treatment was meant to serve as a warning to domestic managers not to encourage or accept bribes.

Czechoslovakia Case 3: EFFEKTIM/TECHNOEXPORT BRATISLAVA

Sources: Business Eastern Europe, 8 August 1975.

BBC Summary of World Broadcasts, 11 June 1975.

In June 1975 the Bratislava dailies and radio (Bratislava Home Service, 9 June 1975) reported on the trial of three foreign trade officials accused of "abusing their authority for personal gain" and retaining "illegal commissions" on orders obtained by Western companies. The three men were:

Mikulas Dudas, sales manager of the FTO Technoexport Bratislava.

Julius Matejka, head of the Bratislava branch of the representative agency Effektim.

Rajmund Smarda, a technical representative of Effektim.

The sums in question amounted to Kcs 810,000 in Dudas' case and to almost Kcs 400,000 in the case of the other two men. One Austrian and three West German companies were involved.

- In 1972, the Munich company Linde AG, which was represented by Matejka and Smarda of Effektim, paid a 1% commission amounting to Dm 65,000 on an order from Technoexport Bratislava for chemical plant to be installed at the Slovnaft Combine. The commission was paid to Dudas through Matejka. Dudas gave Matejka Dm 7,500 and kept the remainder for himself. Linde had openly confirmed the arrangement in a letter to Dudas addressed to him in his official capacity at Technoexport Bratislava.

- In 1973, Klöckner-Werke AG paid a 0.5% commission amounting to Dm 31,312 on a similar order. Again, Dudas and Matejka split the money, and again, the West German company had confirmed that it would pay the commission in a letter addressed directly to the FTO.

- Hobema Maschinenfabrik and Contitrade of Vienna both agreed to pay commission to Dudas on receipt of a sales contract and both formally confirmed that the payment had been made.

While payment of commission to agency firms is standard practice, the receipt of commission by private individuals is illegal. The court sentenced Dudas to 13 years' imprisonment, Matejka to 12 years and Smarda

to 10 years. At the same time, the court ordered that all property obtained as a result of their criminal activities be confiscated, and forbade them to engage in any way in foreign and domestic trade. In their defence, the accused said they regarded the sums as having been given in recognition of their special personal endeavours in making the contracts.

The fact that the companies paid the commission to the FTO employee openly appears to have worked strongly in their favour. The Western firms were not attacked in the press articles: one paper printed the confirmatory letters of Linde and Klöckner-Werke.

The press accounts did not make clear how the accused had managed to direct to their own pockets the commissions intended for the FTO. But it appears that the Czechoslovak authorities were led to investigate when a defendant in a bribery case in Bulgaria revealed that he had been associated with the three Czechoslovaks. The period of the case coincides with a Bulgarian campaign against bribery in foreign trade (see Bulgarian cases nos. 1, 2 and 3).

Czechoslovakia Case 4

Source: Business Eastern Europe, 18 April 1975.

Business Eastern Europe refers to Czechoslovak press reports early in 1975 that a number of foreign trade officials had received substantial

gifts from an unidentified Western firm, including watches, gold coins, jewellery and hard currency for actions which were "in violation of foreign trade rules" and "did a lot of harm" to the Czechoslovak economy. There was no indication of whether or not any legal action was taken.

11.8. East Germany and Hungary

No cases of foreign trade corruption appear to have been publicised in either East Germany or Hungary. Several possible explanations for this can be suggested:

- (i) The East Germans adhere to strict discipline and do not become involved in corrupt practices (the large illegal trade in hard currencies would suggest that this is not the case).
- (ii) Publicity given to such cases in the GDR is undesirable owing to its sensitive political situation and its constant comparison with the Federal Republic of Germany.
- (iii) In Hungary, the more decentralised and 'competitive' foreign trade system and greater freedom of economic information take away some of the incentive for Western businessmen to bribe.
- (iv) Hungarian authorities are reluctant to publicise corruption cases, since this might jeopardise their more liberal system and inhibit initiative, which the New Economic Mechanism seeks to encourage.

Despite the lack of direct evidence, the experience of other East European countries suggests that it is extremely unlikely that no cases of corruption in the foreign trade sector have been uncovered in Hungary or the GDR. It seems more probable that the authorities in these two countries have, for their own reasons, decided not to give such cases exposure in the media.

11.9. Poland

The large number of foreign trade corruption cases revealed, and the extensive publicity given to them suggests that the phenomenon has become almost an epidemic in Poland. As a result of the workers' unrest in 1980 and the fall of Gierek, the public's attention had been positively focussed on the privileged life-style - the foreign bank accounts and luxury villas - of those officials who have benefitted from Western bribes. This is in striking contrast with other East European countries where the existence of such privileges is carefully hidden from the population.

The latest anti-corruption campaign was 'officially' launched on 22 September 1980 by the Public Prosecutor, Lucian Czubinski, who announced that about 100 cases of economic crime were being investigated, and that corruption had assumed massive proportions, especially in foreign trade where the country lost enormous sums of money through irregular buying and selling. These investigations, said the Public Prosecutor, revealed irregularities in import-export dealings whereby 29 large enterprises incurred losses because some Zl 4 billion worth of machinery and equipment had been ordered into the country but had never been installed (see The Times, 23 September 1980; East-West, no. 254, 25 September 1980). Cases 1 to 4 below followed in the wake of Czubinski's announcement.

These latest revelations, however, are really only the most dramatic manifestation (with the involvement of highest-ranking officials who lost their 'protection' when Gierek fell) of a campaign which has been virtually continuous since 1975. Indeed, these cases could only have come to light if they had been under investigation for some time previously (see, in particular, Case 4). The indications are that investigations into foreign trade corruption started to intensify around the beginning of 1979. At the time of the Stetter trial (see Case 6), a spokesman for the Warsaw City Prosecutor's office told Business Eastern Europe (13 April 1979) that three more cases involving alleged bribery and illegal marketing practices by Western firms were on the docket awaiting trial in coming months (it is not clear whether this statement refers to any of the cases subsequently publicised, or whether three entirely new cases are involved). Similarly, referring to the particularly Polish problem of unofficial Polish agents (see Case 7 below), Business Eastern Europe reported on 19 January 1979 that: "One such unofficial agent in Poland is being held for alleged bribery of officials in construction-related enterprises. An accompanying publicity campaign is raking up old cases in which Western company agents (i.e. Polish agents of Western companies) received penalties of up to five years' imprisonment for 'betraying plan information' of 'usurping the role of FTOs'. This suggests that a new drive is under way to eliminate all unofficial contact between Polish end-users and Western companies".

Poland Case 1: TYRANSKI/MINEX

Sources: East-West, No. 255, 13 October 1980, p.13;
BBC Summary of World Broadcasts, 9 October 1980, 14
October 1980 and 1 January 1981;
Ost-Wirtschafts-Report, 13 October 1980;
Financial Times, 2 October 1980;
Daily Telegraph, 18 October 1980.

The exposure of Poland's largest-ever corruption affair involving foreign trade coincided with the country's upheavals of 1980 and the fall of Gierek. Extensive press and radio publicity was focused on the trial of Kazimierz Tyranski, accused of taking bribes in excess of US\$ 1 million over a period of 10 years.

Tyranski was director general of Minex, the FTO for building materials, glass and ceramic products. He was also a 'supervisor' at two other FTOs: Dromex (construction of roads, railway, airports, etc.) and Intraco (building and interior design). According to Zycie Warszawy, Tyranski's trial would "demonstrate not only his guilt, but will also reveal the mechanism of widespread privilege, nepotism and immunity from the law" which allowed him to act. Another paper, Zycie Literackie, said that the prosecution would try to show that Tyranski had a decisive influence over the pricing of products exported by Minex, decided with whom import orders were placed, and that he was "bribed by foreign companies and followed their interest rather than the interest of Polish foreign trade".

Tyranski's illegal activities involved connections with companies in Austria and Sweden. Investigations revealed that in 1968 Tyranski had met Heinz Korzil, owner of a small Austrian construction materials company. Korzil was alleged to have bribed Tyranski to give him the monopoly for Polish cement exports to Austria. The bribes initially took the form of fully paid trips to Austria and Italy for the Minex director, disposition of a luxury car, small gifts, etc. In return, the importance of Korzil's company grew and it did indeed become the exclusive agent for Austro-Polish trade in construction materials.

In 1975 the two men formed a joint Polish-Austrian company, 51 per cent owned by Korzil and 49 per cent by Minex, the main business of which was exporting cement to the Middle East. Tyranski is said to have demanded 25 per cent of the profits for his own account, so that, according to Warsaw radio, "it was in the interests of the former director [of Minex] to achieve a maximum turnover by the partnership". The mixed company flourished and was soon handling one-third of all Polish cement exports. Soon after the establishment of the company, Korzil promised Tyranski that he would pay him before the end of 1978 some US\$ 400,000 in exchange for the manipulation of contracts which would allow the company to reach exceptionally high profits. This sum was duly paid in early 1979, by which time Tyranski had received a total of US\$ 460,000, paid into a Swiss bank account. The Polish authorities claim to have recovered the \$400,000.

Tyranski is also alleged to have received bribes from a Swedish construction company for services rendered in connection with Swedish construction projects in Poland and cement exports to Nigeria. Tyranski is said to have made an especially good price for cement. In return, the director of the Swedish concern is said to have given Tyranski some US\$ 250,000, which was paid into a Swedish bank. Investigators concluded that as a result of this transaction, Tyranski supported the Swedish concern whenever possible. In addition, Tyranski is said to have received, as a personal gift, a BMW 320 automatic car which was first registered in the name of another Minex employee, Slawomir Kucsynski and was subsequently sold to Tyranski's wife (both of whom were also arrested and charged). In addition to bank transfers, Tyranski is said to have taken bribes in dollars, Swiss francs and in the form of equipment for his Warsaw home and country villa.

Polish authorities also discovered secret bank accounts in West Berlin and Bremerhaven, containing in excess of Dm 300,000 which Tyranski had managed to appropriate out of money which Minex obtained from various trade discounts, rebates, premiums, etc. In this, he was aided by Minex's business partner in West Berlin.

Part of the money was sent by Tyranski to his girlfriend in London, for whom he also bought a £13,000 flat. He is also reported to have obtained the allocation of a flat for his daughter in exchange for a

bribe of \$6,000 to the former deputy director of a teachers' housing co-operative. Tyranski also aspired to the role of patron of Polish football. On one occasion he conveyed to a coach of the Polish national team \$2,500 for the players. After the Argentina World Cup, the same coach received a cheque for \$25,000 written out by the company and destined for the players as remuneration for advertising the company's products. Tyranski is said to have confirmed that some of the money in West Germany represented a reserve for his intended emigration from Poland.

In his defence, the former director claimed:

"What I did was all connected with making profitable deals for Minex." Even the Polish authorities had to admit that the mixed Polish-Austrian company worked well and had a decisive influence on the steep rise in Minex's profits. Nevertheless, on 23 December 1980, after an 11-week trial, Tyranski was found guilty on all but one (unspecified) of the five charges of corruption. He was sentenced to 15 years' imprisonment, a fine of Zl 1 million and five years' deprivation of civil rights. In addition, the court ordered the confiscation of all his property and the return to the state of his BMW car and \$400,000 held in the PKO Bank. It also awarded Zl 1,344,000 in compensation to Minex, Slawomir Kucsynski was sentenced to three and a half years' imprisonment, a fine of Zl 150,000 and loss of civil rights for three years. Tyranski's wife was sentenced to two years' imprisonment suspended for three years, and a fine of Zl 160,000.

Poland Case 2: SZCZEPANSKI

Source: BBC Summary of World Broadcasts, 30 December 1980 and
1 November 1980

Another case to surface with the fall of Gierek was that of the former head of the Polish Committee for Radio and Television Affairs, Maciej Szczepanski. Szczepanski was arrested in October 1980. Few precise details of the allegations against him have been released, and it is uncertain exactly how much is connected with foreign trade. It is clear, however, that at least some of the irregularities are alleged to have occurred in business relations with the West, and the indications are that sizeable bribes or kickbacks were involved.

Warsaw radio reported that:

"A dozen or so detailed charges are being laid against Szczepanski... These charges are connected, above all, with bad management and with the use of the Committee's [for Radio and Television Affairs] funds for private requirements. Amongst other things ... radio and television equipment worth about \$1,500,000 was imported in 1979-80 on the instructions of Maciej Szczepanski. This was done through the needless intervention of an Austrian car firm. Szczepanski was to recommend that the purchases should include articles worth about US\$ 100,000 on which there was an import ban or which were not connected with the Committee's activities. Maciej Szczepanski and Eugeniusz Patyk, former First

Deputy Chairman [of the Committee for Radio and Television Affairs], are suspected of issuing recommendations that the costs of a holiday in Poland by a representative of this firm, together with his family, should be met from the Committee's funds".

Probably not unconnected with the investigation into the Szczepanski case was the criticism by the Sejm Committee for Foreign Trade of Poltel, the FTO subordinate to the Committee for Radio and Television Affairs. 'Abuses' were said to have occurred at the FTO's London operation, and it was claimed that Poltel had "set up unnecessary and unprofitable - in the face of the small export of Polish TV films - companies in Liechtenstein and London".

It seems reasonable to assume that a considerable part of the sums Szczepanski invested in a luxury villa and a hunting lodge in Kenya was obtained through illegal transactions connected with foreign trade.

Poland Case 3: NEPTUN

Source: Ost-Wirtschafts-Report, 13 October 1980

Ost-Wirtschafts-Report refers to the trial of the director of the leather-goods factory, Neptun, who was sentenced to 6 years' imprisonment for allegedly accepting Zl 250,000 in bribes from an

Austrian company. No further details were given but the trial is seen as being another in the line of 'scapegoat' cases following in the wake of the upheavals in Poland.

Poland Case 4: 'LOST MILLIONS'

Source: Zycie Warszawy, 27 October 1980.

Under the headline "Lost Millions", the Polish daily, Zycie Warszawy, gave publicity to another case involving corruption in foreign trade. The timing of the article is significant, since the accused was arrested in 1979 and the investigations were not yet complete. Clearly, therefore, the authorities chose to release the story as part of the orchestrated campaign referred to in cases 1, 2 and 3 above.

The principal accused were Ryszard P., assistant production manager at the Association of Road and Bridge Building Enterprises; Sviatopolk B., assistant manager at the same association, and Krystyne A., a senior official at Energopol, the FTO dealing in hydrotechnical construction and know-how. Several other FTO officials and officials from industrial enterprises were also implicated.

The three main accused were alleged to have "negotiated contracts and conspired to the purchase of useless machines in very expensive

import transactions with foreign firms from whom they received in return a large commission in the form of foreign currency, gold objects, clothes and long holidays in Italy with all expenses paid. The losses suffered from this bribe-taking and criminal activities exceeded Zl 10 million".

The accusations relate to purchases made for a large hydro-electric project. Between 1973-75 the accused are said to have gone to Italy to purchase special road-working machines. Without the normal technical consultations, they purchased machines for two and a half million dollars. These machines were subsequently found to be useless for the job; some were re-sold, some given away, while others remained unused. No-one in the Ministry of Communications seemed interested in the loss, or in reprimanding Ryszard P. who, before his arrest, was "immune and all-powerful".

The trial of the accused was still to take place. An Italian, referred to as Luigi P., was also arrested, but was released on the payment of \$50,000 bail. He had not returned to Poland.

Poland Case 5: GLOWCZEWSKI

Source: Business Eastern Europe, 13 April 1979 and 4 April 1980

The case of French businessman André Glowczewski, who acted as an

unofficial marketing agent for Potain and a number of other Western companies, received considerable publicity in the Polish press. Glowczewski, who holds dual Polish-French citizenship, was charged with giving bribes to the value of F fr 200,000 to representatives of Bumar, the FTO for building and road construction equipment. He is also alleged to have provided Polish executives with the use of a new French car and a two-week free trip to Paris. The bribes were made in order to obtain a contract for 15 lines of equipment, valued at several million francs which the Polish authorities claimed were 'useless'.

After two years in detention, Glowczewski was sentenced to five years' imprisonment and a \$100,000 fine, plus payment of court costs.

Another French businessman, Stephane Dabrowski, was arrested in March 1977 and charged with similar violations. He was released in July 1977 on promising to become a witness for the prosecution.

Poland Case 6: STETTER GmbH

Source: Business Eastern Europe, 13 April 1979.

On 30 March 1979, five Polish officials were given hefty sentences for accepting bribes from the West German construction firm Stetter GmbH. In 1978, Stetter had paid \$250,000 bail to get its

representative, Peter Kroel, out of jail. Kroel did not attend the trial, pleading ill health.

The two main Polish defendants were:

Michael Piotrowski, former director of the ZREMB Association of Construction-Mechanisation, who was jailed for 8 years and fined Zl 200,000 for having received cash bribes of Dm 7,600, as well as valuable gifts of spare car parts, stereo equipment and clothing, to "betray commercial secrets of Polish foreign trade".

Janusz Thomas, a foreign representative of the FTO Bumar, who had negotiated the purchase of a Stetter licence for the production of cement mixers in the early 70's. He was charged with accepting bribes (but not with revealing secrets), and was sentenced to 6 years' imprisonment and fined Zl 200,000.

Three other lower-ranking officials, including a secretary accused of having "helped establish contacts", were sentenced to prison terms of 3-4 years.

Poland Case 7: 'ATTRACTIVE LADY FROM POZNAN'

Source: Business Eastern Europe, 25 August 1977.

The Polish Lawyers' Association journal Prawo i Zycie reported the story of an unnamed "attractive lady from Poznan" who was sentenced

to two years' imprisonment and fined Zl 400,000 for "replacing foreign trade organisations" and "acting as a business representative" without Foreign Trade Ministry permission.

The woman is alleged to have signed an agreement with the Swiss citizen Rudolf Marti, representing the Maag equipment company, for selling Maag textile machinery to several Polish organisations, including the FTO Varimex. She is alleged to have received \$100,000 and S fr 15,000 from Marti in 1973, and to have acted in addition as a representative of a West German firm marketing laundry machines in Poland.

The Western companies involved in the affair were not charged, but it was emphasised that the representation of foreign firms by private Polish citizens is illegal.

Poland Case 8: ROSCHE

Source: Business Eastern Europe, 6 May 1977.

Kurier Polski reported the trial of a West German, Hans Rosche, who was sentenced to five years' imprisonment and a fine of Zl 100,000 for bribing Polish officials. Kurier Polski claimed that Rosche was an agent of the UK construction firm, J.C.B., and that the bribes were made in order to help obtain a major contract. However, J.C.B. denied that Rosche was in their employ.

Rosche was accused of having given Dm 15,000 as well as radios, tape-recorders and audio-equipment to three employees of the FTOs Bumar and Energopol (licences and know-how for pipeline construction) and the ZREMB association. He is also alleged to have promised his Polish contact Dm 150,000 if his firm won the contract.

The outcome of the trial of the Polish officials is not known.

Poland Case 9: SARDA

Source: Business Week, 19 April 1976, p.41.

Business Week reported that an employee of the Italian construction company Franchi Sarda was arrested in 1976 for trying to bribe a Polish official to approve substandard concrete in a building project. The Sarda representative was held for over a year, and after his trial the company had to pay \$10,000 to obtain his release.

Poland Case 10: INDUSTRIE-WERKE KARLSRUHE-AUGSBURG

Sources: Business Eastern Europe, 26 December 1975;

Business Week, 19 April 1976, p.41.

Kurier Polski reported on charges brought against the representative of the West German company Industrie-Werke Karlsruhe-

Augsburg (IWKA) who was accused of bribing a Polish employee of the cosmetics enterprise Pollenda-Uroda in order to obtain blueprints of a new factory, production plans, and commercial offers from French and Swedish firms. The Polish national is alleged to have been given Dm 1,450, US \$20 and about £14,000 in bribes by the German. The two were reputedly apprehended at Warsaw's Okecie Airport when the documents and information were being handed over.

IWKA confirmed that they negotiated their representative's release for an undisclosed sum "after a brief pre-trial confinement".

Poland Case 11: LINDE AG

Source: Business Eastern Europe, 18 April 1975.

Business Eastern Europe reported that Georg Wollny, a representative of the West German firm Linde Ag (see Czechoslovak Case No. 3), had been arrested for bribing a Polish engineer to give information on Japanese and Italian bids on machinery for the Plock refinery. The Polish engineer was sentenced to 7 years' imprisonment in September 1974 for accepting some \$4,000 and valuable gifts from Wollny. It is not known whether Linde managed to obtain Wollny's release and, if so, how much they had to pay.

11.10. Romania

Business Week (19 April 1976, p.41) claims that: "For Western salesmen, the greatest pressure to pay bribes ... is in Romania. Business corruption is rampant there despite a campaign by President Nicolae Ceausescu against 'economic crimes'". Whether the pressure to pay bribes is indeed greater in Romania than in, say, Poland, is open to doubt. What is certain, however, is that the sentences given to convicted Romanian officials have been the harshest in Eastern Europe. Between 1973 and 1976 four Romanian officials were sentenced to death for accepting illegal payments from foreign companies (see Cases 1, 2 and 6 below). The publicity given to these cases sounded a clear warning to Romanian foreign trade officials and Western salesmen alike.

It is possible that this warning had some effect, since no cases of foreign trade corruption appear to have been publicised since 1976. However, as in Bulgaria, there may be other reasons why the authorities have chosen not to give publicity to such offences.

Romania Case 1

Sources: Radio Free Europe, Romanian Situation Report, 2 September 1976.

Business Eastern Europe, 24 September 1976.

In August 1976, the Romanian press reported that two Romanian economic officials had received death sentences for illegal dealings with Western business organisations. Nicolai Ilies, commercial director for the Industrial Central for Power Equipment, Lifting Machines and Metallurgy, and Bogdan Iordanescu, an engineer in the import-export department of the same IC, were convicted of having "divulged to a foreign organisation, for material reward, data concerning the Romanian national economy which constitute state secrets." No details were released.

Romania Case 2: ASCHER

Source: Business Eastern Europe, 13 June 1975.

The case involves an Austrian manufacturer of lacquers, paints and resin, Vianova Kunstharz AG, and a Romanian expert on wood lacquers, Andreas Ascher.

One of Vianova's executives, Dr. Horst Biemann, came into contact with Ascher when exploring sales opportunities in Romania, and since the Romanian was able to provide some valuable sales leads he was hired as a consultant.

