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THE WORLD BANK

Washington, D.C.

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The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

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Soviet Union - Mission notes

17 September 1990 - 4 October 1990

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**30317465**

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Soviet Union - Mission notes

VICTOR RAKOV - GOSBANK - 923-1870  
(Economist) NEQLINEYA ST., 12, 902  
(Main liaison with Fund) 928-5113 921-8400

Min of Justice: 17.9.90

Yefremov -	Int. Rel. Dept -	Min. Just.		<u>Head Honcho - no name?</u>
Mme -	Dept. of Econ. -	Dept.		
Mr. -	Legal Dept -	Int. Econ. Rel.		

- Willing to answer questions but no real knowledge on future. What interests us? Fed/Rep relations: complicated situation at present. Disc. at present on economic issues. Planning process normally in operation - GOSPLAN, GOSNAB, GOSBANK - in obedience.

Plan prepared, but no one knows if or how it will be implemented. No general agreement between nat & rep govts. A union treaty to define relations being drafted. Has not gone forward as fast as anticipated. Some reps - Rus + Ukraine - not cooperating, although not clearly opposed, he says.

Plan for transfer to market economy: Shatalin plan. An economic agreement among various units also being drafted. To form an economic union, to change structure of controlling organs - looking for something "a bit more consolidated than the European Econ. Union." Draft prepared & will be submitted to Sup. Soviet in a week.

Substantial changes likely to come in system of mins. (branch mins likely to go?) Perhaps with some central agencies attached directly to Pres. -

Higher Economic Council controlled by republics one suggestion. (all speculation) Fundamental questions of law to be resolved many, esp. on div. of respon.

between union + rep. govts. Their view: "absolute priority"  
to union level on many issues - view of reps. opposite.  
For this Justice: (their view) → has to be a clear definition  
of priority on some essential issues for union; if non-  
union cannot exist. Reps. see all power residing in  
their hands & any powers of union are those given explicitly  
in law by the reps - then any union statement / decree  
outside the boundaries of the agreement can be rejected by the  
republics. Sup. Galtain & Kessia will start, in any  
event, the lock ticking on the 500 days starting Oct. 15.  
Political economic events will not await the definitive &  
appropriate resolution of legal niceties. No jurists on  
Shatalin's commission, he rates with alarm (analarm  
shared by Newport & Sarah) Still Shatalin commission  
prepared out of decrees / laws for passage by Sup. Soviet - but  
he is worried about? has seen? - the form is questionable &  
the legal input equally questionable. Lots of inexperienced  
people, legally, working on these issues.

They are working on many issues but they do not know what  
the future competence of the Sup. Sov. will be. - hooking  
loosely at EEC & the commission & says, astonishingly, !!  
we will need at least this amount of coordinating power.  
They are preparing the minimum legal requirements for **NB**  
transition to mkt economy: They see three as:

- 1- law on single monetary system - laws on  
convert. currency
- 2- law on const. of union budget
- 3- " union bank & bank activity
- 4- " issuing financial paper
- 5- leg. on oblaency basic needs of state (?)

Govt. orders of essential op. material (Presupposes def. of who property belongs to?)

6 - leg. on price formation - in transition what prices will be fixed, freed - process of how to de-reg. A shift from direct price setting to indirect influence their goal. ✓

7 - civil legislation, general principles of civil law (now republican - will remain so - but gen. principles could & should be set nationally.

Mentions leasing law passed last year. Detail of that law not necessary; would be better to set general guidelines & allow lower levels to fill in operational details.

8 - Anti-monopolization laws needed. "We are most monopolized country in world." Previously thought the bigger the better. Gives a nice little speech that could come from public choice theorists about lack of personal incentives in lg. collective farms. - But says small size farms could be productive in collective operation. Depends also on crop & technology. Grain more suited to collective-coop. than dairy or fruit, etc.)

Back to anti-monopoly leg. : Decree passed by Gov. of Min. on 8.16. Anti-Monop. Committee created, under C. of Min.

(But if structure changes? Statalin plan calls for this committee to be attached to Pres. Doesn't yet exist in any case - decree prepared by a Balkin commission.)