With Ascher's assistance, Vianova signed a number of deals with the FTO Imeco (now absorbed by Chimimportexport), paying a 1% commission

to Ascher and depositing the money in anonymous Austrian savings accounts. For the period 1965-73, Vianova's total sales to Romania reportedly amounted to Sch.42.5million (US\$ 2.5 million). At the end of 1973, Ascher ended his consultancy activities and Vianova's payments to him ceased.

In July 1974, the company's export manager, Dr. Peter Scheibe, was arrested after arrival in Bucharest on charges of having induced Romanian citizens to reveal economic secrets. Vianova was instructed to bring to Bucharest all business papers concerning its activities in Romania from 1962 onwards, and all receipts for payments to private Romanian citizens. Moreover, all savings accounts kept for Romanians in the West had to be liquidated and the money brought to Bucharest. The company complied with these demands.

Eventually, Vianova was asked to transfer some US\$ 282,000 to the Romanian Foreign Trade Bank within four weeks. The day after the money arrived in Romania, Scheibe was allowed to leave the country (he had spent six days in jail and the rest in the Intercontinental Hotel).

In April 1975, a Bucharest court sentenced Dr. Scheibe and Dr. Biemann in absentia to 10 years' imprisonment. The sentences were commuted to fines: \$137,000 as an indemnity for damage caused to the Romanian economy, plus fines of \$84,000 for Dr. Scheibe and \$62,000 for

Dr. Biemann. Andreas Ascher was sentenced to death. It is not known whether appeals against the sentences were successful.

The Romanian authorities had discovered the affair when a former Vianova employee, arrested by the Austrian police for fraud, had sent photocopies of business letters mentioning Ascher's name to the FTO Imeco.

Romania Case 3: KLEIN, SCHANZLIN AND BECKER

Sources: Business Week, 19 April 1976, p.41.

Business Eastern Europe, 18 April 1975.

A representative of the West German pumps and valves manufacturer Klein, Schanzlin and Becker, was arrested in Romania in 1974 for allegedly passing US\$ 4,000 to a Romanian trade official to obtain an order for pumps. After half a year in prison, he was released only when the company agreed to pay Romanian authorities Dm 10,000 for legal expenses, plus a fine of Dm 100,000 plus Dm 1.7 million as compensation for damages allegedly done to the Romanian economy. The company claimed that the payment was "wholly out of line with the size of the order and the alleged pay-off sum".

The German representative was to be tried in absentia in April 1976. The outcome of this trial is not known.

Romania Case 4: AUSTRO-AMERICAN MAGNESITE

Sources: Wall Street Journal, 22 March 1976, p.4.
Business Eastern Europe, 18 April 1975.

In January 1974, Austro-American Magnesite, an Austrian subsidiary of General Refractories, the Philadelphia-based producer of high-temperature furnace equipment, had to pay US\$250,000 for the release of one of its engineers, Oska Mauschitz, who had allegedly bribed Romanian officials to provide 'secret' information.

The outcome of Mauschitz's trial in absentia is not known.

Romania Case 5: GENERAL TIRE AND RUBBER COMPANY

Source: Wall Street Journal, 22 March 1976, p.4.

The General Tire and Rubber Company disclosed to the American Securities and Exchange Commission in February 1976 that it had paid US\$ 90,000 to a Romanian citizen in connection with a tyre plant it was building in Romania. General Tire said it believed the payment was a legitimate fee for services rendered, but acknowledged that the money was funnelled through a Chilean affiliate. Such a payment is illegal under Romanian law, but it is not know what action, if any, was taken by the Romanian authorities following the disclosure.

Romania Case 6: ION TODORA

Source: Radio Free Europe, Romanian Situation Report, 5 November 1973.

On 23 October 1973, Romanian newspapers reported that Ion Todora, section chief at the Industrial Central for Agricultural Machines, Import-Export Administration (Imagrex), had been found guilty of "betraying the interests of the homeland", and that the death sentence passed on him by the Bucharest District Military Court had been carried out.

Todora had allegedly facilitated the conclusion of contracts with foreign firms for the import of farm machinery, causing losses to the Romanian state of 4,000,000 lei. Todora had also admitted receiving money and goods worth over 2,000,000 lei for his services.

11.11. Soviet Union

Although only two cases of bribery in the foreign trade sector have been given publicity in the Soviet press, there is reason to believe that the phenomenon is widespread.

Opportunities of meeting end-users are more limited in the Soviet Union than in the smaller East European countries, with the result that much of the bribery probably takes place during trade fairs or when Soviet officials are invited to the West. Examples of 'lubrication bribes' on such occasions are given by Jakoby et al. (1977, pp.98-9) and Business Eastern Europe (14 June 1974). Representatives of Western companies stationed permanently in Moscow also have the opportunity of meeting their trading partners regularly and the comments of some of these after the arrest for alleged currency offences of the International Harvester representative in 1978 are revealing:

"Over the years, none of us are perfectly clean", said one; "They could throw me in jail the next time I go there; I just trust they won't", another commented (Business Eastern Europe, 4 August 1978).

The two cases reported in the Soviet press (cases 3 and 4) are translated below in full. This is done because they give a particularly detailed picture of the mechanics of bribery; they also illustrate clearly the propaganda purposes of such publicity. The tone

and construction of both articles are strikingly similar: both begin with a dramatic scenario, a flashback, and then return to 'the present' and describe the proceedings in the courtroom. In both cases the accused Soviet officials are shown to had led disreputable lives even before the current offence was committed, and their attempts to profess their innocence are described with irony. In both articles, too, the cases are seen as being truly exceptional, and reference is made to the thousands of officials involved in foreign trade who carry out their duties honestly. Although there is a year between the articles, their similarity points to a conscious propaganda campaign by the Soviet authorities, designed to warn Western businessmen and Soviet officials against corrupt practices. The death penalty passed in the Sosnovsky case was a clear indication of the determination to clamp down on similar offences.

The Soviet authorities have decided (so far) not to publicise the huge caviar scandal (see Case 1 below). However, if a new campaign is being launched against corruption in general, as has been suggested (see The Times, 13 January 1981), some new cases of corruption in the foreign trade sector might be given publicity.

Soviet Case 1: THE CAVIAR AFFAIR

Sources: Financial Times, 15 April 1980, p.1.

Washington Post, 15 April 1980, p.A1.

In April 1980, 'highly reliable' Soviet sources revealed that a huge, illegal operation involving caviar exports to the West had been uncovered in the USSR. The affair, described by the Financial Times as probably "among the most serious economic crimes in Soviet history", remained undetected for over 10 years, and involved hundreds of people, including the Minister of Fishing Industries himself. As yet there has been no mention of the scandal in the Soviet press.

Ministry officials are said to have made a secret and illegal agreement with an (unnamed) Western firm to send black caviar abroad in sealed 3-5 litre tins marked "smoked, seasoned herring". On the Soviet side, the elaborate operation began with Caspian Sea fishermen and workers at state caviar factories surreptitiously diverting their catch into the illegal system, altering written reports to cover the discrepancy, and then passing the caviar along to specialist facilities, where it was packed, mislabelled and shipped West.

The Western company which imported the caviar paid the hard currency price for herring. It then repacked the delicacy and sold it at enormous profit, splitting the proceeds with Soviet officials, whose

share was deposited in Swiss bank accounts. The money was used (cautiously) by the Soviet officials to buy foreign goods whilst travelling in the West.

The scheme was only uncovered when some of the mislabelled tins slipped into general circulation through 'Okean' stores. Investigations lasted two years, with trials for corruption of lesser officials continually bringing evidence of corruption at higher levels, and eventually leading to the Ministry itself.

Over 200 employees of the Fisheries Ministry in Moscow were arrested, as well as hundreds of people involved in processing, packing and distributing the caviar, especially in the Azerbaijan region, where most black caviar is produced. Also involved were scores of restaurant managers in Moscow, the Black Sea resort of Sochi, and other cities. The kickbacks used to buy silence are said to have been sizeable.

The investigations led to the resignation in February 1979 of Fisheries Minister Alexander Ishkov. Also replaced were other high-ranking officials, including Vladimir Rytov, a deputy minister, I.V. Nikonov and V.P. Zaitsev, both members of the Ministry Secretariat, S.I. Gushchyan, deputy chief of resources and fish products marketing.

Soviet Union Case 2

Source: Jacoby, N., Nehemkis, P., Eells, R.: Bribery and Extortion in World Business, New York, Macmillan, 1977, pp.40-41.

In July 1976 it was reported in the Western press that two Japanese businessmen who had been negotiating a multi-million dollar contract for the design and installation of a natural gas processing plant for Western Siberia, were arrested by Soviet police for bribing a trade official. No further details were given.

Soviet Union Case 3: BARANOV

Source: Izvestia, 27 August 1976, p.4.

The following is a translation of the above article in Izvestia entitled: "From the Courtroom: THE FALL", by V. Kassis and B. Pilyatskin:

"On the last day of March this year, when the streets of Moscow still bore their winter covering and the gleaming headlights stared like glow-worms through the dusk that had descended on the city, a 'Zhiguli' car pulled up outside one of the city's restaurants. A middle-aged man got out and, paying no attention to the sign which read 'No free tables', he entered the restaurant. He cast a glance around the tables, and having apparently spotted those he was looking for, he

sat down with a merry group of people who, it seemed, knew him well.

No-one at the table paid any attention to the fact that the new arrival - West German businessman Karl-Heinz Rohovski - turned to say a few words to his co-patriot Willi Erbel, a salesman of the firm Dionis Hofman, who had already been in Moscow for five days preparing for the forthcoming opening in Sokolniki park of the exhibition "West German Tools - 76".

A few minutes later, both men stood up and moved to the exit at a leisurely pace. The same 'Zhiguli' car, with Rohovski at the wheel, carried them swiftly towards the Bolshoi Theatre. On the way, Erbel pulled out of his inside jacket pockets four oblong paper packages of a light brown colour and gave them to his neighbour. At the square in front of the Bolshoi, where coaches are normally parked, Rohovski got out of the 'Zhiguli' and was lost in the crowd. Erbel did not have to wait long for his companion, and when he returned, he was not alone. A man sat in the back seat of the car and greeted Erbel, without introducing himself. They drove back in silence to the restaurant where Erbel got out of the car. As if he hadn't been away, he slapped the shoulder of his neighbour who was sprawled over the bottles remaining on the table, and sat down ...

"Please stand for the Judge".

The judicial board for criminal affairs of the Moscow city court is in open session to hear the case of A.S. Baranov, accused of offences under articles 172 pt.II and 173 pt.I of the penal code of the RSFSR.

A small man with shaved whiskers, dressed in a grey woollen waistcoat and nervously fidgeting with his short fingers, describes the story of his fall. It is the story of how the senior engineer at the FTO Stankoimport exploited his official position for private gain and in return for bribe money betrayed commercial secrets to the representative of a foreign firm, causing a material loss of countless thousands of roubles to the interests of our state.

It is the story of how a graduate of the Institute of Chemical Engineering, having every opportunity for a constructive career, found himself on quite another path, became morally and politically corrupt and finally ended up in the dock. Before the court, Baranov tried to portray all that had happened as unexpected, even for himself. Was this really the case?

During the course of the cross-examination of the accused and the witnesses - who fully confirmed the evidence from the preliminary investigation - all the links in the chain which finally led to Baranov's serious crime were established. At first, a dreamy indifference, then an openly negligent attitude towards his official duty; on numerous occasions, failure to comply with official

instructions; a partiality for alcoholic drinks (twice he had woken up in the sobering station); discord in his marriage, which finally broke up following his actual 'fall'; the desire to obtain a large sum of money (in court Baranov was to 'explain' this by the necessity of building a co-operative flat for himself); and finally, an indiscriminating choice of acquaintances - all this led to the degradation of this character and turned him into a suitable object for correspondingly corrupt treatment.

As is well-known, the thousands of workers in the Soviet foreign trade apparatus fulfil an important and responsible mission. Selflessly, sparing neither time nor energy, they work at their allotted tasks, defending the interests of the Soviet state. Our foreign economic relations are growing, our trade with foreign countries is increasing, goods marked "Made in USSR" enjoy an ever-increasing prestige on the international markets. In its turn, the USSR, too, purchases foreign equipment. It is hardly necessary to say that the participants at negotiations try to obtain this or that deal on the best possible terms for themselves. Each contract has its own mixture of duel and dialogue, and both sides not only need technical knowledge of the product, but require also analysis and calculation on many points, on prices, etc.

Needless to say, this bargaining process relies on the strict observance of commercial secrecy. However, contrary to all accepted norms, Rohovski, following his bosses' instructions, decided to subvert

this secrecy. Rohovski is the head of the export department of the firm Hofman from Zwigenberg and was in Moscow for a series of negotiations with the FTO Stankoimport on the sale of machinery to the Soviet Union.

Rohovski was no newcomer to commercial operations. He had been active on the Moscow commercial scene for several years. However, according to his own testimony, Baranov was the first and only person who gave the impression that it would be possible to enter into a criminal agreement. It all began with what might have appeared to be mere trifles. Baranov begged Rohovski (whom, at the time, he knew only slightly) for a supposedly indispensable medicine (which, by the way, he later threw away without even using it). Then he left his private telephone number with the West German businessman: "When you bring it - give me a ring".

Later, it was explained to the court, the senior engineer, now ready for the big 'take', had no scruples about accepting modest gifts from the foreign contractors, such as Ronson and Imco cigarette lighters, Krupp and Remington electric shavers, or cartons of cigarettes and bottles of whisky. The longer it went on the bigger the gifts became. At one of their confidential meetings at the Profsoyuz metro station, Rohovski handed Baranov his special order of a Parisian wig (we quote - "Not of the best quality - my secretary bought it"), and then 125 roubles "as a loan". Now, in Rohovski's own words, he was

no longer in any doubt that for a solid reward, Baranov was ready to turn into a 'nonaccredited representative' of the Hofman firm in Moscow.

Everything proceeded according to the scenario mentioned above. On the day before the signing of the contract with Stankoimport, Baranov betrayed to the West German businessman a highly confidential commercial secret, as a result of which the firm Hofman received more favourable conditions for the sale of machine tools. As for the 'bonus' percentage for Baranov, the 'pay-off' was to be carried out later; for it's not so simple to take 12,000 roubles and 2,000 US dollars over the border - the sum the bosses of Hofman had calculated on as a fee for 'their man' in Moscow.

While the court hears the written testimony of Rohovski and Erbel, who, in the course of the investigation, had fully confessed to their infringement of Soviet law and had been expelled from the Soviet Union (naturally, they are now banned from entering this country ever again), let us return to that March evening when, having opened the black calico cover of his notebook and found his coded note 'Ram' [in Russian, baran], Rohovski phoned the number of Baranov.

Rohovski already knew that in one of the 39 boxes sent to Sokolniki with equipment for the exhibition stand, Erbel, following instructions received from Germany, had found four paper packages sealed with sticky

tape and had concealed them in the inside pockets of his jacket until the evening meal in the restaurant. Erbel had not been informed precisely what sum of money was contained in the light-brown packages. However, even before he left for Moscow, he had seen on the desk of the firm's accountant piles of carefully counted notes - Soviet money, American dollars, West German marks. At the time, his boss had said to him, "Rohovski knows what to do with the packages".

As we shall see, Rohovski really did know what to do. When he was alone with Baranov in the Zhiguli car, he took out of his attaché case three packages (the fourth with 5,000 marks he kept for himself) and gave them to his client. Not for nothing, then, had the firm's directors, according to Erbel's subsequent testimony, "feared that Rohovski himself might keep the money". That is indeed partially what happened: having got rid of the witness (Erbel) the enterprising dealer, who had led Baranov to crime and trapped him in his sticky web, claimed 'his share'. Part of the sum that the firm Hofman had designated for payment of Baranov found its way back to a representative of the same firm. As the saying runs, never mind how the money comes!

A few more things remain to be said. Having dropped Baranov off in one of Moscow's main streets, Rohovski went back again to the late gathering at the restaurant where, together with Erbel, a highly significant toast was drunk to a successfully completed affair. The next morning, his head heavy from the previous evening's corrupt 'works',

Rohovski went to Sokolniki and, rubbing his hands, said to Erbel "Everything's O.K. The suitcase has been handed over". Although it was the first of April, Erbel did not take these words to be an April Fool. He really believed that 'everything was O.K.' How was he to know that, at that very moment, Baranov was already giving his first statement to the enquiry...

The court found A.S. Baranov fully guilty of the crimes of which he was accused and sentenced him to a lengthy period of imprisonment and confiscation of his property."

Soviet Union Case 4: YURI SOSNOVSKY

Source: Nedelya, 12-18 May 1975, p.11.

The following is a translation of the above article in Nedelya, entitled "QUAGMIRE", by Yuri Feofanov:

"In the hall of Sheremetevo international airport on 8 June 1974, a tall, slightly stooping young man walked up and down. When the arrival of the plane was announced, he nervously lit up a cigarette, looked around and went into the toilets. He came out, rushed around the lobby, and returned into the toilets. Again and again he went ... the passengers of the plane had long since gone, but the man continued to hover around the door marked with the figure of a gentleman.

"Donnerwetter," he muttered, and wiped a cold sweat from his forehead.

At the same time, a man standing in front of the customs barrier was also wiping a cold sweat from his brow. Twice before, on arriving in Moscow, having announced in advance that he was bringing 'putty!', he had handed over packets of money in the toilets before passing through customs. But now... "how had they guessed?"

"So what were you bringing this in for?" asked the customs officers for the umpteenth time.

"It's ... it's putty!"

"What?" the customs officer tossed a packet of Soviet money up and down in his hand.

Several days later, it became known in the association Soyuzkomplektmebel [All-Union Association for Supplying Complete Sets of Furniture] that the head of its delegation to an international fair would not be the general director, but someone else. As for the general director, on hearing the news, he also wiped away a cold sweat. He took out his car and drove home. When his wife asked what the matter was, Yuri Sergeevich Sosnovsky replied, "It's the end ..."

Two years earlier, the exhibition 'Lesdrevmash' opened at Sokolniki. Several firms exhibited models of machines and designs for equipping furniture factories. Traders, experts, engineers, representatives of foreign trade organisations and factory directors assessed the quality of the exhibits. Naturally, company representatives proclaimed the virtues of their own products. In an honest fashion. According to standard business practice. But one of the guests, picking his moment, took Sosnovsky to one side and, in addition to his promotional arguments, raised his forefinger.

"You see," explained Sosnovsky, "I didn't understand anything then. I told another businessman, an old acquaintance, about what had happened. He frowned. Then suddenly he gave me 4 or 5 thousand roubles. I was even surprised."

"Why were you surprised?"

"I wondered what the money was for."

"But you took the money?"

"The money? Well, I took it ... But let me explain."

"Of course, go ahead and explain. That's precisely what we're here for."

If the reader has not already guessed where these explanations are taking place, I'll tell him - in court. In the Moscow City Court, which is hearing the case against Yu. S. Sosnovsky, former general director of the association Soyuzkomplektmebel, accused of taking bribes. Next to him in the dock sits Walter Haefelin. The very same person who was unable to hand over his contraband money - 45 thousand roubles.

The substance of the accusation is clear to the accused. Sosnovsky disagrees only on one point: in his opinion, the consequences were rather excessive for the sums involved.

"I wouldn't dream of misleading the court, your Honour," Sosnovsky pressed his hands to his chest. "You see, I've admitted to the essentials. Believe me ..."

"The court only believes facts."

"But I want to help show the court the truth."

"That's commendable," said the presiding judge. "A sincere testimony is a mitigating circumstance to guilt. But, mark you, Sosnovsky, not just words about sincerity, but sincerity itself."

I mention these words of the presiding judge so as to give some of the atmosphere of the trial. The rights of all participants were strictly observed, the witnesses given a clear explanation of their responsibilities - all this is, of course, the norm. But this indescribable tone of voice employed by the presiding judge during the course of the hearing - sufficiently strict, but at the same time without the slightest trace of bias - this I wanted to set down to the credit of the judge, L.E. Almazov.

I also mentioned the judge's words so as to draw attention to the behaviour of the accused. He could not deny the facts. Everything depended on the interpretation of the facts. On this, the extent of his sincerity would be judged. Let's see how sincere he turned out to be ...

"After the exhibition at Sokolniki," Sosnovsky explained, "we decided to buy equipment. But that required contacts with representatives of the firm."

"Did you only have business contacts or were they supplemented by personal contacts?" asked the public prosecutor, senior councillor of justice, M.I. Ilyukhin.

"You mean the gifts? I assumed it was just courtesy."

"A tape-recorder, a radio, a watch - that's all 'exchange of courtesies'? By the way, you sold the tape-recorder - how much for?"

"For a thousand roubles. But I had to pay for dinner twice - once in a restaurant and once at my yacht."

"Did you receive a coat as a present? Did your wife order foreign goods by catalogue?"

"That was later ..."

Yes, later. Sosnovsky maintained that he accepted his first gift without any second thoughts, without any - even unofficial - obligations. And the expensive things that followed he took 'just like that'. He desperately tried to make it all appear innocent. But when you're given a Grundig 'Satellite' worth a thousand roubles, you can't help but feel somewhat indebted. No, not officially, of course, but there is some sort of 'gentlemen's agreement'. It is naïve to think that an experienced salesman gives expensive presents 'just like that'. In the world of business such things don't happen.

Nevertheless, Sosnovsky assured the judges that everything happened 'just like that'. And he was brought two coats - from Paris, it appears - simply because "he had grown out of his own", and in a

distant firm, an accountant entered as a separate item "a bottle for Sosnovsky" out of pure courtesy; and they gave 4 or 5 thousand as if it were a mere trifle. And then they had brought 45 thousand "just like that".

"That's what I thought at the time," said the accused, head bowed. "The salesman was an old acquaintance..."

Yes, there was very little 'sincerity' about it all. Consequently, the presiding judge turned to Haefelin:

"You're a businessman, a salesman. Would you give several thousand roubles to an acquaintance 'just like that'? Because, let's say, you were friends as children?"

When he understood the question, Haefelin even threw up his hands in indignation and almost shouted "Nein!"

"So what did you pay Sosnovsky for?"

"I was trying to sell a machine, a granulator - but there were no buyers. I decided to lower the price. Sosnovsky said to me - take off 20,000 and stand firm. So I stood firm."

"But when I said 'stand firm'," Sosnovsky explained, "I meant something else. When Haefelin understood that they weren't going to buy his machine, I thought he was going to have a stroke - he went quite white. So I said 'stand firm' meaning that he shouldn't faint."

Haefelin, however, was not about to faint. He had understood everything perfectly. Take off 20,000 and stand firm. Had there been no warning, he explained to the court, he would have continued lowering the price.

"Did you know that in connection with the next contract you were promised a new bribe?" the prosecutor asked Sosnovsky.

"It's true they said 'conditions as before' but I didn't know what they meant. I suppose ... I suppose I was weak."

According to Sosnovsky's version, everything appeared - though, of course, illegal - somehow watered down. They paid him, his story ran, for some unknown reason, the bribes were virtually thrust upon him, he was given a hundred thousand roubles 'just like that'. It was both amusing and disgusting to listen to his 'explanations': "I'd had a heart attack and there was my young wife and little child - I took the bribes for their sake." That's how he 'explained'. Even when it had become clear to Sosnovsky that he was done for, he had tried to hide the 'dirty' money - he'd shoved 50 thousand roubles underneath the bath, into a shoe box, and into the attic. Yet he assured the court that he

"recognised the depths of his disgrace and was sincerely repentant."

The facts, however, point irresistibly to a different version of events. They lay bare both Sosnovsky's own predatory nature, and the real reason for the huge bribes he received from the foreigners.

The foreign salesman, so generous in his bribes, had worked everything out precisely. He earmarked 'ein Prozent', but not from out of his own pocket or out of commission. The president of the firm included Sosnovsky's bribe in the price of the products he sold us. In other words, we paid the firm for that 'extra' money with which the general director of Soyuzkomplektmebel was bribed. For the first contract concluded with the firm, Sosnovsky was paid 107,000 roubles, plus 7,000 roubles worth of gifts. For the next contract he was to be paid almost 300,000 roubles (Haefelin was bringing the 45,000 as an advance). All in all, it amounted to almost half a million roubles taken from us. All this is clearly documented and proven. The KGB investigators had more than a little difficulty in working out how this money for Sosnovsky had been withdrawn from the State treasury.

Alas, the damage caused by Sosnovsky cannot be fully calculated. For not only did the president of the foreign firm win a good contract, he also bought a partner - had Sosnovsky not carried out one of their requests, they would immediately have reminded him of the bribe.

"Please understand me, your Honour," assured Sosnovsky, "Now I admit that I took a bribe. I realised when I read the commentary to the criminal code."

"Of course, one must know the code", observed the presiding judge. "But is that really the issue?"

Two versions of Sosnovsky's character were set before the court. First, in Sosnovsky's own words:

"I was five years old when my father died. My mother worked, I was left to myself. Yes, at 14 I was taken to court and given a year's suspended sentence."

"What for?"

"Really, it was a couple of grown-ups who burgled the flat, I only scattered Eau de Cologne".

"Whose flat was it?"

Sosnovsky remained silent. And what could he say, given that at the time he'd robbed ... his own mother?

"Have you been convicted since?"

"In 1945. A car turned over with its load, and all the damages were put onto me."

The evidence from the investigation presents a somewhat different picture. At the time, in 1945, 400,000 roubles' worth of goods were stolen with Sosnovsky's participation. Sosnovsky was sentenced to ten years' imprisonment.

In 1954, Sosnovsky was released and - if, of course, we are to believe his version of events - "tried to make up for the sins of my youth by honest work". Sosnovsky described how he worked 'selflessly':

"I rose from sorter at a furniture factory to general director. I worked, finished technical school, then the Institute. All my life I tried..."

The facts speak differently. On leaving prison, Sosnovsky immediately 'followed the criminal path', as lawyers say, by covering up his past: on numerous forms he wrote: "1945-1955 employed at P.O. Box No. ----"¹. It need only be said that the address of Sosnovsky's place of detention was designated by the same P.O. Box number.

Sosnovsky did indeed rise quickly in his career. On the exterior, everything looked outstanding. But behind the facade ... In reality, his criminal activities did not cease. The whole life of this man was

1. A P.O. Box number is the usual way of referring to a 'secret' (i.e. defense-related) establishment in the USSR.

riddled with deceit. And the 'fateful' meeting with the businessman without scruples was merely a natural progression. If it hadn't been with that businessman it would have been with another. As soon as the opportunity presented itself, Sosnovsky was once again drawn into the mire. And even the fact that the criminal deal was struck with a representative of capitalist business, even this did not stop Sosnovsky.

As witnesses in court appeared superiors and subordinates of Sosnovsky, those who worked with him. "Intelligent", "businesslike", "energetic" - were the positive characteristics used to describe him.

"And, you know," said the witnesses, "it never entered our heads he'd do such a thing."

One can understand why 'such a thing' never entered their heads.

Our business contacts with foreign firms are diverse and are expanding all the time. The Soviet state runs the foreign trade monopoly through various institutions. Hundreds, thousands of officials in all areas of specialisation and at different levels come into contact with capitalist businessmen, and honestly represent the interests of the Soviet state on the world market. These officials stand out by their loyalty to the interests of the state, their honesty and virtue, their spotless reputation.

Exchanges of complimentary gifts, luncheons and cocktail parties are an inevitable part of business negotiations and concluding contracts. All this is normal procedure. But indeed, it could 'never enter into one's head' that one of our co-citizens could cross the moral dividing line and enter into a self-seeking deal with a capitalist businessman.

Sosnovsky's case is so exceptional that it is easy to understand the assessment of Sosnovsky's colleagues. Nevertheless, the question inevitably arises: where were the honourable witnesses, employees and directors at the Ministry of Lumber and Wood-Processing Industry, when this convicted thief was rushed up the hierarchy of the furniture association?

Despite everything, he rose to be general director, and somehow no-one took an interest in where Sosnovsky served during the war, what he did immediately after the war, what sort of character he was. The fact that he was 'aggressive', 'tenacious' and 'assertive' was enough to put him in a very solid job.

The Moscow city court heard an unusual, an exceptional case. Together with Sosnovsky, the representative of the foreign firm was also tried before it.

The State Prosecutor spoke for two hours. The counsels for the defence - K.N. Apraksiu and M.P. Kozin - spoke for about the same length

of time. Sosnovsky's lawyer, Kozin, in accordance with his professional duty, tried to find mitigating circumstances which would have lessened the guilt of the accused. But this guilt was too heavy.

In specific cases Soviet law stipulates an exceptional degree of punishment. In article 173 of the penal code of the RSFSR (pt.II) it is stated that the "taking of bribes by an official occupying a position of responsibility" is punishable, in especially grave circumstances, by the death penalty.

Sosnovsky, in his capacity of general director of the association Soyuzkomplektmebel, entered into a criminal agreement with a representative of a capitalist firm and on more than one occasion, received from them large bribes (we have already indicated the sums): he caused a substantial loss to the business interests of our state. The crime committed by this man (who had already been convicted in the past) and all the accompanying circumstances, are exceptional. Consequently, the court considered it necessary to apply an exceptional measure of punishment - the death penalty. The accused, Walter Haefelin, was sentenced to ten years' imprisonment. A special reprimand was made

towards the Ministry of Lumber and Wood-Processing Industry concerning shortcomings in personnel work".¹

1. According to Business Week (19 April 1976, p.41), Haefelin worked for Egli, a Swiss company supplying woodworking equipment. Despite diplomatic efforts to obtain his release, he was still in prison a year after the trial. Business Week also reports that the death sentence on Sosnovsky was carried out, and that he was shot by a firing squad. As for Egli, the company has reportedly received a US\$ 1 million contract from the Soviets since the trial of Haefelin and Sosnovsky.

CHAPTER 12: BRIBERY AND CORRUPTION IN EAST-WEST TRADE:

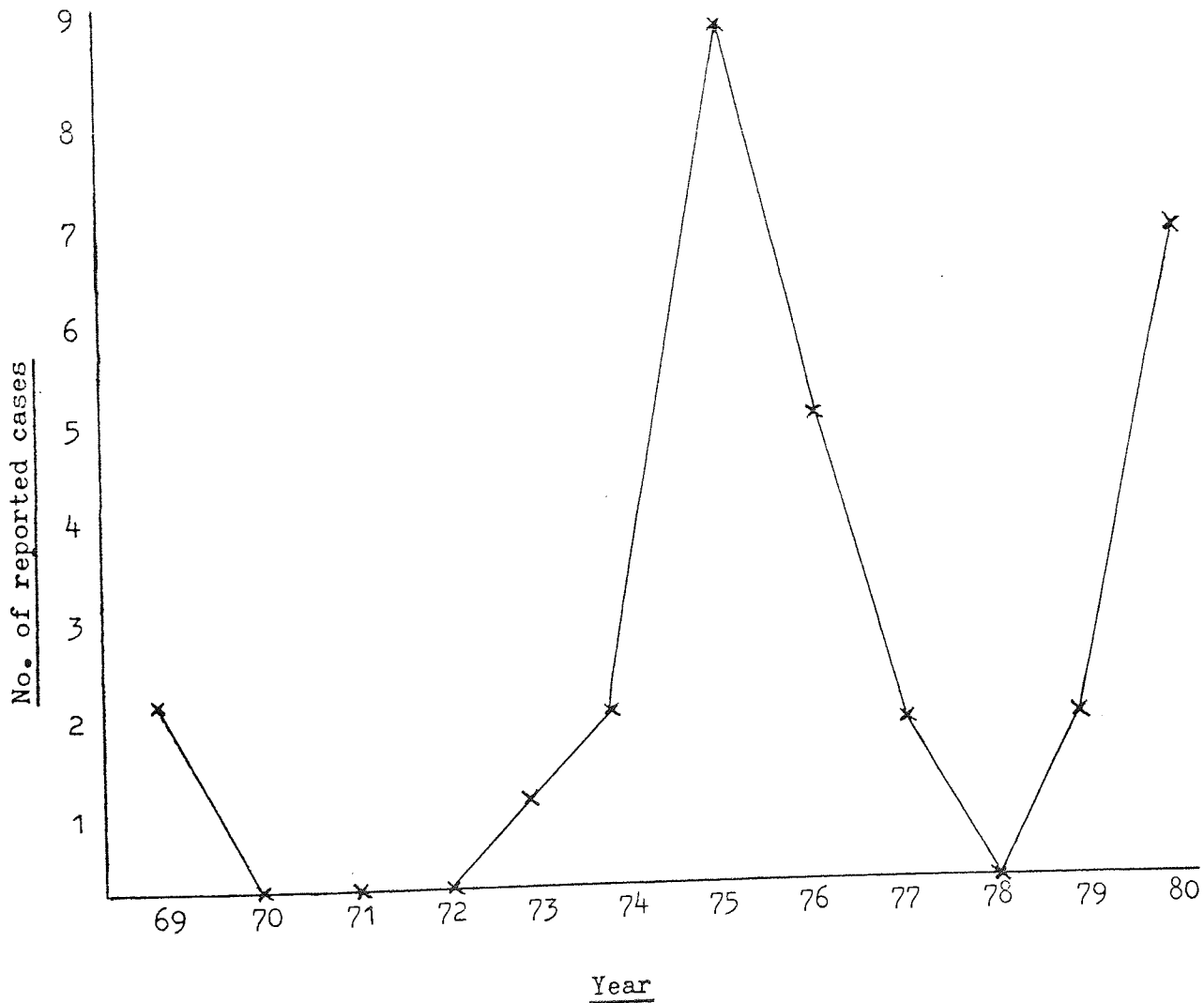
ANALYSIS OF CASES

In this chapter the cases described in Chapter 11 are analysed. First we consider the insight they give into the nature and extent of bribery and corruption in East-West trade; this is followed by a discussion of the implications of the phenomenon, both for Western businessmen, and, more generally, for East-West trade and East-West relations.

12.1. Anti-Corruption Campaigns

If we look at Eastern Europe as a whole, an interesting pattern emerges from the cases reported over the period covered, as Figure 12.1 shows.

Figure 12.1: Frequency of Reported Cases, 1969-80



NOTE: The time recorded is the period of the main publicity; if this is not stated, the time of the trial or of settlement with the Western company are used.

Because of the nature of the sample, Figure 12.1 should not be regarded as presenting the pattern of recorded cases with great precision. It does indicate clearly, however, that significant anti-corruption measures were taken around 1975-76, and again in 1980. The first peak occurs at the end of a period of dynamic growth in East-West trade, and might therefore be attributed to a decision to crack down on abuses that had arisen in this period, while reflecting concern over growing hard currency indebtedness. The second peak is largely accounted for by the Polish crisis, but also corresponds to a period of increasing East-West tensions. It may also not be entirely coincidental that the two peaks occur towards the end of the five-year-plan periods¹.

If we turn to individual countries, cases again tend to fall into groups, reflecting concerted campaigns against corruption conducted - at least partly - through the press. These anti-corruption campaigns are summarised in Table 12.1, which should be seen as presenting only a broad indication of the situation as suggested by the evidence in the cases.

1. There might, for example, be pressure on officials at all levels as their performance is measured and the new plan drafted, and hence for scapegoats to be sought.

Table 12.1: Periods of Anti-Corruption Campaigns

Country	Period(s) of Anti-Corruption Campaigns
Bulgaria	1969...1972; 1975
Czechoslovakia	1974-75; 1980
East Germany	None
Hungary	None
Poland	'Simmering' 1975-79; 1980
Romania	1975-76
Soviet Union	1975-76; 1980?

These campaigns can be explained in various ways within the context of the general trends discussed above.

- (i) An attempt simply to keep corruption below a certain tolerated threshold.
- (ii) A reaction against 'excessive' independence in foreign trade transactions, a re-affirmation of central control (e.g. Bulgaria 1969). Hungary's desire positively to encourage independent initiative in trade with the West is one possible explanation of the absence of publicised cases in that country.
- (iii) Part of the effort (linked to (ii) above) to control hard currency indebtedness, which is seen as being aggravated by 'unnecessary' imports stimulated by private profit (e.g. Poland 1975-79).

- (iv) The result of political faction-fighting - a way of exposing and ousting rivals, possibly as part of a domino effect with successive levels in the hierarchy losing their 'protection' (e.g. Poland 1980)¹.
- (v) An element in a general campaign against corruption within the country (e.g. Czechoslovakia 1980).

A combination of these and other factors is likely to be involved. Whatever the causes, the aim of publicity is to discourage East European officials and Western businessmen from entering into corrupt agreements. Press articles are written in a propagandistic, often heavily sarcastic style: the character of the East European official(s) is blackened, the damages they have caused are stressed (probably exaggerated), and the Western companies may be accused of trying to poison socialism with the morals of capitalist business (see the Soviet Union, Cases 3 and 4).

The heavy sentences given to offenders are clearly meant to serve as a warning of what the consequences of corrupt actions might be. Most striking are the death sentences passed (and apparently carried out) in Romania and the Soviet Union (see Romania, Cases 1, 2 and 6; and Soviet Union, Case 4). More commonly, however, those found guilty are sentenced to lengthy prison terms and large fines.

1. In Poland this situation was intensified by the emergence of an open opposition and a somewhat freer press, which gave scope for public demands for action against corruption.

Where possible, an attempt is usually made to make the Western companies feel the consequences, too. Not only are these companies often required to pay compensation for alleged damages caused to the socialist economy, they frequently have to make large payments - sometimes several hundred thousand dollars - to obtain the release of their representatives (see Bulgaria, Case 1; Poland, Cases 4, 6, 9, 10; Romania, Cases 2, 3 and 4). Companies have little choice but to pay up, both out of responsibility for their employees and because their continued ability to do business with the country in question is at stake. This has been called a "ransom business", with some East European governments seeking to extract hard currency, and using the bribery offences as a tool for extortion¹. "Ransom business" is probably an exaggeration; but in such cases the East European authorities certainly seek to sound a warning to other Western companies.

Two further points need mentioning in relation to anti-corruption campaigns. First, there appear to have been no such campaigns in East Germany or Hungary (see Chapter 11, section 11.8, for a discussion of the possible reasons). Secondly, the very fact that such campaigns are considered necessary - remembering that in a censored press, articles on corruption in East-West trade are almost certainly included for a

1. See "The Ransom Business in Eastern Europe", Business Week, 19 April 1976; pp.40-1. The cost to the Western company may not, in fact, be as great as the figures suggest, since such payments would be tax-deductible.

specific purpose - indicates that this corruption is sufficiently widespread to cause concern. We would suggest that the extent of the phenomenon is, in some degree, reflected in the reaction to it, though not, of course, with Newtonian accuracy. More will be said on this when we look at the extent of corruption in greater detail below.

12.2. The Scale and Other Aspects of Payments

(i) The Scale of Payments

In 16 of the 30 cases we are given an idea of the scale of cash or gifts paid as bribes or illegal commissions. These are shown in Table 12.2 below.

It can be seen that for East European officials, the scale of payments can be very large. In the Sosnovsky case (Soviet Union, Case 4), for example, the amount to be paid was over twice the 'going rate' for 'buying' senior party posts in Azerbaijan (see Chapter 11, section 11.3), while Kazimierz Tyranski (Poland, Case 1) had amassed a considerable fortune by any standards, Eastern or Western. If jobs are indeed valued by the amount of supplementary income that can be earned through bribes and other perks, key posts connected with foreign trade must be amongst the most attractive and sought-after.

Table 12.2: The Scale of Payment

Country and Case Number	Size of Payment
Bulgaria: Case 1	47,000 leva

Czechoslovakia: Case 1	116,000 valuta crowns and gifts worth Dm 18,000
Case 3	Kcs 1.2 million

Poland: Case 1	§1 million and gifts
Case 3	Zl.250,000
Case 5	F.fr.200,000
Case 6	Dm 7,600 and gifts
Case 7	§100,000 and S.fr.15,000
Case 8	Dm 15,000 and gifts (and promise of Dm 150,000 if contract won)
Case 10	Dm 1,450 and £14,000
Case 11	§4,000 and gifts

Romania: Case 2	§25,000
Case 3	§ 4,000
Case 5	§90,000
Case 6	Money and goods worth 2 million lei

Soviet Union: Case 3	12,000 rubles and §2,000 and gifts
Case 4	407,000 rubles and gifts worth 7,000 rubles

NOTE: It would be misleading to convert these sums into a uniform currency, since (i) official exchange rates do not reflect purchasing power parity; (ii) some of the figures have already been converted from hard currencies into East European domestic currencies at an unspecified rate of exchange (commercial, tourist or other?) so that to convert them back again might only create greater

inaccuracy, and (iii) accurate comparison is further complicated by inflation in the period covered. The official exchange rates given in Table 11.1 do, however, provide a very rough guideline for comparison.

Viewed from the perspective of the Western company, the scale of payments may not appear so large. Information on the size of the deals with which the payments were connected is scarce, but it seems that it is not unusual for around 0.5-1 per cent of contract value to be paid in illegal commissions or bribes (see Czechoslovakia, Case 3; Romania, Case 2; Soviet Union, Case 4). Higher rates can occur - Tyranski appears to have been paid some 25 per cent of profits in his dealings with Austria - but this is no doubt rare. In all probability, the average rate for 'whitemail' bribes is even less than 0.5 per cent of contract value¹.

(ii) Mode of Payment

Payments can be categorised by the form in which they are made. In the 30 cases analysed, the following modes of payment can be observed²:

- a) Cash (e.g. Romania, Case 3).
- b) Deposits in numbered foreign bank accounts (e.g. Soviet Union, Case 1).
- c) Overbilling of sales with kickback to the buyer (e.g. Poland, Case 1).

1. Nossiter (1976) estimates that in the Third World bribes or kickbacks can represent 2%-12% of contract value - the bigger the contract the smaller the percentage taken. In Eastern Europe, then, the percentage appears to be relatively low, but the size of contracts tends to be large.
2. The categories are based on the classification given by Jacoby et al. (1977; p.88).

- d) Gifts of property, watches, jewellery, etc. (e.g. Czechoslovakia, Case 1).
- e) Gifts of services, use of cars, etc. (e.g. Poland, Case 5).
- f) Payment of travel and entertainment expenses (e.g. Poland, Case 4).
- g) Unsecured loans - never collected (e.g. Soviet Union, Case 3).

Of these, a) and d) are the most usual, and frequently go together; the gifts most commonly offered appear to be electronic equipment, cameras, watches, clothing, jewellery and gold objects. These are also the simplest forms of payment, but the instances of b) and c) reflect the sophistication that has developed in bribery and other forms of corruption in East-West trade.

(iii) Purpose of Payment

The cases indicate that payments can be made for the following purposes (in approximate order of frequency):

- a) To obtain or retain business (e.g. Romania, Case 3).
- b) To obtain information - on prices, competitors' bids and other 'commercial secrets' (e.g. Soviet Union, Case 3).
- c) To minimise price of imports from Eastern Europe (e.g. Soviet Union, Case 1).
- d) To avoid harassment (e.g. Poland, Case 9).

Not surprisingly, the majority of the payments are connected with Western exports, though a few (three out of the 30) do concern imports.

(iv) Recipient of Payment

It is interesting to note ~~whom~~ Western companies choose to pay to achieve these purposes. The official positions of those who receive bribes and other illegal payments are not always disclosed, but from the 25 cases where there is some mention, the following distribution emerges:

Table 12.3: Official Positions of Recipients of Payment

Position	No. of Cases
FTO representative	14
Industrial Association representative	9
Enterprise director/engineer	4
Ministry official	2
Private citizens acting as agents	2

NOTE: The type of recipient is counted in each case, not the number of a particular type, but if more than one type of official are involved in any one case, all are counted - e.g. Poland, Case 4 counts 1 for FTO representative and 1 for Industrial Association representative.

The data are, of course, patchy, but Table 12.3 does shed interesting light on the decision-making process in Eastern Europe's trade with the West; assuming payments are aimed at officials in key

decision-making positions, it would seem to show that the balance of decision-making power is fairly evenly divided between FTOs on the one hand and Industrial Associations and enterprises on the other. (This is indeed what one would expect - see the UNCTAD Secretariat, 1972).

(v) Origin of Payment

In 18 of the cases the country or countries of origin of the companies involved were named. The tally of each country mentioned is shown below.

Table 12.4: Western Involvement by Country

Country	No. of Cases
West Germany	11
Austria	6
Italy	2
France	1
Japan	1
Sweden	1
Switzerland	1
United States	1

NOTE: In some cases, companies from more than one country are involved; therefore the numbers do not add up to 18.

The large number of cases in which West German and Austrian companies are involved is striking, their share in corruption cases being well in excess of their share in East-West trade volume¹. This suggests that West German and Austrian willingness to pay inducements to East European officials might be a contributing factor in the conspicuous success achieved by those countries in East-West trade².

12.3. East European Attitudes

East European attitudes towards bribery and corruption in foreign trade are probably as diverse as those in the West, although there is no open debate on the issue. The reported cases and other sources of information suggest that, very broadly, East European attitudes can be divided into three levels.