9 - Want to keep as union matter, leg. on basic rts. of consumers, coops, etc. - but to guard abuse of terms, ideas, activities. They are short of expertise on how to draft leg. on j't stock companies, ltd. liability matters

10 - basic transport reg. & utilities : needs to be

dealt with by union. R.K. thought to remain union prep.  
Dis & sea publicly held, union-emp. companies. They  
want uniform & maximal & all union regs. on  
safety, service.

11- union level provisions on emergencies - financial reserves;  
radioactive materials

12- Reg. of labor market - to protect rights of labor  
mobility across rep. borders he says (or implies).

- No longer a problem with permission to move, at least  
outside of cities, but no housing mkt. a big obstacle to  
mobility. He meant no rep. barriers against workers  
coming in to look for work. - On priv. of housing -  
will become private. Those below 18<sup>54</sup> per person  
free; those in residences now alone will pay some

premium, then housing can be sold & bought. How to  
handle up-keep on apt bldgs (concos-coops coming).  
People could, in last yr. could start buying state apts. How  
many exercised option to buy? Hardly say so far. If you  
buy, upkeep very hard. On other hand, price low.

How is price set? local Soviets set price. From a  
coop one pays "contract price." (which is what?)

Discussion of housing fascinating. You can now buy apt. At  
low price. But if you do, you are respon. for up-keep which  
is expensive & materials not available. State is  
ineff. but has access to materials & sometimes something  
gets done. So why buy? To be able to sell? But there  
is not yet a mkt for housing, so no other housing avail.  
Only buyers those who have assets or access & a  
speculative mentality. NB

13- For. Econ. regs.: Customs, foreign investment

laws across reps., unified system of accounting.  
Reps don't now want these at union level but they think  
reality will bring them round. (S do V.) Draft of  
this given to appropriate authorities. *W Rostky!*

Areas of our interest:

Enterprises - econ. questions: Abalkin's Commission (if it still  
exists) the place to talk about this. (Some for anti-monop.)

Land - ag. issues - a Comm. under Council of Mens.  
looking at this

Cooperatives - TIKONOV (Academician?) has committee or  
commission

Leasing - union of lessors: Pavel Benich worth talking  
to - did some work on the law himself.

For. Econ. relations & JVs:

Labor law: ✓

Contract law ✓ tamitor comm.

Company law, TSCs: Temp. Decree passed.

Court system: Environment: Banking (Gosbank doing union def.)

All these issues in debate, under review, all up for grabs in  
the most incredible way. Abalkin Commission the center point -  
perhaps - for the Soviet approach. (Should see people at the  
Russian rep. level.)

9.17.80

From Min to Comra

Former Min of Lt. Industry - after 89 red'nee. - Committee of

Lt Industry: Min was part of St. Man. Comm. of Gosplan -

Idea is that we in this form have "closer working relationships  
with republics." If decision made to move min. Econ - then  
further changes required. But if fell min. eco. "no need for  
such offices." Hard to say what future will bring.

Ext. functioning. We have: knitting, sewing, textiles ✓

✓  
porcelain, leather, footwear, furs. 30 "branches" handled  
by this min/Committee/Commission.

Agencies - Romanov - textiles

Antonov - footwear & leather goods + porcelain

Stepanov - foreign relations

Administrative - Dept. Chama. (+ foreign relations -

For. Trade Org. help from Export also in

this organization. (Imports inputs for these <sup>leather</sup> industries as well.)

Fabrics imported by other agencies in min of for. trade; other  
products in other mins. (Inputs coming from many sources.)

In future, no attachment of importers to mins - made into  
independent JSCs. ✓

Committee negotiating with for. cos. & buying lg. amt of consumption goods  
(on credit) which is new for us. Many raw materials being  
used only long term as cannot use all inputs when they are  
imported.

Ewing: overall org? Answer: hard to say at moment. ✓ "Various  
reorganizations taking place." Reps. increasing autonomy.

Ents. w/o approval can now carry on for. trade, take credits from  
for. trade bank, or coop. with other agencies & banks, etc.

Previously no such rights. More power to ents & reps. coming.