(i) 'Official' Official Attitudes

This is the official position of the East European authorities as presented to their own public and to the outside world, through the media. According to this attitude scrupulous honesty is demanded of

1. In 1979 West Germany accounted for approximately 20% (excluding FRG-GDR trade) and Austria 5%, of the trade turnover of industrialised market economies with Eastern Europe (see United Nations, Economic Bulletin for Europe, vol.32, No.1; p.76).
2. It is also possible that Germans provide the best propaganda material for discrediting Western business - anti-German feeling runs deep in some East European countries, especially Poland and the Soviet Union.

trade officials, who should not seek any undue material benefits from their position or give way to "efforts to poison the socialist economy with the immorality of capitalist business relations" (see Business Eastern Europe, 8 August 1975). Even small gifts may be seen as a violation of the strict discipline officially demanded (see, for example, Bulgaria, Case 2; Soviet Union, Case 3, Czechoslovakia, introductory section).

(ii) 'Unofficial' Official Attitudes

In practice, a certain level of perks seems to be tolerated by the authorities and unofficially accepted norms are not as strict as the publicised position suggests. Small gifts, travel abroad with expenses paid, etc., tend to be viewed as standard perks though there may, of course, be considerable variation from country to country as to what constitutes a 'small' gift. One can find oblique references which seem to confirm this. The most striking is contained in the Nedelya article on the Sosnovsky case.

"Hundreds, thousands of officials in all areas of specialisation and at different levels come into contact with capitalist businessmen, and honestly represent the interests of the Soviet state on the world market. These officials stand out by their loyalty to the interests of the state, their honesty and virtue, their spotless reputation. Exchanges of complimentary gifts, luncheons and cocktail parties are an inevitable part of business negotiations and concluding contracts. All this is normal procedure. But, indeed, it could 'never enter into one's head' that one of our co-citizens could cross the moral dividing line and enter into a self-seeking deal with capitalist businessmen."

As clearly as is politically possible, the article seems to be indicating that 'lubrication' payments will be tolerated, but that 'whitemail' bribes will not.

A concrete illustration of this official tolerance is the placing of hard currency shops in Exhibition Centres; it is known, of course, that a good proportion of the cigarettes, whisky and perfume bought by Western company representatives will find its way back to East European officials. The state thereby not only tacitly endorses 'lubrication' bribes, it effectively facilitates and encourages them, and even earns valuable hard currency as a result.

Since real tolerance limits differ from those presented to the public, discretion is demanded. Thus, for example, at trade fairs, Soviet officials 'conceal' their gifts in briefcases or plastic bags: everyone knows what these contain, but a minimum of secrecy must be observed¹.

In practice, then, there seems to be an acceptance that a certain degree of gift-giving is inevitable - possibly even desirable - since it

1. See Business Eastern Europe, 15 December 1972, which reports a broadcast by Radio Prague in which an FTO official was criticised for boasting about the lavish treatment he had received when invited to West Germany to negotiate a contract.

lubricates an otherwise unwieldy system. In all probability, too, the tolerated level will vary according to the position of the recipient, so that 'acceptable' gifts for high-ranking officials may not be so small.

(iii) Unofficial Attitudes

Finally, attitudes of individuals or groups of officials may differ from both (i) and (ii) above. Evidence is scarce, but one might presume that some officials take the view that substantial bribes or illegal commissions are legitimate, since these merely correspond to incentives and bonuses that their opposite numbers in the West can expect, that they are a just reward for initiative, and that they stimulate efforts to do profitable business. For example, in his defence, Tyranski claimed, "What I did was all connected with making profitable deals for Minex" (see Poland, Case 1).

These three levels of attitude are not rigid. They merge into one another, there is fluidity, and variation from country to country. The accepted norm hovers uneasily around a certain level, only to shift (at least, temporarily) when, for whatever reason or combination of reasons, anti-corruption campaigns are launched. A certain amount of convenient flexibility for the authorities is provided for by the relevant legislation (see Appendix 11.A), which, for the most part, is generally worded - in particular, the concept of 'damage to the economy' is a nebulous one. In the last resort, the state reserves the right to decide what is or is not 'damaging' to its interests, even when this means condemning activities which brought it financial profit.

12.4. The Extent of Bribery and Corruption in East-West Trade

So far we have discussed our subject from a number of angles but we have not yet tackled one of the most important questions: how widespread is bribery and corruption in East-West trade?

Unfortunately, the nature of the subject is such that precise measurement is a virtual impossibility. Nevertheless, analysis of the cases reported does allow our 'guesswork' to be somewhat more enlightened.

First of all, the cases prove that the phenomenon exists. Indeed, they provide evidence of the development of considerable sophistication in some instances. Exceptions must, of course, be made of East Germany and Hungary, where no cases appear to have been reported (though, as mentioned, this does not mean that there is no bribery and corruption).

Secondly, there are compelling reasons for supposing that the reported cases merely represent a small sample of the total:

- (i) The top of the pyramid. Most of the reported cases involve fairly large-scale payments; where bribery is involved it is generally of the 'whitemail' type. It is highly improbable that such cases could emerge without a substantial infrastructure of less serious bribery, a base of lubrication bribes.

- (ii) The scale of the reaction in the form of anti-corruption campaigns indicates that the East European authorities believe that there is a substantial problem which needs to be controlled.
- (iii) The censored press in Eastern Europe means that the cases reported are unlikely to be the only cases uncovered or brought to trial (for example, the Caviar affair - Soviet Union, Case 1 - has not been reported in the Soviet press).
- (iv) The difficulty of discovery and associated cover-up operations mean that only a small percentage of cases actually come to court. There are several reasons (see Lampert, 1980): the secrecy surrounding the operations; the fact that those who could potentially inform refrain from doing so because they are precisely the people who gain from similar operations, or they are paid for their silence, or wish to avoid scandal; the fact that accusations of bribery frequently rebound on informers; and the possibility of bribing one's way out of trouble. As a senior prosecutor in the Czechoslovak General Prosecutor's office has said: "The increase in registered penal graft and bribery does not reflect the true state of affairs. Cases that are brought before the court represent but a small percentage [of cases really perpetrated] ... Punishment of these offences has so far remained more or less a fortuitous act" (Tribuna, no.7, 13 February 1980; p.4, cited in Radio Free Europe, Czechoslovak Situation Report, 18 June 1980, p.6).

Thus, though it is impossible to give precise measurement, the evidence presented does nothing to contradict, but rather tends to confirm what had been suggested a priori in Chapter 11: that bribery and corruption are deeply rooted in East-West trade.

12.5. Implications of Bribery and Corruption for Marketing

(i) Influence on the Decision-Making Process

Studies of the decision-making process in East-West trade tend to concentrate on the formal planning process, on official channels and generally on how the system is supposed to work. If the conclusions reached in the previous section are correct, one important implication is that bribery and corruption can introduce a different, distorting element in the decision-making process which can have a significant, sometimes dominant influence on the outcome of business.

At a simple level, 'lubrication' bribes can buy attention from overburdened FTOs: speedier communication, processing of correspondence, testing of samples, etc. Such payments encourage short-cuts to be taken, and help ensure that a company's sales effort does not become lost beneath a pile of paper marked 'pending'. This is perhaps best understood by considering one of the possible effects of East-European anti-corruption campaigns: officials might be expected to become worried lest they be suspected of corruption, to be reluctant to take decisions or initiative without going through all formal channels involving

consultation, written confirmations and so forth (see Ost-Wirtschafts-Report, 13 October 1980). Such a 'work to rule' in the foreign trade apparatus could bring considerable chaos - hence the need for (and a certain tolerance of) 'lubrication'.

At a more serious level, bribes can buy valuable commercial information, or prove the decisive factor in choosing between competitive offers. Furthermore, in the absence of sound price or profit criteria in Eastern Europe, bribes can also have a strong influence on what is imported.

(ii) To Bribe, or Not to Bribe?

Western companies thus face the familiar dilemma of whether or not to offer bribes or other forms of illegal payment. In making this decision the potential benefits must be set against the risks, and the company's ethical position must also be considered¹.

Unfortunately, it is impossible to estimate with any precision the extent of the risks involved. We know that in some of the reported

1. Criteria and guidelines for such decisions have been developed by Kugel and Gruenberg (1977; pp.105-122). Their model is useful insofar as it outlines the various criteria that must be considered when deciding whether or not to bribe, but its practical value is limited by the difficulties involved in quantifying the potential benefits and risks. Such decisions cannot be particularly 'scientific' - too many variables and unknowns are involved.

cases, the Western companies suffered severe penalties, but we do not know what percentage of 'offenders' are caught, or, even when caught, whether the cost outweighs the benefits already obtained. Similarly, the nature of unofficial payments usually means that the return on investment is unsure: there is no formal contract, and even if the Western company does win business or obtain favourable terms, it may not be clear to what extent this was due to the payments made.

Many companies will doubtless decide to go no further than the incentives which can legally be offered¹. The decision to enter into illegal agreements must be taken in conditions of uncertainty, relying largely on the judgement and instinct of the salesman in the field, as well as on the moral outlook of the company.

12.6. Implications for the Level of Trade

The direct economic consequences of bribery and corruption in East-West trade are not very important. Broadly, such illegal payments result in a transfer of resources from the state to a group of private citizens. As a percentage of total trade turnover, the sums involved are certain to be negligible.

1. For a discussion of such legal incentives, see Business International (1980; pp.III-41-2); also Business Eastern Europe, 24 June 1977, and 6 August 1980.

Indirectly, however, this transfer of resources may have a more significant influence on the level of East-West trade turnover. This is because the prospect of private gain provides an incentive to engage in trade with the West whenever possible, and will tend to channel efforts and energy of important trade officials and industrial representatives towards the pushing through of contracts with Western companies. Potential 'entrepreneurs', frustrated by the inflexibility and bureaucracy of the official system, can find an outlet for their skills through opportunities presented by unofficial channels, with the chance of substantial material rewards. In general, illegal payments may generate considerable pressure for East-West trade in key areas of the decision-making process.

What evidence there is of such pressure tends to highlight its negative effects. For example, at the start of the current anti-corruption campaign in Poland, the State Prosecutor said that about Zl. 4 billion of machinery and equipment had been ordered into the country and had never been installed (see The Financial Times, 23 September 1980). Several of the reported cases provide examples of 'useless' imports stimulated by bribes (see Bulgaria, Case 2; Poland, Cases 2, 4 and 5). It is of course, such spectacular mistakes which make good propaganda material, and lead to a popular linkage of bribery with growing hard currency indebtedness¹. But the pressure to trade

1. For example, Eisenstein (1980) writes that: "Most Poles are convinced that the country is in debt because of swindles by officials in conjunction with foreign companies".

need not be damaging to the state: 'entrepreneurial' activity could simply lead to profitable deals for all parties, deals which would otherwise have been stifled in bureaucracy. For example, in the Tyranski case, even the Polish authorities had to admit that the joint Polish-Austrian company (from which Tyranski illegally received 25 per cent of profits) worked well and had a decisive influence on the steep rise in Minex's profits.

Once again, it is impossible to measure the influence of this pressure, and much of what one can say is speculation; but its existence, at least, is not in doubt.

12.7. Implications for East-West Relations

The transfer of resources to a group of private citizens may have a wider significance, too. It creates a group of people who have a vested interest in continued trade with the West, and hence in detente. If the political climate worsens, and trading relations suffer, so their privileges are cut off, and it is therefore in their interests to do all in their power to ensure that this does not happen; and in some cases, at least, the officials involved do have considerable power (see, for example, Bulgaria, Case 4; Soviet Union, Case 1). In other words, illegal payments in East-West trade arguably help to create a powerful pressure-group for detente within the socialist countries.

Our analysis of bribery and corruption, therefore, lends support to the argument of the Soviet emigré, Alexander Yanov, who has also suggested that there are broad strata of Soviet society with an interest in detente:

"Who has calculated how many millions of people in the USSR now make their living thanks to the fact that the Ministry of Foreign Trade has shared with them, de facto, the monopoly that was unalterable under Stalin. These are real privileges. People value them, people will fight for them. Only a new Stalin would be capable of abolishing them - with the aid of new terror on a mass scale ...

The scale of privileges varies, but their essence is the same. Without Detente someone will lose his Chanel and muskrat fur and someone else will lose his hunting trips and Packard. Both of them will lose something they can no longer get along without. Both of them are 'hooked' on Western living standards. That is why both of them are in favour of Detente; that is why both of them are Western-oriented." (Yanov, 1977; p.4).

If this is true, a bribe given by a Western businessman is, in effect, a political act; it is a bribe for detente - which must, of course, be in his interest.

12.8. A Market for Bribery?

Finally, we would suggest that a primitive type of market for bribery has developed in East-West trade. The idea is not new; it has been suggested in a world-wide context by Jacoby et al. (1977; pp.132-144):

"No doubt, this market is a very rudimentary and imperfect one, shot through with monopolistic and monopsonistic elements because of the wide gaps in the traders' knowledge of competing bids and offers. Nonetheless, those informal sub rosa channels of communication known as 'the grapevine' often function quite effectively; and one may conclude that a market for ... authority and influence in a country can possess a rudimentary system of communication, which permits some degree of competition in the formation of prices." (Jacoby et al., 1977; p.133).

In East-West trade the potential for such a market exists. We have a small idea of the level of prices, the state of demand and supply. What we lack to confirm the existence of this market is evidence of competition. The Western business community might enlighten us here.

The existence of such a market in the context of non-market economies may appear odd. In particular, the ability of East European officials to supply influence for which there would be a demand may seem strange, since foreign trade is, after all, planned. No doubt, if the planning system worked perfectly, there would indeed be no market for bribery, but it is precisely the imperfections of central planning which create both supply and demand. One must remember that Western companies compete for attention; that plans are drawn up on the basis of information supplied by lower organs, and that this information is subject to manipulation; that there are bureaucratic delays and blockages; and that some senior officials have the power to push through certain decisions which would otherwise depend on lengthy and uncertain

deliberations at lower levels (though the number of deals to which they can give such priority is limited by time constraints). All these and other factors can be influenced by bribery. The very secrecy of the plans, the restrictive nature of the regimes, creates a (black) market for valuable information not contained in public sources. Thus, while such a market would tend to undermine the rational basis of foreign trade planning, it could also be seen as an inevitable consequence of the system, and, arguably, as a necessary safety valve for it.

12.9. Conclusion

Our study of bribery and corruption in East-West trade has inevitably had to rely on patchy data. We have had to speculate more than we would wish, and conclusions must be heavily qualified. Such is the nature of the subject; however, we have tried to set it on somewhat firmer ground, and have raised some important issues¹.

It is appropriate to conclude where bribery begins: with the economic and political systems of Eastern Europe. In the words of one Soviet emigré: "Corruption is not the monopoly of one country or of any given social grouping. We all remember the scandal provoked by Lockheed's excesses. But corruption can only develop on fertile ground: that of triumphant bureaucracy" (Voslensky, 1980; p.228).

1. These issues are summarised and suggestions for further work are made in the concluding Chapter.

CHAPTER 13: CONCLUSIONS: PRINCIPLES AND PRACTICE IN EAST-WEST TRADE

The principal feature of this research lies not so much in any single 'point', as in the overall approach adapted, both to the particular problems posed by the collaborating company, and to the subject of East-West trade in general. The emphasis throughout has been on approaching the subject and the research through an appreciation of the fundamental principles which distinguish East-West trade: namely, the difference between East and West in political outlook and, above all, in their systems of economic management. The need for such an approach was suggested by initial impressions formed at the Company, confirmed by extensive reading within the subject, and, it seems, justified by the results achieved. As we shall see, the main findings - important as they may be in their own right - also serve to reinforce the validity of this approach and strengthen the view that the practice of trading with Eastern Europe can be improved by an appreciation of the principles which generate the numerous issues and problems in East-West trade.

13.1. Summary of Principal Findings

A review of the relevant literature showed that East-West trade had become established as a subject in its own right, taking contributions from several traditional disciplines, but owing its

existence exclusively to none of them. It was argued that the literature could be divided into that dealing with the theory, economics and politics of East-West trade, and that dealing with practical aspects of trading with Eastern Europe. While this division is in many respects a natural one, it was suggested that the subject could benefit from a greater interaction between the two perspectives. The detailed case study of Angus Fire Armour Ltd. and the further research it stimulated represents an attempt to bridge this particular gap.

The Angus study involved investigations of an area of East European technology not previously analysed in Western published sources. East European production of fire fighting equipment was seen to be less sophisticated than that in the West, though significant improvements had taken place in recent years, thanks to increased priority and an injection of Western technology. The market openings for Angus were found to be limited, primarily due to the improved domestic production, strong Western competition, and hard currency constraints. However, some opportunities did exist, and a low-key strategy of carefully directed pursuit of these opportunities was recommended to the Company - a strategy which has been implemented with some success.

The Angus case showed how a substantial amount of valuable desk research could be undertaken even for products which do not fall into a 'mainstream' category. The nature of Angus products means that little

quantitative data were available, but information from a variety of sources could be pieced together to provide a valuable preliminary picture of the market. There were still important gaps, though, and the Angus experience confirmed the conclusions reached by several authors that desk research must be supplemented by direct visits to the market. Market research for Eastern Europe is therefore likely to involve a multidirectional approach, with the emphasis on different methods of research depending on the products in question.

More generally, the Angus experience tended to confirm many of the broad points made in marketing guides for Eastern Europe: for example, the need for intensive marketing, the importance of personal contacts, of considering alternatives to direct product sales etc. At the same time, however, the case highlighted three areas which were not adequately covered in the existing literature.

The first was the problem of internal company adaptation to the particular demands of the East European market. The Angus/Dunlop experience showed how efficiency in East-West trade suffers not only because of the shortcomings of central planning, but also because of the difficulties experienced by Western companies in adapting to conditions in Eastern Europe. In particular, internal 'political' barriers can obstruct the kind of coordinated approach the market frequently demands.

Secondly, the Angus case exposed the complexity of the division of responsibility amongst foreign trade organisations. Further research confirmed that the Company's experience was far from unique, and that the majority of UK companies are faced with more than one importing organisation for their products. Discussion is complicated by difficulties of definition - notably of what constitutes a 'product' - but it is this very difficulty which is responsible for the flexibility, duplication and confusion which can be observed within the foreign trade systems of Eastern Europe. The result is that the system does not - indeed cannot - function as it is officially meant to; consequently, the 'official' view of the system presented to Western exporters can be dangerously misleading, while some of the claims for the efficiency of the foreign trade systems based on the monopoly of position of FTOs must be questioned.

Finally, further research also supported the suggestion that bribery and corruption are important elements affecting the decision-making process in East-West trade. The reported cases point to a certain sophistication of the phenomenon, which has been able to mature over more than a decade of intensive and relatively stable trading relations between East and West. Systematic analysis of this evidence gives a clearer understanding of the mechanics of illegal payments (how much is given, to whom, and why), and of East European attitudes to them. In addition, we showed that if bribery and corruption are indeed

widespread, this carries certain important implications: Western exporters face the difficult decision of whether or not to engage in illegal methods of sales promotion in order to match or beat their competition; East European officials may tend to generate pressure for increased trade, and a potentially powerful interest group in favour of detente is created. It is also suggested that a sort of market has evolved in the foreign trade sector of the planned economies, a (black) market of influence, a haggling for currency allocation, information and preferential treatment in exchange for various incentives and privileges.

These, briefly, are the principal findings of the research. Below we discuss how they relate to one another and to the overall thrust of this thesis.

13.2. Uncertainty in East-West Trade

There is a clear link between the two areas into which follow-up research was conducted, between the question of FTO responsibility and that of bribery and corruption in East-West trade: in both cases, we reveal aspects of the East European foreign trade systems which do not function as they are officially supposed to. From the Western exporter's point of view, the 'official' system is already complex enough, involving a considerable degree of uncertainty: political and economic developments affecting East-West trade are to a large extent

unpredictable, forecasting demand is an 'inexact science', sales tend to be 'lumpy' and the return on substantial start-up investment unsure. The degree of uncertainty is increased, however, when an element of fluidity and confusion is introduced into the decision-making process. Informal channels such as influence and bribery appear as almost elemental forces, exercising a significant - often one suspects, determining - influence on how decisions are really made, especially at the detailed level of purchases of individual products. The marketing environment in East European countries can be viewed as one of organised chaos: there is an official system, and things are supposed to happen in a certain way, but in practice the situation is complicated by the important role played by unofficial channels, whilst even 'official' channels do not always operate as the exporter is formally led to believe.

The complexity severely limits the value of 'prescriptive' marketing guides. For, arguably, the grey areas, the unpredictable departures from the official system which remain unanalysed in such guides, collectively outweigh the generalised assertions that can confidently be made. Prescriptive marketing guides are themselves faced with an impossible problem of scale: the complexity of the marketing environment is such that they cannot consider all the possible problems which might confront the exporter. As a result, only advice of a general nature can be given, but our analysis shows that this

advice can be of limited help - and actually misleading in some respects - to the businessman faced with immediate and complex problems.

There is, however, a second link between the question of FTO responsibility and that of bribery and corruption: in both cases, what we have found is consistent with the general functioning of the centrally planned economy, as described in Chapter 3. We have already seen how bribery and corruption are endemic in the internal economies of East European countries, and how there is every reason to believe a priori that it should be equally important in the foreign trade sector. In the case of the division of FTO responsibility, it would perhaps have been surprising had we found that the FTO system did function according to the conventional view; for blurring of strict areas of responsibility, duplication and bureaucratic competition are all familiar features in the planned economies; we might also have expected to find that the centre (in our case, the Ministry of Foreign Trade) cannot control all that goes on at 'micro' level and ensure that it conforms to the rules of the system.

We return, therefore, to the primary importance of understanding the fundamental principles which generate most of the issues involved in East-West trade, for such an approach prepares the exporter for the 'organised chaos' of the marketing environment. In the case of the two areas discussed above, a knowledge of how the Soviet-type economies function could lead the exporter to appreciate the importance of bribery

and unofficial channels, and to anticipate that there might be duplication or blurring of responsibility in the FTO system. We would also argue that such an understanding gives the exporter a better chance of overcoming the internal problems of adaptation examined in Chapter 8, since the support of senior management is more likely to be obtained and 'political' obstacles overcome if the need for such action can be clearly explained.

So it is that the main findings of this research serve to reaffirm the importance of the approach adopted. It is the sheer complexity of the East-West trade environment that makes this approach so important.

13.3. Suggestions for Further Research

Some of the issues raised in this thesis carry important implications either for Western exporters or for East-West trade in general, or both. We would therefore hope that this work will stimulate further research, and suggest that this might concentrate on the three main areas highlighted by the Angus case study:

- (i) Further research into the problems of internal company adaptation to East European conditions would be of interest. Desirable organisational forms are discussed in the existing literature, but there is little examination of the problems involved in implementing the

necessary changes, nor of the tensions created by a market which makes different demands and has a different 'rhythm' of business from most other areas. In particular, the Angus/Dunlop experience suggested that it would be valuable to study the way in which multi-divisional companies coordinate their East European sales effort: what organisational forms are chosen and why; what are the obstacles to effective coordination; does the perception of the organisation by individual divisions differ from that of head office?

(ii) On the question of the division of responsibility between FTOs, the present work has gone some way towards revealing the true state of affairs, but much remains to be done. There is scope for other detailed studies of the experiences of particular companies, for in-depth studies of the situation in individual countries, as well as for examination of possible demarcation problems between interal departments of individual FTOs. A study of the division of responsibility between East European export organisations would also make interesting comparison with our analysis of importing organisations.

(iii) Similarly, the present work on the question of bribery and corruption in East-West trade should be seen only as a beginning. Further research might concentrate on potential sources of information not used in this study. Possibilities include: the offices of the State Prosecutor in East European countries; the commercial sections of Western embassies; and emigré trade officials (assuming that some have

indeed settled permanently in the West). Western exporters would appear to be the most promising additional source - their views can now be set against the 'hard' data given in this thesis. From a combination of these sources, one would hope for some additional data (in the form of more cases), and support for, or counter-arguments to the conclusions reached here; one would hope for anecdotal evidence and some different perspectives on the subject, while exporters might give some more insight into the detailed mechanics of bribery: what are the 'going rates' in each country, how does one know when to bribe, and what are the perceived risks? In short, through consulting all possible sources, one could hope to build upon the base provided here, and to construct as complete a picture as is possible of a phenomenon which is normally, by its nature, hidden from view.

Finally, one of the main objectives of this thesis was to bridge the gap between the literature on trading with Eastern Europe and that on the more general issues surrounding the politics and economics of East-West trade. We have shown how an understanding of general issues and principles can assist the businessman in his practical dealings with East European countries. We have also seen how a detailed study

of a company's experience can help identify aspects of the subject which have been insufficiently examined and which, when analysed in depth, have important implications for some of the more general issues in East-West trade. We would hope, therefore, that this research might encourage similar detailed studies of company experience in East-West trade, studies which can be built on the analytical framework provided here.

APPENDIX 2A: A NOTE ON THE USE OF EAST EUROPEAN STATISTICS

These comments are based mainly on the Soviet Union's methods of statistical reporting. What is said is relevant to the rest of Comecon, but it should be borne in mind that, as in the West, there is some variation in methods used between different countries.

From the end of the thirties to 1956 the publication of normal statistics ceased altogether in the Soviet Union. Now considerable statistical information is available, but there are several important gaps (for a list of these, see Nove, 1977, pp. 350-1).

The main problem arises when comparisons between East and West are required. First, different measurements of national economic output are used. The Comecon countries, instead of Gross National Product, follow Marxian ideology and measure Net Material Product (NMP), which excludes so-called 'non-productive' sectors, such as education, housing, the military and some transport. Second, there is the ubiquitous index number problem when measuring economic growth. Comecon countries have an ideological incentive to exaggerate output-volume growth rates, and hence tend to use early-year price weightings. Moreover, the individual reporting agencies (industrial enterprises, ministries) also have an incentive to maximise their results, and so there is a tendency for new products to be given an artifically high weighting, and for changes in the product mix to introduce concealed price rises, both of which inflate the growth index.

These factors have induced Western economists to produce their own estimates of, in particular, Soviet economic performance. However, as the following tables show, there is considerable discrepancy in the results obtained.

A COMPARISON OF SOVIET DATA AND CERTAIN AMERICAN ESTIMATES

TABLE 2A.1: Indices of National Income Growth in the Soviet Union

	Soviet Data & Concept	Estimate of A. Bergson (1937 weighting)	Estimate of N. Jasny (1926-7 weighting)	Estimate of G. Warren Nutter (1937 weighting)
1928	25.9	59.7	46.2	54.1
1937	100.0	100.0	100.0	100.0
1940	133.1	117.0	122.0	117.3
1945	110.7	-	-	-
1948	154.0	-	115.0	-
1950	218.5	114.0	-	135.7
1955	373.9	204.0	-	188.1
1960	582.6	-	-	255.2

TABLE 2A.2: Industrial Production Indices (1928 = 100)

	Soviet Data & Concept	Estimate of N. Jasny	Estimate of G.W.Nutter	Estimate of D. Hodgman	Estimate of N. Kaplan & R. Moorsteen
1928	100	100	100	100	100
1932	202	165	140	172	154
1937	446	287	279	371	249
1940	646	350	312	430	263
1946	494	236	183	304	168
1950	1,118	470	385	646	385
1955	2,067	-	608	-	383

SOURCE: Lavigne, The Socialist Economies of the Soviet Union and Europe, London, Martin Robertson, 1974.

Bearing in mind these discrepancies, and the fact that, apart from the differences in reporting methods, Comecon statistics have proved generally reliable, there is something to be said for using East European data as far as possible. Nove refers to 'the law of equal cheating', which states that "exaggerated output reporting cannot affect the rate of growth unless the extent of the exaggeration changes."

Further problems of comparison are created by the artificial price structure in Eastern Europe, and the inconvertibility of Comecon currencies. The official exchange rates do not convert East European prices into Western purchasing power equivalents.

In the case of foreign trade statistics, the principal differences are the following: Comecon countries measure both imports and exports F.O.B., while in the West imports are usually measured C.I.F.; Comecon data include 'know-how and services of a productive nature' (e.g. the cost of technology associated with importing machinery and equipment), which is not included in Western statistics of merchandise trade; Western sources do not include trade between East and West Germany, which, for political reasons, is considered to be 'internal German trade'; finally, there are differences (some of which cut across the East-West division of countries) in the statistical classification of trade partners (e.g. assigning of imports to the country of production or the country of residence of the seller), which result in differing treatment

of re-exports and middleman trade¹.

In general, then, statistics have to be handled with particular care when comparing Comecon with the West, and the problems should be recognised. The policy followed in this thesis is to use Comecon sources where they are uncontroversial (e.g. population statistics) or not directly compared with the West (e.g. direction of trade), but to use reliable Western sources where comparisons on a Western basis are required (e.g. growth rates, GNP). The figures predominantly take the form of percentages, but where volume measurements are necessary, figures have been given in pounds or dollars, and hence Western sources are used.

One final note on the use of the term 'East-West trade'. It refers predominantly to trade between the developed West and the Comecon countries. However, the developed 'West' must include Japan, and it is also often desirable to refer to trade between Eastern Europe and non-communist countries. Thus, rather than be constrained by a tight, limiting definition of East-West trade, I prefer to use the term broadly to refer to Comecon trade with non-communist countries, the main emphasis being on trade with developed countries. When 'East-West trade' figures are given it will be made clear precisely to what they refer.

1. In his comprehensive analysis of the discrepancies between East European and Western trade statistics, Marer (1978) shows that, in the period 1960-75, there was a cumulative difference of \$14.1 billion between the balance of East-West trade obtained on the basis of East European sources and that obtained on the basis of OECD sources; this represents 14% of the cumulative 1960-75 CMEA exports to the OECD group. Between individual trading partners, the discrepancy can be even larger - e.g. 60% (of Hungarian exports) between Hungary and Switzerland, and 45% between Hungary and the U.K. The discrepancy appears to result largely from differences in the treatment of middleman trade.

APPENDIX 2B: STATISTICAL DATA

TABLE 2B.1: SOVIET, US, UK AND WORLD PRODUCTION OF SELECTED PRIMARY PRODUCTS IN 1977

<u>PRODUCT</u>	<u>SOVIET PRODUCTION</u>	<u>US PRODUCTION</u>	<u>UK PRODUCTION</u>	<u>WORLD PRODUCTION</u>
Crude Petroleum (thousand metric tons)	545,799	402,489	37,541	2,985,879
Coal (thousand metric tons)	499,768	603,772	122,150	2,475,948
Brown Coal & Lignite (thousand metric tons)	163,513	26,571	-	902,279
Natural Gas (Tera Calories)	2,889,335	4,932,118	376,701	11,820,600
Iron Ore (thousand metric tons)	131,418	35,042	949	482,800
Bauxite (thousand metric tons)	4,600	2,456	-	79,600
Chromium Ore (thousand metric tons)	910	-	-	4,200
Copper Ore (thousand metric tons)	1,100	1,364	-	8,000
Gold (kilograms)	270,594	32,547	-	1,258,594
Lead Ore (thousand metric tons)	510	538	15	3,270
Nickel Ore (metric tons)	168,000	13,015	-	800,600
Zinc Ore (thousand metric tons)	720	416	8	5,750
Asbestos (thousand metric tons)	2,460	92	-	5,320
Industrial Diamonds (thousand metric tons)	7,900	-	-	30,156

SOURCE: Selected from UN Statistical Yearbook, 1978. Figure for Soviet gold production is from CIA Handbook of Economic Statistics, 1979, and the figure for world gold production has been adjusted to include the Soviet Union, but excludes Chinese production.

TABLE 2B.2: NATURAL POPULATION GROWTH FOR COMECON COUNTRIES
(PER 1,000 INHABITANTS AT MID-YEAR)

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Bulgaria	9.7	7.2	7.2	6.3	6.4	5.4	5.0
Czechoslovakia	6.7	6.4	4.3	8.0	7.8	7.2	6.9
G.D.R.	3.4	3.0	-0.2	-3.5	-2.3	-0.1	0.0
Hungary	4.5	2.4	3.1	6.0	5.0	4.3	2.6
Poland	15.0	10.0	8.5	10.2	10.7	10.1	7.0
Romania	10.4	6.0	11.6	10.4	9.9	10.0	9.4
Soviet Union	17.8	11.1	9.2	8.8	8.9	8.5	8.5

SOURCE: Statistichesky Yezhegodnik, 1979

TABLE 2B.3: INDEX NUMBERS COMPARING WORLD TRADE GROWTH, GROWTH OF TOTAL COMECON TRADE AND GROWTH OF EAST-WEST TRADE AND GROWTH OF COMECON GNP. (1970 = 100, based on U.S. \$ values, at current prices)

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1973</u>	<u>1975</u>	<u>1977</u>
Comecon Trade with Non-Communist Countries	36	60	100	202	330	389
Comecon GNP	61	78	100	114	123	132
Total Comecon Trade	43	65	100	183	273	335
World Trade (Exports)	90	93	100	140	216	236

SOURCE: Derived from CIA, Handbook of Economic Statistics, 1979, and U.N. Yearbook, 1978.

TABLE 2B.4: TRADE OF SELECTED OECD COUNTRIES WITH INDIVIDUAL COMECON COUNTRIES: ORDER OF RANKING 1978. (Monthly Averages - US \$ millions, imports CIF + FOB, Exports FOB)

(i) SOVIET UNION

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	207.40	1. W. Germany	261.70
2. Italy	138.70	2. Japan	208.52
3. Finland	122.69	3. U.S.A.	189.70
4. Japan	120.14	4. Finland	127.02
5. <u>UK</u>	<u>110.08</u>	5. France	121.04
6. France	101.69	6. Italy	94.26
7. Austria	50.90	7. <u>UK</u>	<u>67.68</u>
8. U.S.A.	45.00	8. Canada	41.44
9. Netherlands	44.45	9. Austria	30.85
10. Switzerland	42.76	10. Switzerland	22.17

(ii) G.D.R.⁽¹⁾

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. France	18.54	1. U.S.A.	14.20
2. <u>UK</u>	<u>14.14</u>	2. France	13.89
3. Netherlands	10.43	3. Netherlands	12.74
4. Italy	8.44	4. Italy	11.28
5. Austria	8.11	5. Austria	10.14
6. Finland	4.10	6. Switzerland	9.13
7. U.S.A.	2.90	7. <u>UK</u>	<u>7.59</u>
8. Switzerland	2.61	8. Japan	4.84
9. Japan	1.65	9. Finland	4.58
10. Canada	9.56	10. Canada	1.79

NOTE: (1) Excludes G.D.R. - FRG trade.

(iii) POLAND

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	86.50	1. W. Germany	110.30
2. France	45.03	2. U.S.A.	56.70
3. U.S.A.	36.60	3. <u>UK</u>	<u>42.54</u>
4. Italy	34.00	4. France	41.94
5. <u>UK</u>	<u>33.95</u>	5. Italy	32.92
6. Finland	14.78	6. Austria	30.86
7. Austria	12.47	7. Japan	22.14
8. Netherlands	11.24	8. Netherlands	16.98
9. Switzerland	6.64	9. Canada	16.42
10. Canada	5.38	10. Switzerland	15.58

(iv) CZECHOSLOVAKIA

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	56.50	1. W. Germany	76.10
2. Austria	20.19	2. Austria	18.39
3. <u>UK</u>	<u>13.67</u>	3. Italy	12.50
4. Italy	13.47	4. France	11.82
5. France	11.69	5. <u>UK</u>	<u>11.70</u>
6. Netherlands	10.37	6. Switzerland	10.12
7. Switzerland	5.71	7. Netherlands	8.93
8. U.S.A.	4.80	8. U.S.A.	8.80
9. Japan	4.11	9. Finland	3.10
10. Canada	4.08	10. Japan	2.82

(v) HUNGARY

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	54.10	1. W. Germany	91.30
2. Italy	23.02	2. Austria	31.15
3. Austria	15.21	3. Italy	20.72
4. France	10.09	4. France	17.07
5. Netherlands	8.14	5. Switzerland	15.17
6. Switzerland	7.45	6. Netherlands	12.73
7. <u>UK</u>	<u>6.79</u>	7. <u>UK</u>	<u>10.32</u>
8. U.S.A.	5.70	8. U.S.A.	8.20
9. Finland	2.84	9. Finland	4.87
10. Canada	1.66	10. Japan	4.49

(vi) ROMANIA

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	50.50	1. W. Germany	73.70
2. U.S.A.	28.90	2. France	29.42
3. Italy	23.02	3. U.S.A.	26.69
4. France	19.23	4. Italy	20.06
5. Netherlands	14.88	5. Japan	19.31
6. <u>UK</u>	<u>8.27</u>	6. Austria	12.75
7. Austria	6.75	7. Switzerland	11.58
8. Japan	5.29	8. <u>UK</u>	<u>10.32</u>
9. Switzerland	3.82	9. Netherlands	7.11
10. Canada	2.19	10. Canada	2.79

(vii) BULGARIA

<u>OECD IMPORTS</u>		<u>OECD EXPORTS</u>	
1. W. Germany	13.20	1. W. Germany	29.80
2. Italy	6.91	2. Italy	9.01
3. France	4.68	3. France	7.80
4. Austria	3.04	4. Austria	5.17
5. <u>UK</u>	<u>2.41</u>	5. Japan	4.62
6. U.S.A.	1.60	6. Switzerland	4.61
7. Japan	1.52	7. <u>UK</u>	<u>4.26</u>
8. Netherlands	1.38	8. U.S.A.	4.00
9. Switzerland	1.18	9. Netherlands	2.34
10. Finland	0.55	10. Finland	0.71

SOURCE: As for Table 2.9.

APPENDIX 6A: PRODUCTS OF ANGUS FIRE ARMOUR LIMITED

The purpose of this Appendix is to give a concise introduction to the product field involved in the present case study, and in particular to the products of Angus Fire Armour. For greater details on the whole area of fires, fire-fighting and fire-fighting equipment, the reader is referred to the Home Office's Manual of Firemanship (1976; especially vols. 1-3).

The bulk of Angus business was in loose or portable fire-fighting equipment and could be divided into five main product classes: pumps; protective clothing; extinguishers; hoses and fittings; and foam and foam-making equipment. Of these, the first two were largely factored or merchandised, and the sales turnover was small (see Table 6.1). Angus manufactured a full range of extinguishers (water, CO₂, dry powder, foam, halogen), but these are, in the main, fairly standard products and do not demand special explanation. As for hose and foam products, however, the technology is more involved. Some knowledge of these two product areas will assist understanding of the case study, since it concentrates heavily on them. The description that follows refers to the state of technology and the Angus product range at the time of collaboration with the company.

6A.1. FIRE HOSE

The function of a fire hose is to carry water for fire-fighting purposes. In order to do so efficiently it should have the following properties:

- Waterproof
- Burning resistance
- Resistance to abrasion, punctures and gouging
- Ability to take high water pressures
- Good flow properties
- Climatic temperature resistance
- Flexibility and ease of handling
- Light weight and small coil diameter
- Minimum maintenance
- Mildew resistance
- Resistance to chemicals and chemical fumes
- Minimum 'snaking'
- High adhesion of lining to jacket
- Rugged construction
- Ease of repair

It will be obvious that many of these desirable properties conflict - for example, ease of handling and light weight are to a large extent incompatible with toughness and rugged construction - and the customer's desire for low price may limit many of the points made. In addition, different users put different emphasis on the various properties, and so we find that there is no 'perfect' hose: fire hose is inevitably a compromise between various desirable qualities. The number of variables in the qualities desired is matched by the variables in product design, which can be adjusted in order to achieve a particular compromise, or property mix.

Fire Hose Design

There are three basic elements in the construction of fire hose: the lining, the jacket and the coating. We shall deal with each in turn, starting from the inside and working outwards. Some 'covered hose' cuts across conventional hose design and will be dealt with separately.

i) Linings

The old flax fire hose did not require a lining, since the material expanded and became water-tight when wet. The cheaper and more flexible materials now used in hoses (e.g. cotton, nylon, terylene) do not possess this quality, and require a lining so that the hose should not leak. Since a lining has to be included, qualities other than the impervious nature of the material become important, such as adhesion properties, heat resistance, strength, ozone resistance, smoothness, solvent resistance, and compression or set resistance. These will vary partly according to the materials used (e.g. polyurethane, blends of natural and synthetic rubber), and partly according to the production method used. Most Angus linings are now made by a continuous vulcanisation (CV) process as opposed to the former length by length method. A special form of lining developed by Angus is the reinforced rubber

lining (RRL); this is a latex lining reinforced by a cotton or nylon cambric, which gives added strength, providing in effect a 'hose within a hose' capable of withstanding 150 p.s.i. in short length bursts. RRL linings are, however, more expensive than CV linings.

ii) Jackets

Linings are watertight but in themselves they cannot hold much pressure (even RRL only holds pressure effectively in short lengths, when it is already contained in a jacket) and they certainly cannot cope with the rough treatment to which a fire hose is subjected: abrasion, burning etc. A jacket is therefore required, and the substance which serves this purpose most efficiently is WOVEN TEXTILE.

The choice of yarn to be used in the jacket is of prime importance. The fibre may be natural or synthetic, thick or thin, and synthetic yarns may be either continuous filament (i.e. consist of thin twisted strands running the whole length of the yarn) or staple (i.e. short lengths of the fibre twisted together). Different materials have different properties, affecting the performance of the hose:

a) Flax

Flax is a natural fibre, and is therefore only found as a staple yarn (in fact there are two varieties - short and long staple). It swells when wet, becoming very strong and very stiff, and is weak when dry. It is subject to attack by mildew. Flax is hardly used in fire hose anymore, because it is expensive, it is not easy to handle, and it requires a lot of maintenance.

b) Cotton

As flax went out in the 1940's, cotton came in. Another natural fibre, it also swells when wet, but not to the extent of flax, and it needs a lining. It is also subject to mildew, but it has very good abrasion resistance. Cotton has been largely replaced by cheaper synthetic fibres, but is still used, notably on the controlled percolation hoses.

c) Synthetic Yarns

These are man-made fibres. Those used are NYLON, TERYLENE and, to a lesser extent, VINYLON. They can come in continuous filament or staple form.

Continuous filament yarns are extremely strong for their weight (indeed, if the hose were designed on strength criteria alone, very light filament yarn would be used, but in practice these would soon succumb to abrasion, burning etc.). Synthetic yarns are not affected by mildew, and therefore require less maintenance. Terylene is less extensible than nylon, but adhesion to terylene is more difficult than to nylon - in general, both abrasion resistance and adhesion is poorer with filament yarns than with staple yarns.

Staple yarns are weaker and more extensible than filament yarns, and are also more expensive (vinyon particularly so) but do provide extra toughness.

Both nylon and terylene are liable to be damaged by chemicals: acid attacks nylon, alkaline attacks terylene.

Also relevant to the performance of the jacket is the type of weave. Two yarns make up the jacket, the WARP, which runs lengthwise down the hose, and the WEFT, which runs circumferentially around the hose. Jackets can be either PLAIN woven, or TWILL woven, according to the number of weft yarns the warp passes under and over.

iii) Coating

Fire hose may also be coated with a thin layer of protective material. This is designed to improve several properties:

The abrasion resistance

The flame resistance

The mildew resistance (if the jacket contains natural fibre)

Resistance to chemicals and solvents

Ease of cleaning

The physical appearance of the hose

Various materials are frequently used for coating:

P.V.C.

Neoprene

Hypalon

Polyurethane

Acrylic

Again, there are things to be said for and against each of these. For example, Polyurethane is excellent for abrasion resistance, but its flame resistance is very poor, while for P.V.C. the reverse is true.

More details are considered to be unnecessary here, since it can be argued that coatings are of only marginal importance compared with linings and jackets. They may give some additional protection but like a chain, they are only as strong as their weakest link. The main selling feature of coatings may well in fact be their physical appearance, while only thicker coatings, or COVERED HOSES, have significant performance benefits.

iv) Covered Hose

Some covered hose, such as Angus 'Duraline', can no longer be described in terms of lining, jacket and coating. The plastic or elastomeric material is forced through the "jacket", protecting it both

inside and outside. The "jacket" merely provides the strength, while the plastic or elastomeric material protects from abrasion, chemical contamination, heat etc.

Different types of linings, jackets and coatings, then, can be combined in various ways to produce hoses with varying properties. The Joint Committee on Design and Development (JCDD)¹ gives 3 basic types under which most hose can be classified:

Type 1: Hose with an impermeable lining with the jacket containing a proportion of natural fibres.

Type 2: Hose with an impermeable lining and an all synthetic jacket which may be treated externally with a plastic or elastomeric finish.