Their responsibility: inter-ents. affairs, standards, guidelines  
on: investments, scientific & research coop., supplies of raw  
materials, technological power. Before: ents subordinated to min.

all Institutes on R & D & ents. subordinated to union min  
through rep. mins. Now: ents. subordinated to rep. mins.

not Comm. Some reps. have ministries of lt. min. ✓

Byelorussia, for ex. Russia: now have state associations  
~~rather~~ than ~~not~~ ministerial bodies. (Difference between  
mins & association & Comms: much lighter, less control)



(7)

more autonomy. (Supposedly.) Total # of ent.: 4000. No. "we do not interfere" in the operators; before command, now we render assistance." Several thousand - 2500 - out of 4000, fused from smaller ones. Many v. big - 72, 10. employees, 10-15M turnover. Some larger difficult to operate. Still producing according to plan? No. We work out plan for area with Gosplan. For Councils of Minis of Republics. With Planning Comms of Rep., plan broken down. If ~~plan~~ ent. thinks it unreasonable, they can protest. No longer a strict plan, some input from mngt, some regulations on prices with wholesalers - prices for raw materials higher and they can reflect in their cost/price structures. NB

Even before 87 law some of these changes in place - law extended these activities & gave them legal strength. ✓

Positive effect? Hard to say., Things bottled up NB  
moment. Volumes, quantities down up the heap; pop. incrsal small, but shortages greater than ever, so: why? more money around, salaries up, foreign exports, hoarding? Thinks temporary. When people hear rumors rush to buy. In shops, prod. up after changes. - But more shortages than ever. It's started, imports, completing stores & prod. units, etc. Raw materials have major problems. Cos. looking for these products.

Can import w/o approval (export requires license.)  
If ent. sells for for ex, 50% can be retained; 70 for some sectors higher (eg. for example)

Small % export allowed in hard currency mths - 500-600 of 4000 (particularly in textile) Can now sell for ex to other cuts. Through banks at official rate. Rate set by "govt." (through exactly who?)

When ent. can show need for for ex. retention rate can be negotiated upward to 100% with govt approval. For firms, as former ent. mngs., situation is revolutionary.

Distribution: who does factory sell shoes to? At industrial firms (esp., serpyz' union?), ent. make agreements with wholesaler orgs. - if quantities left after lower level firms, then to all-union firms or call on other purchasers. Now distribution fairly free. No sales beyond can offer higher than state price if they want. - for some branches. In foods, no or little regulation, some % of prod. sold at fixed prices - depends on nature of product & extent of how essential the product is regarded. Children's products, for ex. talk of compensation for public for rising prices in "fear" product lines. Bonuses given to some factories to ensure output. "State order" guarantees supply of inputs to state ordered firm. (and price is fixed, then?)

70-80 % of ent. according work according to state order, but amt. varies greatly from 20-80 %.

"Gears to butter" movement affects his industries as: from uniforms to consumer goods, boots to shoes, etc. It's proving difficult to some former military firms. Enterprises go to defense min for restructuring prior to being placed in the Industry Comm.

Computers came about to produce automation of our own operation.  
(Only one of branches that specializes in computer prod.)  
(A story of getting into prod. for many reasons other than making money.) They fell into a competition on computer production.

Formerly had much military prod. (microwave.) No cooperation with rest of world; began to recognize that system was not functioning - no specialization of labor led to high cost small production runs ~~and~~ of special needs unobtainable locally.

Started in coop. with RCA, Nippon Elec. Glass & Owens Illinois - license agreement. Main coop with Comecon countries on agreements. (now minimal.)

Sharp decrease in military prod. in country. Decreased state orders "very much" in many plants. Conversion.  
Not so easy as at first envisaged. Had highly qualified workers & mngrs. But change to mass consumer goods not so easy. Main difficulty: producing in cost effective fashion (not a military consideration normally).  
Old firms had set price, guaranteed inputs, ltd. output.  
Diff. situation in consumption goods.

By increase in contacts with west in recent yrs.  
Arranging contacts with Korea, Japan, IBM, Commodore, Apple, DEC, Intel: jt. production in personal computers, TVs, videos, microwave oven, consumer goods.  
(Increase high quality consumer goods the goal.)

Main problem: financial state, funding the TVs. IBM was ready to begin prod. using local materials of RS-2. We had good plants but they have insisted on importing all their components & prod. kits.