Type 3: Hose with an impermeable lining with an all synthetic jacket which is covered with an impermeable external layer of plastic or elastomeric material of sufficient thickness and durability to be substantially impervious to water for the life of the hose.

3. The Angus Range of Fire Hoses

Angus make some 150 different types of hose, with 600 different sizes or specifications.

1. JCDD Specifications are issued by the Joint Committee on Design and Development of Appliances and Equipment of the Central Fire Brigade Advisory Councils.

We need only discuss the four most important types, which are:

"WATERCLAD" - controlled percolation hose (CPL)

"CENTURION" - Type 2 hose

"FLAMEFIGHTER" - Type 2 hose

"DURALINE" - Covered hose

i) Waterclad

CPL hose is designed mainly for use on forestry fires, where the hose may be dragged over burning embers, and the cooling effect of the water on the jacket is beneficial. 'Waterclad' has a cotton warp and a terylene filament weft, is coated with P.V.C. and then 'turned inside out', making the P.V.C. a 'lining'.

ii) Centurion

This is the standard commodity fire hose, of the Angus range. Both warp and weft are of filament terylene, and the jacket is twill woven. It has a CV lining, and the coated version - known as "HYPERION" - is coated with acrylic.

iii) Flamefighter

This is a superior quality hose. The warp is a mixture of staple nylon and filament terylene, while the weft is filament terylene. 'Flamefighter' has an RRL lining, and may be coated ('Flamefighter Fortified') with PVC.

iv) Duraline

'Duraline' is the 'star' of the Angus range. The jacket is made entirely of filament mylon, while the cover is of P.V.C./Nitrile.

'Duraline' has superb heat and abrasive resistance, needs no drying, can be used between -20°C and $+40^{\circ}\text{C}$, has excellent chemical and ozone resistance, and the adhesion of cover to jacket is first class, owing to the penetration of the jacket by the cover. Damage is easy to spot and repair.

The disadvantages of 'Duraline' are its weight (32lbs. for 100 feet of $2\frac{1}{2}$ " I/D, compared with 27lbs. for 'Flamefighter') and its cost.

A wide range of 'Duraline' qualities are made by Angus, based on the same principles, but with slight adjustments to meet particular customer requirements.

Competition

Until 1978, Angus shared the covered hose market with the Norwegian manufacturer Mandals, the two companies having had joint patent rights. Since the patent expired, however, several other manufacturers (mainly German and Dutch) have produced similar products. There is one other (considerably smaller) UK manufacturer of fire hose.

6A.2. FOAM

Some fuels cannot be extinguished by the cooling action of water. On large scale fires, or on fires where some degree of flame knock-down is required even if total extinction is not possible quickly (e.g. plane crashes), foam is generally considered to be the most suitable agent to use. It forms a blanket over the fuel surface, separating the fuel from the oxygen needed for ignition.

Foam terminology is often misused; the following definitions should help avoid confusion:

FOAM CONCENTRATE (or COMPOUND) - The concentrated liquid which, when mixed with water and air, will produce foam.

FOAM SOLUTION - The mixture of foam concentrate and water.

(AERATED) FOAM - The mixture of foam concentrate, water and air which is applied onto a fire and forms a foam blanket.

The whole subject of foam is a complex one, with many factors influencing what makes a foam good or bad, suitable or unsuitable for a particular use. Some of the more important properties of foam concentrates and aerated foam are discussed below.

a) Expansion Ratio

The expansion capacity of different foams vary, and some idea of their relative foamability can be obtained by measuring the expansion ratio which is

$$\frac{\text{volume of foam}}{\text{volume of foam solution present}}$$

Foam expansions can be roughly divided into three groups for convenience:

LOW EXPANSION	:	ratios up to 20
MEDIUM EXPANSION	:	ratios from 20 to 400
HIGH EXPANSION	:	ratios above 400

The expansion of a foam depends greatly on the equipment used to generate it, and high expansion foam can only be made by large, fan-operated generators.

b) Drainage Time

The longer a foam remains stable, the longer its protective blanket stays effective. As water drains from the foam, it becomes less efficient and more susceptible to destruction by the heat of the fuel. Some measure of the rate at which water drains off is therefore useful - the slower the rate, the better the foam. The usual measurement is the 25% DRAINAGE TIME, the time taken for 25% of the water in the foam to drain away.

c) Foam Stiffness - 'Critical Sheer Stress'

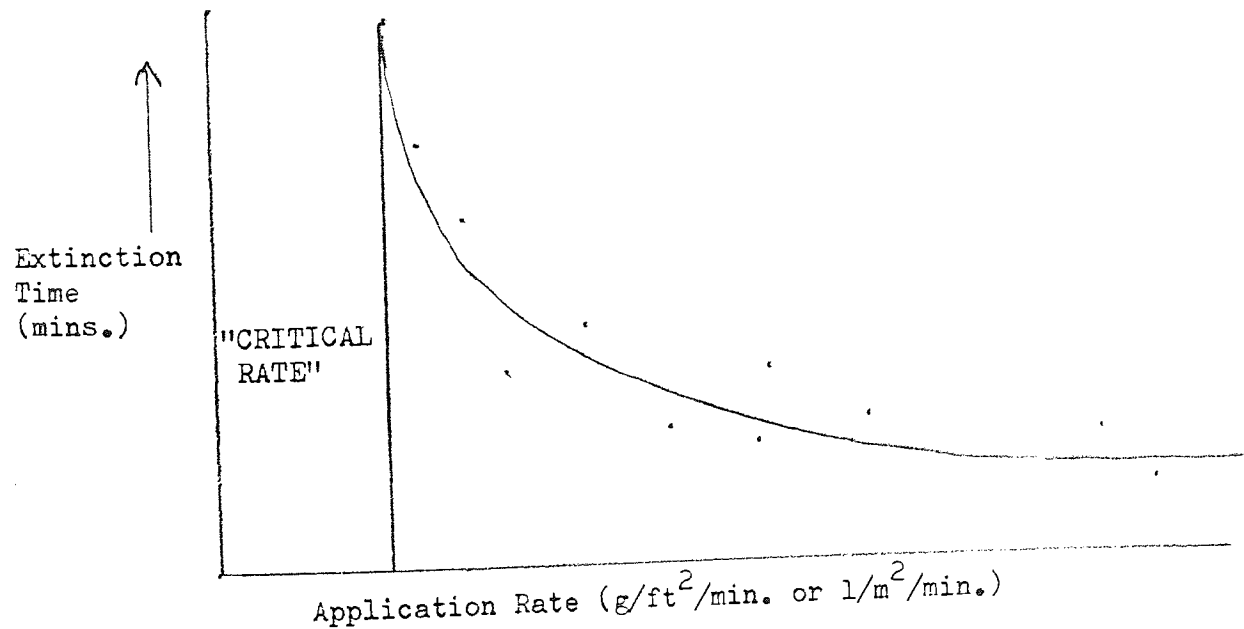
It is also desirable that the foam should be relatively free-flowing so that it spreads rapidly over the surface of the fuel. The stiffer the foam, the less readily it spreads. The measurement of stiffness is called the 'sheer stress'. A low sheer stress is desirable, but often conflicts with good drainage properties, since stiff foams lose water slowly, and vice versa.

d) 'Burnback' Resistance

Even if total extinction of a fire is not achieved before application of foam is stopped, it is desirable that the foam should offer some protection, and lengthen the time taken for the fire to burn back to full intensity. The less a foam is contaminated by the fuel, the greater its burnback resistance.

e) Application Rate

The rate at which foam is applied onto a fire can be measured in gallons/ft²/min. or litres/m²/min. The rate of application is one of the main factors influencing the extinction time of a fire, and if we plot rate against time the graph will look like this:



It can be seen that there is a point below which extinction will not be obtained (i.e. if foam continues to be applied at only this rate, the fire will burn as long as fuel remains). The minimum rate at which foam must be applied to put out a given fire is called THE CRITICAL RATE. At the other end of the scale, we can see that increasing the amount of foam applied has a negligible effect on extinction time. In practice, foam is applied at about twice the critical rate to ensure adequate

extinction. Comparison of critical rates under specific conditions is one of the main ways of assessing the performance of different foams, but the results must always be viewed with caution and in relation to the conditions under which the tests were carried out.

Types of Foam and Their Uses

There are five main types of foam. They are:

- i) Protein
- ii) Fluoroprotein
- iii) Fluorochemical (Aqueous Film Forming Foam)
- iv) Synthetic
- v) Alcohol Resistant

We will discuss each in turn.

i) Protein Foam

Protein foams were the first to be developed, and are still widely used, being cheap and having the weight of tradition behind them, although they are less efficient than fluoroprotein foams. Protein foam is used to produce low expansion foam, and is accepted for protection against all major non-polar fuel risks.

The main advantages are its excellent stability and resistance to heat. Disadvantages, however, are its relative stiffness and its poor tolerance to fuel contamination - on a deep layer of fuel which has had a long pre-burn, protein foam applied at the normal rate can be ineffective.

ii) Fluoroprotein Foam

Fluoroprotein foams have the same advantages as protein foams, but at the same time have a lower sheer stress and far greater tolerance to fuel contamination. Except at very high application rates, extinction will almost always be quicker with fluoroprotein foam than with protein

foam, and it will have a lower critical application rate. It is the best foam for use on large tank fires since its stable blanket remains effective for a long time, and more recently it has been used successfully in "base injection" - the foam is injected at the base of the tank, rather than from the top.

iii) Fluorochemical Foam (AFFF)

Aqueous film forming foam (AFFF), apart from acting in the same way as other foams, has particular surface tension characteristics, which make it capable of forming a vapour-sealing aqueous film on the surface of the fuel. The extremely low shear stress of AFFF means that it spreads very rapidly over the fuel, and the foam blanket reseals quickly if broken. Its disadvantage is that it does not give the lasting protection of fluoroprotein foam, and so is less suitable for large-scale risks, such as oil refineries. It finds its main use on spill fires, and fires where quick knock-down is required, such as military air crashes. AFFF tends to be the most expensive of all the different foams.

iv) Synthetic Foam

Synthetic foam can be used for low, medium or high expansion, making it extremely versatile. In some countries (e.g. Germany) it is used at low expansion for major fuel risks, but while it will put out fuel fires, it has virtually no burnback resistance. At medium expansion, synthetic foam can be very effective on spill fires. At high expansion, using special fan-operated generators, synthetic foam is used for the total flooding of buildings as described above, and can be used through fixed installations for more specialised risks - for example, the protection of liquid natural gas.

v) Alcohol Resistant Foams

The foams mentioned above are all ineffective against polar solvents, which can mix with water. For risks involving polar solvents, then, a different foam has to be used. Alcohol resistant foams contain additives which form a protective barrier in the bubble walls to retard destruction of the foam. These foams must be applied gently, and at a relatively high rate. These foams may sometimes be used on hydrocarbon fires, though they are not very efficient.

The principal properties and applications of these various types of foam are summarised in Table 6A.1 on the following page.

The Angus Range of Foams

Angus produce the full range of foams. The trade names for each category are as follows:

Protein foam	-	NICEROL
Fluoroprotein foam	-	FP70
AFFF	-	TRIDOL
Synthetic foam	-	EXPANDOL
Alcohol resistant foam	-	POLYDOL (N.B. also FLUOROPOLYDOL, which can be used efficiently on BOTH hydrocarbon and polar fuels)

Competition

Angus face stiff competition in foam compounds, notably from the British company Chubb Fire, and from European companies such as Hoechst of West Germany. The main competitor for AFFF is 3M; at the time of the project Angus ran into patent problems with its own brand, Tridol, and had to withdraw it from the market.

TABLE 6A.1: FOAM TYPES - PROPERTIES AND APPLICATIONS

FOAM TYPE	MAIN PROPERTIES	RECOMMENDED APPLICATIONS
PROTEIN	<p>Excellent Stability and Heat Resistance. Established Acceptance by Many Major Users. Least Expensive Foam Type.</p>	<p>Acceptable for use on all Hydrocarbon Liquid Fires. Oil Industry Marine Use Aviation Use</p>
FLUCORPROTEIN	<p>Fast Knockdown, Tolerance to Contamination by Fuel, Low Critical Application Rate, Great Stability & Heat Resistance. Widely Accepted as the Most Effective Foam for Oil Industry.</p>	<p>Ideal Agent for Major Risks Involving Hydrocarbon Liquid Stores or Spills. Fixed Tank Protection Including Base Injection, Oil Industry & Marine Use, Aviation Use.</p>
FLUOROCHEMICAL (AFFF)	<p>Very Fast Knockdown, Tolerance to Fuel Contamination. Low Critical Application Rate. Only Moderate Burnback Resistance. Most Expensive Foam Type.</p>	<p>Good for Hydrocarbon Liquid Spill Fires. Aircraft Crash Fires. Heli Decks. Fixed Spray or Sprinkler Systems</p>
SYNTHETIC	<p>Can be used for Low, Medium or High Expansion Foam. Versatile but Limited for Many Major Hydrocarbon Fires.</p>	<p>General Purpose Brigade Use for "Incidents" of Limited Size. E.G. Vehicle Crashes. Used in Fixed Systems at High & Medium Expansion for Special Risks.</p>
ALCOHOL RESISTANT	<p>Stable on Water Soluble Liquids. The Most Stable Foam Type, But Not Efficient with Forceful Application on Polar Liquids.</p>	<p>"Acceptable" for all Hydrocarbon Liquid Fires. Best Applied Gently. Essential for Water-Soluble Liquid Fires. Special Applications: Emergency Foam Blanket on Aircraft Runways. Bitumen Fires.</p>

6A.3. FOAM MAKING EQUIPMENT

Any foam can only be as good as the equipment that makes it.

There are two stages in foam production, INDUCTION and GENERATION. At the induction stage, foam concentrate is drawn into the water flow to form the foam solution (some foam solutions can also be stored in pre-mixed form). Foam generation takes place when the foam solution is mixed with air.

Inductors can work by a variety of principles, and may be fixed or "in-line" (i.e. coupled onto the length of hose line, a portable inductor). Points to be considered when assessing an inductor's performance include the degree of pressure-loss in water system owing to the inductor, its ability to maintain a constant induction rate despite variations in water flow, and the ease of operation.

Foam generation normally takes place at the branchpipe, air being drawn in through holes by a 'venturi' effect. The foam is then "worked" along the branchpipe before passing out and onto the fire. Branchpipes may also be "self-inducing", inducing the foam concentrate as well as air. They may be portable or hand-held, while larger varieties ("foam cannons") are fixed or carried on special trailers. High expansion foam needs a far higher proportion of air to solution, and this is achieved by blowing air through from a large fan.

The Angus Range of Foam-Making Equipment

Angus provide a full range of foam-making equipment. Two items of special interest should be mentioned: the AF100 mobile foam unit and the Turbex high expansion foam generator.

i) AF100 Mobile Foam Unit

The unit provides a compact, mobile foam fire fighting station. It comprises a 100-litre tank mounted on a steel chassis with rubber tyres, and carries on it an in-line inductor, a branchpipe, and 15 metres of 45mm. Duraline hose. It can be operated by one man, and can run for over 20 minutes (it can also be refilled while in operation). It is ideal for high-risk areas where speedy, mobile attack may be required (e.g. boiler rooms, fuel storage and loading terminals).

ii) Turbex High Expansion Foam Generators

Some high expansion foam generators use electrical or petrol motors to drive their fans. This can of course represent an additional hazard during a nearby fire. The Angus Turbex overcomes this problem by using a water turbine to drive the fan. The Turbex can produce foam with an expansion of up to 1200. It can also be adapted to act as a smoke extractor. Other versions of the Turbex are designed for use in fixed installations.

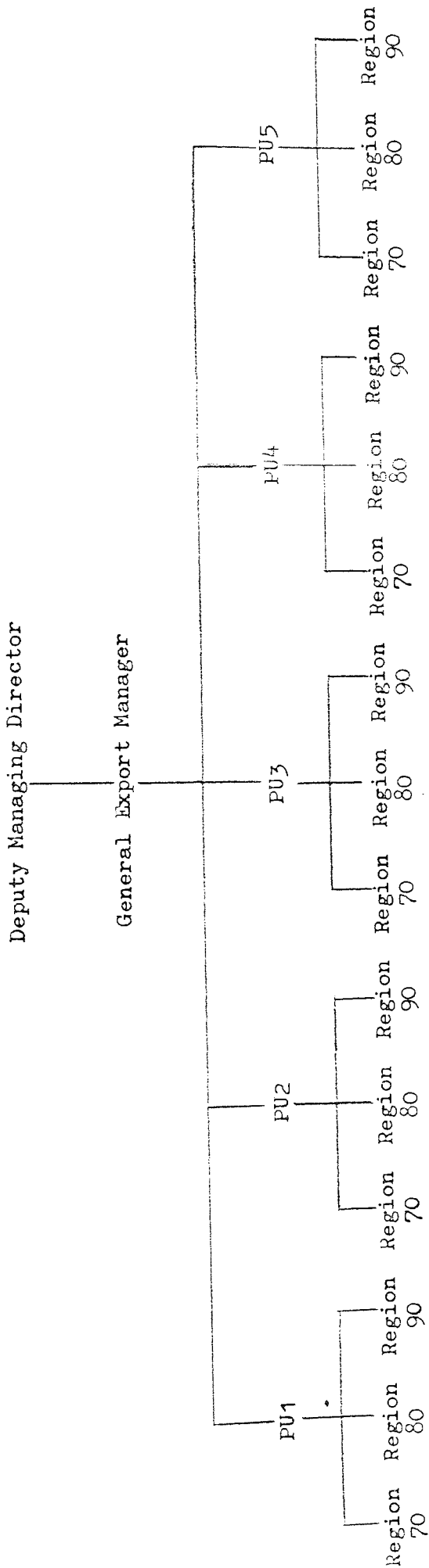
Competition

Major competitors for foam-making equipment include Chubb Fire of the U.K., the Austrian company Rosenbauer, and Total from West Germany. All three companies manufacture a wide range of fire-fighting equipment, including vehicles (but excluding fire hose).

APPENDIX 6B: EXPORT ORGANISATION AT ANGUS FIRE ARMOUR LIMITED

It can be seen from the charts below that up to June 1979 the export department at Thame was organised along product lines, with each of the five product units divided internally into regional subsections. Under this organisation, representatives from the various product units would separately visit the same territory to sell their particular products; in other words, there were in principal five separate units concerned with selling to Eastern Europe. After the June 1979 reorganisation, the export department was divided into regional units, with each region having responsibility for the full product range. This meant that all contacts with Eastern Europe were handled by a single unit (Region 6). It should also be mentioned that the sale of Fixed fire-protection installations (including sprinkler systems) both in the UK and abroad was the responsibility of a single, separate department with a different board director.

Thus, though both were based at Thame, the fixed fire protection department (FFPD) and the export department for loose or portable equipment were organisationally quite separate.



- KEY:**
- PU1 = Product Unit 1: Fire hose and fittings
 - PU2 = Product Unit 2: Extinguishers and hose reels
 - PU3 = Product Unit 3: Foam and foam-making equipment
 - PU4 = Product Unit 4: Protective clothing
 - PU5 = Product Unit 5: Pumps
 - Region 70: Europe (including Eastern Europe), South America
 - Region 80: Far East
 - Region 90: Middle East, Africa

FIGURE 6B.1: EXPORT ORGANISATION TO JUNE 1979

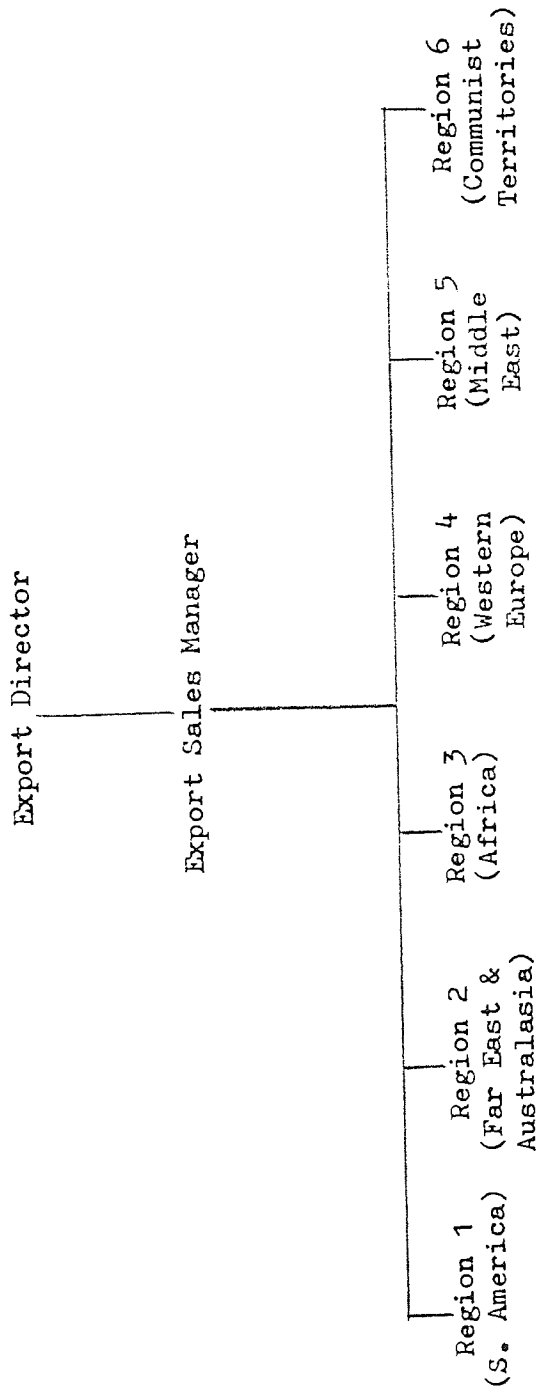


FIGURE 6B.2: EXPORT ORGANISATION AFTER JUNE 1979

APPENDIX 6C: EXPORTS OF FIRE FIGHTING EQUIPMENT TO EASTERN EUROPE:
TRADE STATISTICS OF THE UNITED KINGDOM AND OTHER EEC
COUNTRIES

6C.1. Available Sources

The foreign trade statistics published by individual East European countries (for a list of these sources, see Harvey, 1976) are not sufficiently disaggregated to give figures for fire fighting equipment. More detailed data can be obtained from an EEC source and from the UK Customs and Excise. Even these data, however, suffer from some important limitations.