Euro. - report sent to republican ministry - (or first to association) - question is simply is plan fulfilled, on output, on profits, on receipts - very few indices. Much less detailed on labor wages - much more reduced. Inter-rep. agreements fulfilled. Written rep. contracted by mins - inter-rep. by us. No strict discipline as in past; much changed. On other hand, this is <sup>PERCEPTIVE</sup> transition period, difficult for all. Euro: lt. industry has easier time in transition than heavy. Better targets for corporalization / priv. here? Happening - TVs, first in lt. industry. TV in shoes in Leaning with German firm. In textile, sewing - battle for ex & domestic mtd. (Salamandra - bid for domestic, then for export - clearing basis - and finally for convertible currency.) No private sector action yet - but cooperatives, yes, "quite a lot." "Not within framework of activity of committee."

18.9.90 → Room: In tourist Hotel J. Holser

- Meetings: 930 - O.K.G. Meeting
- 10 - Central Bank - Credit - Levy
  - 10 - Industrial Conversion <sup>③</sup> From military to civilian inds.

(Mtg being arranged with: GOSPLAN, PLAN-AG, HOUSING, REFORM OF GOSPLAN [20<sup>th</sup> - 11 AM], GOSNAB - supply; Science + Tech Committee, prices, Trade relations, Chem & oil industry, electro-tech. min., council of mins of Russian Federation, Moscow City Soviet, Chamber of Commerce USSR.)

- 2 - Electronics industry <sup>(NB)</sup> 2 - GOSPLAN - AG
- 3 - radio industry



Wed.

Machine Tool — Min of Instrument Bldg.

10- all day: (JN)

Min of Metallurgy requested (Chemical + Biol prod.)

• Thursday

1030 — textiles (Min Lt. Ind.) (JN)

✓ trucks & household appliances visited possible

✓ KAMAZ TV (trucks) — 1000 km. from Moscow

[Krusken — ag. attache US Embassy: situation fluid, difficult to see what's coming, etc. Counterpart on board, helpful.

9.18.90

Ministry of Electronics Industry — Mr. Ivanic, Vice Min.

Mr. Sokolov — President. Deals with production of electronic

components, active components: ICs, microprocessors, transistors,

semi-conductors, passive — electro-vacuum. Original goal.

Needed inputs & equipment to produce these materials.

Created their own input prod base & many firms started.

lots of vert. integration to self-produce or guarantee supply of

needed inputs, minimizing supplies from other — but not

eliminated. They see (saw?) themselves and responsible

for all aspects from input production to final finished goods.

Calculators, electronic watches, TVs, Video tape recorders,

microwave ovens, consumer goods in electrical appliances.

Talks of glass plants to produce his stuff, which then

produces a range of other goods.

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Main problem: financial state, funding the TVs. IBM was ready to begin prod. using local materials of PS-2. We had good plants but they have insisted on importing all their components & prod. kits.

Needed credits to buy kits, haven't found. Before, had money; no possibility of coping. Now, crop production possible & tapping into worldwide technology, but now capital locking. Foreign Econ. reg. prohibiting imports now relaxed, Gov. ready to start helping us produce them here. [Our rigid laws relaxing; our technology adequate --] Next prob.: org. mass prod. in consumer goods at high tech level.

Fater-rel. of Min with Ento. Greatly changed in last few yrs. Sys org: "rigid centralization." Many causes. All centralized; all went through ministry, every decision. Now - Much more freedom at sub. level in prod & for. trade for ex. State order still exists.

Ento have pts to discuss & negotiate. On average in this min - 75% to today but changing at high speed, (and going down, he implies)

Ento creating own for. trade ops; free to enter arrangements not requiring st. fin. help or involvement. This creates additional difficulties -> not really in mkt but

"have lost some of our import tools from previous command system." We could control supply of materials (the key pt.), reg. supply of production, stable fin. state of ento.

Had lots of deficiencies, agreed, but had beauty of stability. Now lots of input problems (repeated complaint).

Some ento. searching for ways to turn system to advantage. Mkts for many goods declining but they can't easily change prod. because new or other inputs hard to get.