6C.2. Limitations of Data

Even at the most detailed level of disaggregation available, the practical value of the figures is severely limited by their failure to differentiate between distinct classes of product within the overall category. In the category for extinguishers (Brussels nomenclature 8421-9100) there is no distinction between the various types of fire extinguishers (Water, CO₂, BCF etc.); the category for foam (3817-0000) not only fails to distinguish between different types of foam compound (protein, AFFF etc.), but also includes two other classes of products ('charged fire-extinguishing grenades', and 'charges for extinguishers'); and the category for hose (5915-1000) refers to textile hosepiping in general, not exclusively to fire hose. Consequently, there is no certainty that a large export figure in any given category refers

exclusively to the products relevant to the present study.

In addition the figures can only be as good and consistent as the reporting procedures of individual companies. For example, the figure for UK hose exports to Czechoslovakia in 1978 is less than the total exported by Angus in that year (£10,000)! This is to be explained by the fact that Angus hose was sold in conjunction with - and classified as part of - Turbex foam generators. Naturally this kind of detail lessens the accuracy and reliability of the data.

Finally, the EEC source does not report all exports in a given commodity class, but only those to the most significant partner countries for the category. Furthermore, possible exports from Western countries outside the EEC (e.g. the U.S.A., Japan, Austria) are not covered.

6C.3. Conclusions from Data

UK export figures for extinguishers, foam compounds and fire hose were obtained from HM Customs and Excise for 1975-1979, and EEC export figures for 1978 and 1979 were also collected¹. These are shown in section 6C.4 below.

1. UK export figures for "fire fighting vehicles" (8703-8020) were also obtained for 1978 and 1979, but there were none recorded to East European countries. The EEC source is not sufficiently detailed to cover this category - only the category 8703-80 is given, and this covers all forms of special-purpose lorries apart from break-down, crane, concrete-pumping and concrete-mixer lorries.

In the light of the limitations discussed above, conclusions drawn from these figures in isolation can only be tentative. In none of the categories were any EEC imports recorded - whatever trade was taking place was West-East rather than East-West. Of the UK it can safely be said that the exports to Eastern Europe of extinguishers and fire-hose have been small. However, Poland represents a substantial market for UK exports of products covered in category 3817-0000, and therefore possibly for foam compounds (though the market appears to be in decline, especially if inflation is taken into account).

Taking the European community as a whole, a similar picture emerges. Hose exports must have been negligible, other than from West Germany to Hungary in 1978. Exports of extinguishers were small as a percentage of world exports, but not insignificant in value terms. As for products covered in category 3817-0000, Eastern Europe accounted for over 5% of all EEC exports in that category in 1978 and 1979, and Romania could be added to Poland as another large market for (possibly) foam compounds.

Taken in isolation, then, the figures provide interesting but limited information, and permit only tentative conclusions about the FFE market. However, when information gathered from other sources (especially from contacts in Eastern Europe) is added, the figures begin to take on more concrete meaning. For example, Hungarian imports of

of extinguishers from West Germany in 1979 could probably be connected with the cooperation agreement signed with the German companies Werner and Esser, while extinguishers exported to Poland from Denmark were probably destined for the FTO Centromor, who mentioned the deal but refused to name their Danish supplier. The large amounts of category 3817-0000 exported to Romania from Belgium/Luxemburg is probably accounted for by AFFF exports by 3M (who have a company in Belgium) - Angus were asked to quote for a 1979 contract of equivalent value; UK exports of the same category to Poland may well in part relate to Chubb fluoroprotein and alcohol resistant foam compounds. Such 'educated guesses' can be made in relation to many of the figures, which are shown below.

6C.4. The Data

(i) "Preparations and Charges for Fire-Extinguishers; Charged Fire-Extinguishing Grenades" (3817-0000)

TABLE 6C.1: UK EXPORTS OF 3817-0000, 1975-9 (£s)

<u>UK Exports to</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Bulgaria	-	-	-	-	-
Czechoslovakia	120	49,629	11,732	7,293	31,074
GDR	-	-	-	-	523
Hungary	10,808	1,650	7,734	347	3,992
Poland	298,942	268,450	218,233	243,888	181,567
Romania	-	8,610	4,251	1,087	622
Soviet Union	36,016	-	507	3,154	3,726
<hr/>					
Total Exports To USSR + Eastern Europe	345,886	328,339	242,457	255,759	221,504
% of Total UK Exports in Category	10.0%	10.2%	5.5%	4.7%	4.5%

SOURCE: HM Customs and Excise computer print-out

TABLE 6C.2: OTHER EEC COUNTRIES' EXPORTS OF 3817-0000, 1978-9

In '000£s⁽¹⁾

		EXPORTS TO:			
		<u>Poland</u>	<u>Hungary</u>	<u>Romania</u>	<u>Czechoslovakia</u>
EXPORTS FROM:					
West Germany	1978	104	-	-	-
	1979	37	-	-	70
France	1978	29	92	-	-
	1979	1	-	5	27
Italy	1978	-	-	40	-
	1979	-	-	127	-
Belgium/ Luxemburg	1978	17	140	152	-
	1979	30	-	330	-

Exports of all 9 EEC countries
as % of total EEC exports in
category (2)

1978:	5.5%
1979:	5.4%

SOURCE: European Community, Analytical Tables of Foreign Trade,
vol. C, 1978-9.

NOTES: (1) Original figures in European Currency Units (ECU)
converted to sterling at the appropriate rate for
each year.

(2) Only exports to the most important partner
countries for the category in any given year are
recorded. Therefore, these percentages will
probably be understated.

(ii) "Textile Hosepiping and Tubing, With or Without Lining, Armour or Accessories of Other Materials, Wholly or Predominantly of Synthetic Textile Fibres" (5915-1000)

TABLE 6C.3: UK EXPORTS OF 5915-1000, 1975-9 (£s)

<u>UK Exports to</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Bulgaria	-	-	10,890	-	-
Czechoslovakia	-	-	-	2,650	6,198
G.D.R.	-	-	-	-	-
Hungary	-	-	-	3,601	-
Poland	3,267	5,254	18,722	3,544	3,736
Romania	-	-	-	3,523	-
Soviet Union	-	-	-	-	-

Total USSR + Eastern Europe	3,267	5,254	29,512	13,318	9,934
% of Total UK Exports in Category	0.4%	0.8%	0.8%	0.3%	0.2%

SOURCE: HM Customs and Excise Computer Print-out

TABLE 6C.4: OTHER EEC COUNTRIES' EXPORTS OF 5915-1000, 1978-9

In '000 £s (1)

- EXPORTS TO: -

Hungary

EXPORTS FROM:

West Germany	1978	171
	1979	-

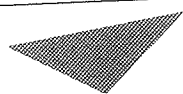
Exports of all 9 EEC countries	1978:	1.7%
as % of total EEC exports in	1979:	0.0%
category (2)		

SOURCE: European Community, Analytical Tables of Foreign Trade,
vol. F, 1978-9.

- NOTES:
- (1) Original figures in European Currency Units (ECU) converted to sterling at the appropriate rate for each year.
 - (2) Only exports to the most important partner countries for the category in any given year are recorded. Therefore, these percentages will probably be understated.

(iii) "Fire Extinguishers (Charged or Not)" (8421-9100)

TABLE 6C.5: UK EXPORTS OF 8421-9100, 1975-9 (£s)



Aston University

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SOURCE: HM Customs and Excise computer print-out

TABLE 6C.6: OTHER EEC COUNTRIES' EXPORTS OF 8421-9100, 1978-9.
In '000 £s (1)



Aston University

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SOURCE: European Community, Analytical Tables of Foreign Trade,
vol. J, 1978-9.

- NOTES:
- (1) Original figures in European Currency Units (ECU) converted to sterling at the appropriate rate for each year.
 - (2) Only exports to the most important partner countries for the category in any given year are recorded. Therefore, these percentages will probably be understated.

APPENDIX 6D: ESTIMATING THE MARKET POTENTIAL FOR FIRE FIGHTING
EQUIPMENT IN EASTERN EUROPE¹

6D.1. Purpose and Definitions

The purpose of the calculations that follow was to provide a concrete idea of the size of the East European market for hose and foam products. Such an estimate was considered necessary because other sources of information failed to give adequate quantitative indications of market potential, and because the data would be of considerable value when assessing marketing strategy and priorities.

The definition of the market was confined to that for hose and foam products; the company had the greatest technological advantage in these areas, and hence considered that these would have the best chance of success in Eastern Europe. As a result, the figures tend to underestimate the total potential for Angus Fire Armour; for even if marketing concentrated on hose and foam products alone, some spin-off sales of other products (e.g. extinguishers, pumps) might be expected.

1. This appendix is based on a report prepared for Angus in mid-1979; since this was primarily an internal company document, it was at the time not judged necessary to substantiate the assumptions made. In the present version we have sought to support these assumptions more fully; this has led to a slight revision of the original figures, but the main conclusions remain the same.

It should be stressed from the outset that these estimates should be seen as giving only a very broad indication of market size; it would be unrealistic to claim a high degree of accuracy, but the figures were expected to give an idea of the order of magnitude of the East European market for Angus products.

6D.2. Estimate of Market Size

Many of the conventional methods of market measurement are impractical for the purposes of FFE and Eastern Europe. For example, 'market build-up analysis' could not be used due to the lack of detailed information on East European end-users; reliance on a 'survey of buyer intentions' could be ruled out due, amongst other reasons, to commercial secrecy and the fact that the East European buyers (FTOs) are separate from the users, and hence not reliably in touch with equipment requirements; use of 'composite sales force opinion' was not feasible, because there was not sufficient experience of the region within the company; and the lack of East European market data together with the limitations of FFE trade statistics (see Appendix 6C) ruled out extrapolating from previous years' figures, or 'time series analysis'¹. International comparisons of market size for FFE are further complicated by the lack of reliable data on FFE expenditure even for the domestic market. Various forms of FFE are covered in HMSO Business Monitors (e.g.

1. For an overview of these techniques, see Kotler (1976; pp.117-137).

nos. 271.3, 381, 381.1, 339.9, 399.12 and 491); in these, however, FFE categories are usually listed only as a part of a far broader product group. In the case of fire-hose and foam products it was felt that the most reliable estimate of UK market size would be obtained by using the extensive experience of the company's UK sales force ('expert opinion' in Kotler's terminology).

In these circumstances, the simplest solution to the problem of estimating market size in Eastern Europe was to find some variable - known for both the UK and East European countries - to which FFE expenditure could be related. One such variable might be population, but this is relevant above all for consumer goods estimates. It was judged that FFE would be more likely to be linked to the size of the economy in any one country since, for each new factory built there is demand for new FFE. It was therefore decided to investigate the possibility of relating UK market size (estimated by Angus UK sales force) to UK GNP, and applying this ratio to East European countries' GNP to obtain the estimated market size there.

The existence of a relationship between FFE expenditure and GNP is impossible to prove, due precisely to the lack of data mentioned above. Nevertheless, the limited historical data available for the UK do tend to support our hypothesis. Statistics are published annually on local authority fire brigades, which are important consumers of the products in question, especially fire-hose. Table 6D.1 shows how expenditure on 'services and equipment' by local authority fire brigades related to GNP in the period 1974-8 (data for prior years was not available in the same form).

TABLE 6D.1: UK FIRE BRIGADE 'SERVICES AND EQUIPMENT' (1)
EXPENDITURE IN RELATION TO GNP, 1974-8

<u>Year</u> (2)	'Services & Equipment' (£ '000)	GNP at Market Prices (£ million)	'Services & Equipment' as % of GNP
1974(/5)	8,423	83,961	0.010
1975(/6)	11,083	104,711	0.011
1976(/7)	12,904	124,647	0.010
1977(/8)	14,718	142,329	0.010
1978(/9)	16,976	162,475	0.010

SOURCES: Chartered Institute of Public Finance and Accountancy, Fire Service Statistics, London, C.I.P.F.A., for each year; CSO, Annual Abstract of Statistics, 1980.

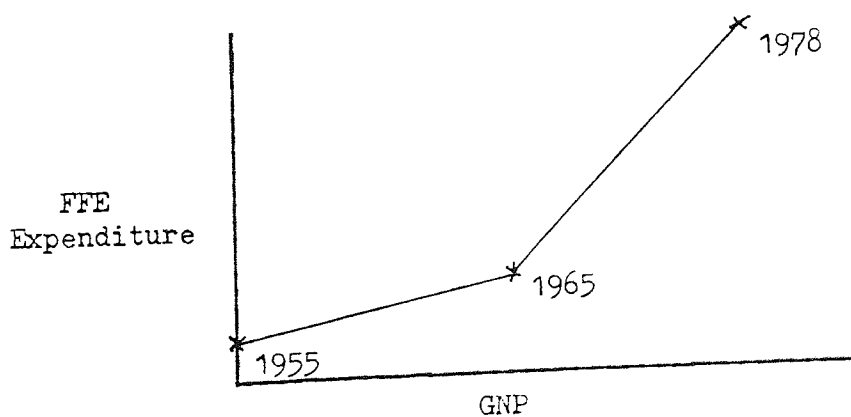
NOTES: (1) The 'Services and Equipment' category covers, as well as equipment (including hose and foam), such items as laundry and other contracted services, and excludes vehicles.
 (2) 'Services and Equipment' figures are for year ending 31st March; GNP figures are for calendar year.

It can be seen that in recent years UK fire brigade expenditure on 'services and equipment' has remained at a strikingly consistent level in relation to GNP¹. An indication of how this relationship may have

1. The relationship is almost too striking for comfort, and suggests, perhaps, that other factors may be determining the ratios GNP: local authority spending: expenditure on fire services: 'services and equipment' costs. In the absence of other data, however, these figures must be taken as evidence of a GNP:FFE relationship.

developed over a longer period of time is given by Strother-Smith (1978). Strother-Smith shows that between 1955-65 there was a linear relationship between GNP and both the average cost of a fire and the number of fires in a given year; since the total cost of fire in any year is the product of the number of fires and their average cost, fire losses increased at a rate approximately equal to the square of the rate of increase in GNP in the above period. According to Strother-Smith, the realisation that fire losses were increasing rapidly led, after 1965, to a sharp increase in expenditure on fire-prevention equipment and technology. It can therefore be supposed that for the given period of industrial development in the UK (i.e. 1955-1978), the relationship between FFE expenditure and GNP followed broadly the pattern illustrated in Figure 6D.1.

FIGURE 6D.1: RELATIONSHIP BETWEEN GNP AND FFE EXPENDITURE: ASSUMED PATTERN OF UK EXPERIENCE 1955-78



In our market size estimate we assume that there is a similar relationship between FFE expenditure and GNP in Eastern Europe. If East European countries did experience a historical pattern of FFE expenditure similar to that of the UK, one would expect the 'turning point' to have occurred somewhat later (i.e. after 1965), owing to the 'technology lag' of these countries relative to the UK. There are some indications that this may indeed be the case: increased priority for FFE is reflected in the holding of specialised exhibitions, in Soviet press articles, and in imports from the West (see section 6.5 of the main text). This suggests that, if a similar pattern can be assumed for Eastern Europe, these countries are in the 'second phase' of the pattern, with the turning point occurring in the mid-seventies, some ten years later than in the UK.

Other things being equal, we would apply the ratio UK FFE market: UK GNP directly to East European countries' GNP to obtain the estimated market size. Other things are probably not equal, though, and it seems more realistic to make some allowance for specific conditions in each country. We have therefore followed the method suggested by Samli (1977) and developed a 'market quality index' for each East European country. We have selected two factors as being (probably) important influences on the size of the market: (i) the level of economic development (the greater this is, we assume, the greater the losses caused by fire, and hence the greater the expenditure on FFE)¹, and

1. Travinski writes: "It is very important to remember the following: that the intensification of fire risk is an inevitable consequence of technological progress, its unfortunate corollary". (Literaturnaya Gazeta, 5 February 1975; p.11).

(ii) the level of primary energy production (since the oil, gas and coal industries are major consumers of the equipment in question). The 'intensity' of each factor in relation to the UK is calculated, and the 'market quality index' for each country is the average of the percentages thus obtained. Per capita GNP was used as an indication of economic development, and was given twice the weighting of energy production, since it was considered that the former would be the most significant factor. The figures obtained are shown in Table 6D.2.

TABLE 6D.2: MARKET QUALITY INDEX FOR EAST EUROPEAN COUNTRIES, 1978

Country	1978 Per Capita GNP as % of UK (x)	1978 Per Capita Primary Energy (1) Production as % of UK (y)	Market Quality Index UK = 100 $\frac{(2x + y)}{3}$
Bulgaria	51	27	43
Czechoslovakia	84	97	88
G.D.R.	87	107	94
Hungary	54	44	51
Poland	56	112	75
Romania	56	81	64
Soviet Union	87	149	108

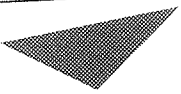
SOURCE: x and y derived from CIA, Handbook of Economic Statistics, 1979.

NOTE: (1) Includes coal, crude oil, natural gas, and hydroelectric and nuclear electric power.

The 'market quality index' is used to adjust the FFE:GNP ratio for each country. It indicates that in Poland, for example, FFE consumption will be 75% of that in the UK for a given level of GNP.

UK market size was estimated, as mentioned above, by relying on the experience of the Angus UK sales force. UK sales figures for 1978 were adjusted by the market share these represented, as estimated by Angus UK sales managers. (The UK was chosen as the 'model' since it was the market in which the company had the most experience. It would have been desirable to take an average over several years so as to smooth the possible influence of 'one-off' or cyclical factors which may affect figures in any one year, but this would have also involved estimating the market share for previous years, and hence introduced further potential for error). The figures obtained, and the percentage these represent of UK GNP, are shown in Table 6D.3.

TABLE 6D.3: ESTIMATED UNITED KINGDOM MARKET SIZE, 1978



Aston University

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SOURCE: UK GNP (at market prices) from CSO, Annual Abstract of Statistics, 1980.

We can now estimate the market size in each East European country by applying the following formula:

$$\frac{\text{UK FFE Market Size}}{\text{UK GNP}} \times \text{East European Country GNP} \times \text{Market Quality Index}$$

The results are shown in Table 6D.4 below.

TABLE 6D.4: ESTIMATED EAST EUROPEAN MARKET SIZE, 1978⁽¹⁾



Aston University

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SOURCE: GNP figures (at market prices) from: CIA,
Handbook of Economic Statistics, 1979.

NOTE: (1) This estimate relates to the market size in 1978, and is expressed in 1978 prices. This is likely to underestimate future market size, assuming that there will be some growth in East European GNP. We have not attempted to predict future development, since this would in turn involve relying on estimates of future East European economic growth and energy production, which are themselves hazardous.

Only one of the above figures could be compared with the 'actual' state of affairs - that for Hungarian fire-hose. The FTO Chemolimpex gave an approximate figure of 150,000 metres per annum for Hungarian fire-hose consumption. If we allow an average cost per metre of US \$2.5¹, the estimate in Table 6D.4 represents 77% of the 'actual' market size. This would suggest that our estimate does in fact serve its purpose in that it identifies the approximate order of magnitude of the East European market.

Not surprisingly, the estimate shows the Soviet Union as representing overwhelmingly the largest market; Poland, East Germany, Czechoslovakia and Romania also offer sizeable markets, while the potential in Hungary and Bulgaria is relatively small. Taken in isolation, then, the market size estimate suggested a slightly different order of priority to that established by the company at the beginning of the project (see sections 6.2 and 6.3 of the main text).

6D.3. Market Share and Profitability

The estimate of market size merely indicates the total amount of equipment consumed; it does not show how much of this equipment will be provided for by imports from the West, nor, of course, what share of these imports Angus could expect to obtain. The above calculation implies that the total market size for FFE is determined largely by

1. This figure is in line with Angus 1978 pricing for plain lined hose.

factors outside the control of Western companies; we can assume, though, that the share accounted for by imports will be to some extent influenced by the promotional activities of Western companies, and that an individual company's share of these imports will in turn be affected by the intensity of its marketing effort relative to its competitors. Thus, in order to forecast the market share that Angus might hope to obtain, we would require detailed information on Western competitors, on East European planners' priorities regarding hard currency allocation for FFE, and on the state of domestic FFE technology and production levels. Sufficiently detailed information of this nature was not available in published sources, so that an accurate forecast of potential Angus sales could not be made. Nevertheless, it was considered useful to give some quantitative indication of the profitability Angus might expect by capturing different market shares.

In Table 6D.5 below we show what sales and profitability might be if Angus were to capture, respectively, 1%, 3% and 5% of the market. Administrative expenses and gross profit margins are allocated at a percentage of sales in line with company averages for 1978, though the gross profit margin is assumed to be somewhat lower than in other regions, due to the price sensitivity of the East European market). We assume that, in order to obtain a market share of 1%, the following promotional expenses (at 1978 prices) would be involved: 10 weeks' travel in Eastern Europe costing a total of US \$10,000 (daily average just under \$150); and participation in one exhibition every two

years at a cost of a further \$20,000 (\$10,000 per year). We assume that double this level of activity would be required to obtain a share of 3%, and that for a 5% share four times as much would be required¹. Finally, since the East European market is notorious for the time and marketing input required before full sales potential is achieved, we have assumed that the eventual market share will be reached only in the fifth year, with 20%, 40%, 60% and 80% of this value sold in the four previous years respectively. The sales figures given in Table 6D.5 are therefore the annual average over the 5-year period.

TABLE 6D.5: MARKET SHARE AND PROFITABILITY VARIANTS (in 1978

US \$ '000)

	Variant 1 1% Market Share	Variant 2 3% Market Share	Variant 3 5% Market Share
Sales (annual average)	384	1,152	1,920
Promotional Expenses	20	40	80
Net Profit	55	185	294

Net Profit as a % of sales	14%	16%	15%

1. We thereby assume that increased promotional activity will lead to a proportionally greater increase in sales up to a certain point, beyond which there are diminishing returns, since there is a limit to the share of equipment that will be imported, however intense the promotional activity - see Kotler (1976; pp.118-124).

It should be stressed that the above figures are intended to serve only as an indication of possible scenarios. Other variants are also possible - for example, greater or lesser promotional expenditure may be required for any of the three market shares, or it may be that even a 1% share is out of the question due to lack of hard currency allocation or the strength of Western competition. Which, if any, of the three variants should be aimed at must be judged in the light of further information (gathered from other forms of research) on the state of the market, and on the opportunities and constraints facing the company. However, Table 6D.5 does give some idea of the scale of business Eastern Europe might represent for Angus: variant 3 would have placed Eastern Europe as the company's second largest export market in 1978; variant 2 would have placed it seventh, and variant 1 fifteenth.

6D.4. Conclusions

According to Kotler (1976; p.137): "No firm can conduct its business successfully without trying to measure the actual size of markets, present and future. Quantitative measurements are essential for the analysis of market opportunity, the planning of marketing programmes, and the control of marketing effort". The estimate of market size for FFE was designed to assist in the process of strategy formation and resource allocation for Angus Fire Armour. The estimate showed the total market to be large, with the Soviet Union representing

a huge market in its own right, and suggested a slight revision of the company's own priority scale for East European countries.

However, the estimate's limitations must be remembered. The calculation relies, of necessity, on a number of fairly broad assumptions, with the result that the figures should be viewed as giving only a rough indication of the scale of the market. Furthermore, information from other sources would be required in order to estimate what share of this market Angus might hope to capture, and which, if any, of the three variants in Table 6D.5 should be aimed at.

APPENDIX 6.E: EXTRACTS OF REPORT ON THE INTERNATIONAL

EXHIBITION: "TECHNICAL MEANS OF PRESERVING PUBLIC

ORDER AND FIRE TECHNOLOGY - 79", MOSCOW, APRIL 6TH-16TH

Date of Visit: 4th-18th April, 1979; Report Dated: 19th April, 1979

1. INTRODUCTION

As the title suggests, this Exhibition was not totally devoted to fire fighting technology, but was a peculiar mixture of tele-communications, electronics, police equipment, fire detection, and fire fighting equipment. Organised by the Ministry of the Interior, it was held in the one completed pavilion at the new Krasnaya Presnya Exhibition 'Complex', which will eventually become a very modern centre, complete with supporting hotels, shops and rail-link, but which at present suffers from a lack of back-up services. In typical Russian style the official opening of the Exhibition took place at 3.00 p.m. on the day before the date given to all the exhibitors in the official literature! Many stands were not ready in time, but because ours was so small we had everything set up by the start.

At the 1975 Moscow Fire Exhibition we had exhibited on quite a grand scale, but apart from the items sold off the stand at the time there have been absolutely no sales to the Soviet Union. Meanwhile, tentative negotiations on the sale of a large Duraline Plant have been continuing - a seminar on the subject was given by Mr. Harrison¹ in Moscow in December 1978 - and it was mainly as a result of this contact

1. Then deputy managing director at Angus.

that the Russians were keen to see us present this time. Understandably, it was decided to exhibit on a far more modest scale this year, since the expense of '75 had not yet been justified by sales, and as a result we had a small stand of 21 sq. metres (not quite the smallest at the Exhibition), with only one representative of the company present. Items on the stand were limited to those which were considered to be of special interest to the Soviet market, and were as follows:

Duraline	Polydol	Turbex	Sprinkler Display
Centurion	Expandol		
Hyperion	FP 70		
Waterclad			

The Russians were only interested in what they could see, and there were very few questions on items which were not on the stand. There was interest in all of our products, but above all in Duraline and the Turbex - it was a pity we did not have more lengths of Duraline to give it greater prominence on the stand...

Despite admission being by invitation only, visitors from all over Russia and from other Comecon countries flooded in throughout the eleven days. There were visits from Ministers and Ministries, from Scientific Institutes and Industrial Factories, every day there were guided tours taken round by the organisers of the Exhibition, and above all there were many, many firemen of varying ranks and from all corners of the Soviet Union. Their thirst for leaflets and giveaways has not

abated since 1975. With so many people, the problem is to sort out who is important. One should certainly not assume that all the relevant people will automatically find their way to our stand; however, once they are there it is now much easier to obtain their name and address. In fact, it is wrong to assume that anything will happen automatically in the Soviet Union, and our passive attitude to the market, resulting from fundamental misconceptions as to the way their system operates, has done us no good whatsoever. For similar reasons, our preparation for this Exhibition was inadequate - more will be said on these matters in the concluding section of this report...

Hospitality and goodwill was superb from the Russians at all times, but in general they seemed somewhat disappointed with this Exhibition. In 1975 they had seen a great many new products, but this time they saw very little that had not already been there 4 years ago (they had indeed seen all our products before), and I guess it will be some 10 years before a similar specialised Exhibition is held in the Soviet Union.

2) THE SOVIET SYSTEM

... The massive Soviet Fire Brigade comes under the authority of the Ministry of the Interior, which, for security reasons, happens to be one of the most difficult Ministries to contact and deal with. Also attached to this Ministry is the VNIPO - the All Union Scientific Research Institute for Fire Protection - a body which assesses

the FFE produced in other countries, helps design and develop the USSR's own production of FFE, and monitors all sizeable fires within the Soviet Union. They will advise the Fire Brigades on all technical matters, including where to purchase from abroad. It appears that they also, though to a lesser extent, give advice to other Ministries. Within VNIIPO there are special departments dealing with different aspects of FFE, and the people who work there are without exception thorough experts in their field. Other technical organisations may well be of interest to us (e.g. Vneshtekhnika), but VNIIPO is undoubtedly the most important...

3) FIRE HOSE

The size of the market is simply enormous. Mr. Fedotov of VNIIPO gave a very rough estimate that the Soviet Union's annual requirement for fire hose is 50 million metres - however, this figure is inflated by the very poor quality of Soviet fire hose at present, and Fedotov said that it would be cut by about half when they manage, as planned, to standardise on Duraline-type hose. Samples of Soviet hose obtained during the Exhibition revealed how backward the USSR is in this area. Up to as late as 1970 they were still making only flax and cotton hose, and it seems that flax still dominates their production. Since 1970 they have been producing synthetic hose, but have had difficulties in obtaining sufficient supplies of synthetic yarns, though now the situation seems to be getting better, and they will soon have a far larger capacity for synthetic hose.

If production itself is primitive, technical knowledge especially at VNIPO, certainly is not. They are very clued up on the advantages of covered hose and their aim is to see it used as widely as possible in the Soviet Union, both by buying it from abroad, and eventually by producing it themselves. As yet, they have not bought covered hose from anyone, so this is a very important stage, since it is essential that we should be the first to supply them - this would give us a tremendous advantage both when it comes to future sales and to discussions on a licence.

Our reputation for hose is very high. Because we have been in contact since 1975 through discussions on the possible sale of Duraline Plant, they have been constantly reminded of our presence, and have it firmly entrenched in their minds that Angus Hose is the best. Angus Duraline was written down on the lists sent to firemen advising them which products should be of most interest to them, and when taking round tours, the men from VNIPO had nothing but praise for Duraline - I heard one say, "This is Angus Duraline. Their hose is of the same high quality as Mandals, and probably even better".

Although Mandals were exhibiting too, my impression was that Angus still have the edge over them in the Russians' estimation. They too have had discussions on the supply of plant, and it is likely that the Russians would like to buy from both of us...

Apart from Duraline there was considerable interest in Waterclad, not surprisingly, since the Soviet Union has vast areas of forest.

Of major interest, too, is very low temperature fire hose. They would like to have hose which we could guarantee down to minus 50 and even minus 60°C, especially for use in Siberia, the harsher regions of which are being increasingly explored and exploited for their vast natural resources, especially oil. Anything we can offer will be of the greatest possible interest to VNIIPPO and the Ministry of Petrochemical Industries; fullest information and sample lengths should be sent to both these organisations, and I would even suggest that, should we have anything to offer, and if we have already had some success in selling Duraline Temperate, a seminar on low temperature hose in Moscow would be the best possible way to promote our products.

The Russians are still interested in purchasing a Duraline Plant. However, if possible they would like not to use Mandals looms, since the rate of 13 metres per minute is too slow for them, and they would like to avoid the expense of having to buy them. Instead, they would like to use a jacket woven on their own looms, and they say that the next step is to send us a sample length of this jacket so that we can see whether it is feasible to use it or not. We will have to wait until various patent problems are sorted out before receiving this jacket...

4) FOAM COMPOUNDS

Angus have virtually been forgotten since 1975 with regard to foam compound. People did not come automatically to enquire about our foam compounds, and the relevant people only started to arrive after we had told the commercial centre exactly who we wanted to see. The Foreign Trade Organisation Soyuzchimexport had not heard of us (there had been changes in personnel since 1975) but eventually they bought along the expert from VNIIPO who had done all the tests on the foams left in 1975 and knew all about our foams, down to the smallest detail. At the time, we refused to pay in order to have our foams tested, and in consequence never heard the results, so that there was no further communication between us and the relevant organisations after that Exhibition; other companies did pay, did communicate, and did business. So now the Russians do have suppliers of foam compounds, and have no particular incentive to start buying from Angus; apart from Polydol, I believe that the only way to break into the market is to provide some sort of incentive for them to buy from us as opposed to their present suppliers, and one obvious channel to be explored is the possibility of buying raw materials from Soyuzchimexport, who deal with the export of all Soviet Chemicals, and therefore would handle products used in hose production as well as foam. If we are at all interested in this possibility, the first step would be to send Soyuzchimexport a list of chemicals which they might be able to supply.

The Russians have standardised on synthetic foam. In addition, they buy some AFFF, but there seems no prospect of ever selling protein or fluoroprotein foams to them. They do produce their own synthetic foam compound, but their requirements are so huge that they also need to import considerable quantities.

There was a genuine interest in Polydol. They refused to reveal detailed results of the tests they had carried out in 1975, but I gathered that they had been satisfactory, and that their only reservation was that Polydol was protein based. They claim to have developed synthetic based alcohol resistant foam of their own, and that they will soon be starting industrial production of it; however, they were keen to have the Polydol from the stand for testing again...

5) FOAM-MAKING EQUIPMENT

The Turbex impressed everyone who visited the stand. It seems that the Russians do have their own water-turbine HEF generators, but their performance characteristics are not nearly as good as the Turbex. In addition, their version seems to be heavier, and they need to use a premix foam solution.

The problem with foam-making equipment is to find the FTO who will deal with it. Techmashimport, who bought the Turbex off the stand in 1975, said that this was a one-off purchase, and that they would not be interested in buying any more. This time, the Turbex was bought for

the Ministry of Petrochemical Industries, and apparently they had to approach many FIOs before Techsnabexport finally accepted to take on the business. The trouble is that the Turbex is not a "standard" product, and potential customers come under the control of many different industries.

In the end, there turned out to be two customers for the Turbex; VNIPO also wanted to buy, but said so only after it had been sold to the Petrochemical Ministry. They rejected the offer of sending another Turbex for them, saying that they only had funds to buy items directly from the Exhibition. Apart from those already mentioned, the Mining Ministry and the Ship Building Industry also expressed interest...

6) CONCLUSIONS

(i) Exhibitions in the USSR

For several reasons - because of the rather tentative attitude we adopted to this Exhibition, because we had not really discovered who the important people and organisations were in the USSR, because the peculiar workings of that country had not been fully understood... we went to Moscow in a very naive way. Preparatory work is particularly important in the Soviet Union, and if we ever exhibit there again I suggest the following:

- a) Samples of products to be exhibited should be sent for testing to the relevant organisations (certainly to VNIIPO) about 3 months before the Exhibition. Not only does this make the Russians pay special attention to the company, it also means that all the right organisations are sure to visit the stand, and that when they come both parties should be ready to talk about concrete business.
- b) If possible, the stand should be of a reasonable size, and it should be manned by senior personnel. The Russians are very conscious of hierarchy, and the more important one's position, the easier it becomes to meet the senior people on their side. It is essential to meet the people at the top, since only they have real power to get things done and take initiative. A friend in the right place in Moscow can use his influence in all sorts of other organisations. It is through unofficial or semi-official channels that a large proportion of significant work is done.
- c) The Commercial Centre should be visited before the start of the Exhibition, and friendly relationships established. They should be presented with a full catalogue and told exactly which official organisations we would like to see during the Exhibition.
- d) Holding a seminar during the Exhibition costs little and is the best form of publicity...
- e) The Russians have an incredible appetite for leaflets. While some rationing is indeed necessary, large quantities (e.g. 500) should be taken for those products on display.

- f) A similar quantity of small give-aways are also essential. Angus biros go down well, but all companies with experience in the Russian market also take vast supplies of company badges and polythene bags. If you have not actually been there it is impossible to imagine how much these are appreciated.
- g) Finally, queuing is a way of life in Russia. However, it is worth remembering that there is usually a quick way of getting things done, even if one has to push in a rather un-British way.

(ii) Organisation of Follow-up

It makes little sense for a Soviet Ministry to receive separate information from lots of different Angus product units; this is bound to confuse them, and be relatively ineffective. As far as possible, we should try to respect the Soviet organisational structure, and send comprehensive packages, containing information on all relevant FFE to any particular Ministry. This looks far more impressive, and makes things simpler for them.

(iii) Angus and Dunlop

The Soviet Union should be considered a special case with regard to emphasising our attachment to Dunlop. With Soviet FFE experts, the name of Angus should always be highlighted. However, to people in the Foreign Relations Department at the huge Ministries, and to these in the FTOs, the name of Angus means nothing, whereas if the stress is laid on the fact that we are a Dunlop company, we automatically become worthy of their attention. Remembering the scale on which these organisations

operate, it is only natural that they should think in terms of large companies and prefer to deal with them. Furthermore, it should be pointed out that there are at present five Dunlop Divisions doing business, all separately, with THE SAME DEPARTMENT of Raznoimport, 'Sovkauchouk'... As I have already said, it is imperative to have regular personal contact with the Russians, and it may be difficult for Angus to justify the expense of frequent visits to the Soviet Union. It would seem sensible, and to the advantage of all concerned, if some sort of co-operation could be arranged...

(iv) General

Since 1975 there has been a firm conviction at Angus that "we don't sell to the Russians, they buy from us", presumably meaning that one can do little in the way of hard sell and that one can only display the goods, explain, and wait for orders to come. This idea is undoubtedly wrong. Overwhelming evidence comes from the experience of those who have had success in the market, and the explanation lies in the way the Soviet system operates. It is false to assume that there is too much organisation behind the confusing mass of people; the report of the '75 Exhibition talks of people coming up and giving hope one minute and dashing it the next, and of the process being repeated continually "as part of their carefully planned strategy". True, this is what happens but there is certainly nothing planned about it. It would be flattering to suppose that so much careful thought was being given to Angus, but in reality it is mainly up to us to make sure that they pay us sufficient attention.

120,000
Internal
If we are to take the Soviet Market seriously, an effort must be made to understand the way in which they work. We have to be more flexible, and may well have to be prepared to consider ways of doing business other than straight product sales, since the Russians suffer from a hard currency shortage and give preference to companies willing to enter into more complex contracts.

Four years to break into the Soviet Market seems to be about par for the course, and we should be beginning to see some return on the investment we have made. I think we can aim at, eventually, something around £0.5m p/a in sales to the Soviet Union. Our prospects on hose are excellent, good on Turbex, and we can also hope to break into the foam market. But we could spoil it all by doing things the wrong way.

APPENDIX 6.F: "20,000 METRES DURALINE FOR THE U.S.S.R. - THE LOST ORDER"

(Internal Memorandum, June 1979)

Through participation at the International Exhibition "Public Order Security and Fire Technology - 79" in Moscow, we came very close to winning an order for 20,000 metres of Duraline 2". This would have been our first significant sale to the Soviet Union, and the first time the Russians bought covered fire hose for fire brigade use. It would thus have been a very significant order, more important than the simple figure of £45,000 suggests, and one which would have justified the sort of intensive follow-up activity which I believe to be necessary for efficient operation in this specialised market. Eventually the contract was won by Mandals. It was considered useful briefly to describe what happened, and where we might have gone wrong.

During the Exhibition itself, we were introduced to the customer, who came from the oil-producing region of Baku, and many discussions were held both with this gentleman and representatives of the research institute VNIIPO. By the end of the Exhibition the customer was firmly in favour of buying from us, and VNIIPO had also recommended that the business came to us rather than to Mandals, who were also exhibiting. The matter then lay in the hands of the Foreign Trade Organisation Raznoimport whose responsibility it is actually to buy, and who have the power to decide who to buy from, having considered the technical and commercial aspects of the deal.

After the Exhibition we were asked by Raznoimport to quote for 20,000 metres of Duraline 2". We had gone to Moscow asking a high price, and it was argued that we should be prepared to drop our price considerably, in order to make sure of getting the business. This was resisted, however, partly because it was felt that a substantial drop in price would look bad (a mistaken view, since the people at the FTOs are motivated mainly by the desire to show that they have obtained the best possible terms for the deal, and are not really concerned about the 'morality' of quoting an initial price with a high profit margin).

Predictably, we were asked some two weeks later to lower our price by 15% in order to match the competition. By this time our ideas had changed, and we were prepared to submit to this request, especially since Mr. Ballanti at Novasider [the company's Moscow agents] seemed confident we would win the business.

Next came a request to reduce the price (then £2.38/m) by a further 2%, and shortly after that we were asked to lengthen our guarantee from 6 months to 1 year. We complied with both these and from the assurances of Novasider it appeared that the order was imminent.

Having thus done everything that was asked of us, it was bitterly disappointing to learn that the contract had been awarded to Mandals, the reason given being that they had offered a 5-year guarantee. The

decision was taken by the Head of "Sovkauchouk" (the relevant department of Raznoimport), Mr. Nechaev, and not by the more junior Mr. Soldatov, with whom Novasider had been dealing.

So what went wrong? One can only speculate that Mandals had made a friend of Mr. Nechaev, who was able to override all the other elements which seemed to be pressing in our favour. There is the possibility that there was more to it than this, that the decision was linked to the Russians' desire eventually to buy plant and technology from Norway, but this seems highly unlikely (the purchase of covered hose know-how is probably still some way away; Angus are also very much involved in these negotiations, having given a symposium in Moscow in December '78; and it is likely that people other than Mr. Nechaev would have known of it...). It is far more likely that Mr. Christianson [Mandals' managing director] had been wise enough to get Mr. Nechaev onto his side, either when he stayed on in Moscow after the Exhibition (which he did), or at some stage during discussions on the sale of technology.

Why didn't we know Mr. Nechaev? This is a good question. Novasider claim to know Raznoimport and Sovkauchouk well, through their dealings with other parts of Dunlop. So why were they only talking to Mr. Soldatov? Might not we too have stayed in Moscow after the Exhibition (we were invited to do so by Raznoimport)? I was under the specific instructions to decline any such invitation, and even had I stayed, it is unlikely that I would have seen Mr. Nechaev, since my

position is too junior. It is far easier for the Managing Director
of a company to see the Head of Department of an FTO in the
hierarchy - conscious Soviet Union. With hindsight, then, it was a
mistake not to send over a more senior team to Moscow, or at least
the order should have been judged sufficiently important for a senior
representative of the company to go to Moscow after the Exhibition...

On the positive side, the episode has shown that there definitely
is business to be had in the Soviet Union, and that we are still close
to cashing in on it.

APPENDIX 10A: QUESTIONNAIRE AND COVERING LETTER FOR INDUSTRIAL SURVEY

I.H.D.,
The University of Aston
in Birmingham,
B4 7ET.

Survey on East European Importing Organisations

(USSR, Bulgaria, Czechoslovakia, G.D.R., Hungary,
Poland, Romania)

I am currently engaged in a research project on exporting to Eastern Europe at the University of Aston Management Centre, under the direction of Mr. Bernard Hansom, Senior Lecturer.

From press reports, I gather that your company is engaged in exporting to Eastern Europe. As you know, an important feature of the reforms that have taken place in Eastern Europe over the past 10-15 years has been the increasing diversity and flexibility of the foreign trade system. In particular, many more organisations - including industrial associations and some large industrial enterprises - have now been granted foreign trade rights. The aim of the current study is to investigate what consequences, if any, these changes have had for U.K. exporters. Do exporters find that they are faced with an increasing number of potential purchasing organisations, and how does this affect marketing to the area? It is hoped that the findings will be of use to those exporting to Eastern Europe, especially companies approaching the market for the first time.

Your assistance in completing the enclosed questionnaire would be greatly appreciated. The questionnaire has been kept simple, to reduce demands on your time.

All replies will be treated as confidential, and will be used for statistical purposes only, so that information contained will not be associated with any one firm or person.

Should you be interested in the findings of the research, I will be pleased to inform you as soon as work is completed.

Yours faithfully,

Please tick
appropriate
box.

Daniel Franklin
Research Student

Enc. Questionnaire
Stamped addressed envelope

Questionnaire on East European Importing Organisations

Q.1. Please indicated (by ticking the appropriate box) how long your company has been engaged in marketing to Eastern Europe.

Over 5 years	1-5 years	Just started
--------------	-----------	--------------

Q.2. Please indicate briefly the nature of the products you offer to Eastern Europe.

Q.2a. Are these products:

(a) of a kind which would be used entirely or predominantly in one industry (e.g. steelmaking equipment)

or (b) of a kind which could be used in several industries (e.g. office machinery)

Please tick appropriate box.

Q.3. By ticking the appropriate boxes below, please indicate how many importing organisations you have had business contacts with in each country. By 'importing organisations' is meant both specialised foreign trade organisations (FTOs), and other organisations who have the right to purchase directly from abroad (e.g. large industrial enterprises, state agency firms).

Country *	Only one importing organisation	One 'main' importing organisation and other 'subsidiary' or 'occasional' importing organisation(s)	More than one importing organisation, all of roughly equal importance
Bulgaria			
Czechoslovakia			
East Germany			
Hungary			
Poland			
Romania			
Soviet Union			

* For countries where you have not been active, please write 'Not Applicable'.

Q.4. In the space provided below, please list the names of all the importing organisations with which you have had business contacts in the last five years (approximately).

(i) Bulgaria	(iv) Hungary
(ii) Czechoslovakia	(v) Poland
(iii) East Germany	(vi) Romania
(vii) Soviet Union	

Q.5. Are you satisfied that these are the only importing organisations relevant to your products?

Q.6. Has the number of potential importing organisations for your products increased since you began marketing to Eastern Europe?

Yes/No*

Q.7. If more than one importing organisation is involved in any one country, does this make marketing

More difficult/Easier*

Please give reasons:

Q.8. Any other comments you wish to add would be welcome.

*Delete as appropriate.

APPENDIX 11A: EXAMPLES OF RELEVANT LEGISLATION



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Business Eastern Europe, a review for Businessmen dealing with Eastern Europe; Geneva: Business International.
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Comecon Reports, economic and financial intelligence on CMEA countries; London: Advisory Information Services Ltd.
Quarterly

Current Digest of the Soviet Press, abstracts from the Soviet press; Columbus, Ohio: American Association for the Advancement of Slavic Studies. Weekly

Demographic Yearbook, New York: United Nations

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