Fin. demands v. great on ento. Repeated lath of "isolated from the rest of world." Steel convert. plants,



limitations on trade & exchange, lack of trust. Large double deposits don't mean much if for ex nat ✓  
✓ purchasable. Some small amount of prod. sold to  
the mnts. Co, tubes, frits, TV sets - big  
possibilities in future in materials. But very small  
and at moment. Good demand for some crystals,  
& "pure" materials. Microwave components. 40% to ~~remain~~  
for ex earnings - 4% to min. position of gov.  
to raise % R&D "institutes": integrated in ents.,  
many in number. Highly qualified engineers our  
most important asset. ✓

Mins has a central apparatus: main branches: respon  
for production of products. Branches have ents. (NB)  
which made the elements. + R&D institutes. Main  
depts still exist but transformed into consultants for  
factories, not command planners. But mnt has not yet  
arisen, not simply because of lack of time but because of  
finance & psych. probs. - Min has:

Budget into for research  
" " for cap. construction  
Obtains part of profit ~~obtained~~ 1,000+ ents.  
Centralized funds of mins - for special purposes, 1/2 million - factories  
assistance, capital account (ZAVOD) institutes

1991: no more centralized reserves. all money  
in hands of factories & min will get money or not  
on dec. of mnt. Elec. ind. needs lg. stand-up  
cap., so central aid or org. needed. Or some  
intermediate org. (or credit) must be found. Fernis  
want total independence but starting to see  
fin. need. Min < 30% less than before ✓ 800  
DELINE IN SIZE St. 11 hrs.

Reflection will continue. (Supreme Soviet still demanding answers of us for powers given to reps.)

Fullness of today: Can. want freedom from direction but they want resources & ass't in time of need. "They will come back to us," their view. or go to Panama - something - else.

Privatization - yes, future. First - TSOs - many intentions, none yet - a process to be launched, many obstacles. Many laws, many new, some contradictions, many past discussions in Sup. Soviet.

"I would like to know where I am." Wants some conclusions from the debate. "to get on with business."

3. strict reg. of prices another factor: state says all producers of one item should change some price regardless of cost differences. Should be first they changed. How can capitalism exist in only one mkt. in only one country? Can't.

Their non-state order production is sold at same price at state order (with slight variation for incentive/stimulation of new prod. items). Small variation in produced item can lead to log. price increases. Black mkt strong

for electronic equipment - double official price. After changes, prod. increasing but not as fast as before.

Mr. Radikerikh: Ministry of Metallurgy: ✓✓

Mikhailka - Fin. Dir.

Zornich - Cap. Invest.

Teristakobaf - Ind. Relations & Protocol Dept.

Our branch - 3 million people in total branch

✓  
✓  
✓  
rock mining, ferrous & n.f. metals, collection & processing of scrap, metal ore, raw materials for blast furnaces, pig iron, steel, flat materials, pipes, metal goods, rods, wire, bolts, nuts, etc.

N-f metals - copper, aluminum - 74 elements of the periodic table. Repair shops numerous.

Maintenance services, support shops, infrastructural support, also have farms, construction organizations.

Very big metal plants, around which cities were built - all social services such as kindergartens, hospitals, sports ground - all these dependent on factories.

Railway controlled by enterprises. vertically integrated behemoths

In min proper, 1000 people.

Now, independence of ent. much greater - and growing. In last 4-5 yrs. min has seen growth of concerns <sup>associations</sup>

dealing with production. Results? A bit of everything. Some incl. up, some down, some positive, some negative.

More ind. the braver the mngt. can be in using resources, <sup>(NIB)</sup>

but only interested in short term results. Long-term problems should be says be decided by centralized planned.

Limits on enterprises desirable he says. Metal diff. branch from lt. industry or trade ✓

cap. investment high & hence. Where have associations arisen (as min. strength wanes) or been formed?

He says if what union/min/ent. - special or <sup>(NIB)</sup> thematic reasons for their forming. (20) These <sup>NORILSK?</sup>

Concerns can opt out of min. if wants - nichel firm went off on own; now wants to come back. Inputs? Vad Dolev. Org. construction. Typical concern has

unanswered?

maybe ~~too~~ cuts on ex. in a concern. Scrap concern has 200 firms, seen as one of largest. Concern about their effect on monopolization? Doesn't want to go too far - no extremes - combine ~~with~~ with old system.

Evaluation by men of trends in companies & world situation should be monitored. On intervention - the first we've met - EXIB

Though agrees that price liberalization would help & is in favor of it. Raw materials very cheap, "prices more distorted than anywhere in world." They would love to have free prices, not, without changing other aspects of system, but otherwise, see need for dual price system, gradualism, etc. How about international trade? Had 3 types of money: HC, Convertibles, roubles. Now convertibles finished. So all external trade for HC.

Same for exports - all in HC trade. Privateization is not planned he says - is only in discussion. Planned to take some cos. to J.S. status, as soon as all the Sup. Soviets + laws are clarified.

All cuts can can for ex, if they have alone state quota prod, but pragmatically do. Some manage to can retain some of for ex., but from 1/91 - maybe 50% of for ex - some variation among firms with 100% retained to purchase - Bud. 95% on

Average is state order. (Men retains or deducts 10% of for ex retained (or 3%). Barter: willing to go. If a st. order is for exports, no for ex retention. Thinks this is all a temporary euphoric that will pass, particularly with regard to sub-national enthusiasms. NB

Do you plan to force bankruptcy on persistently non-performing enterprises? Answer - a factory that fails or close it; but a plant is always connected with 10 other plants

ag. industries: gradual move from fixed to market prices.

19.9.90

Pavitchev, Nikolai - Minister of Machine Tool + Tool Making + 14 colleagues (y compris interpreter).

Leaders of branches: Vice Ministers + leaders of main depts - finance, exports, R&D, production

Visit zavool - Krasnipolitori. Many plants in Moscow alone + USSR total. (Singyri Bank) ? their bank

Men. on general situation: the branch: where we are & what we will do tomorrow. Metal cutting, tools,

instruments, wood working machines, casting (tool & dies), machine components, hydraulics, gear box & gears. Furnish ourselves + other branches 90% of all casting equipment in Sov Union.

14 specialized directorates in min., 9 bill R prod, don't do machine tool prod. Some consumer goods - washing machines, toys, motor blocks, ag. products.

600,000 employees, 500 organizations (some associations), 317 "juridic persons". (4 varies). (In min 5 yrs.)

12 depts. in min. - 1450 employees in min. when I started end now, after reorg., we have "2 level structure." Now 500 employees; little strict - 65% to reduce.

of labor; more mngt + prod functions to ents.

Our tasks - directing development, guiding, advising, assisting R&D, financial standards, tax policy, for. trade promotion + training.

From Manager to promoter to subjects.

(13)

Protection of interests of our enterprise in their relations with the state. Main activities. We still have to intervene in prod. activity, because of need to achieve plan targets.

NB As mkt. economy forces grow we work to help ents. transit to new conditions. This started in 1988 & we no longer est. plans; they do it on own. But structure of min doesn't make much sense in these conditions. We working for last 2 yrs. on new arrangements & have coops, leasing ops., working in TSCs in ents. Studied exp. of for. eos. in countries where st. sector is lg. — Austria, Fiat, GM, Ford + other car. Conclusion: must acceptable form TSC. form. Made proposals to govt. to make TS org. in place of ministry, to replace min.

(To do what?) ← PUSVE NB (\*)

Financial situation will be described; machine tool situation has speciality - regards key branch or sub-sector. Where this sector well developed, other branches are as well. Lead sector - technologically. Not perceived in USSR (?). Saw it as 2ndary support. Lg. # machines produced; but lacked good equip. (MEANDERS). Our machine stock now old or obsolete, including stock in our ministry - which should be at culling edge. Needs to be replaced. Problems seen clearly, but can't solve problems. NB

Key problems: increase prod & accuracy of equipment. to meet demands of customers. Must produce or import new & better equip to make better prod. Lack resources (fin.?) to update. Working with foreign partners & have plans but need funds to conclude transactions. \$500 million generally needed.

Ecological probs & (health). Forging, casting, welding

all need technological modernization. Have 2 partners, Europ. & US, but again lack finance. No problem on loan repayments he says.

Consumer goods: our prod. not sufficient. Working with Italian Co. to produce 400,000 washing machines. Money found to help a drapier busches. Western firms would purchase components - but start up capital needed.

(long talk of need for western credits.) Working closely with western partners. Must introduce prod. system used in western countries. (Means technologically?) Wants to create lg. net of small enter. producing specialized products. Assembly plants sufficient. Our losses & inefficiencies based on excessive vertical integration leading to small prod. run & high costs + no tech. innovation. Have already studied. Constant contacts with potential for partners. (new)

NBB!

(SAME STORY WITH ELECTRONICS - ISOLATION THE PROBLEM, NOT OWNERSHIP?) Lack of money the remaining problem.

One more problem: 1.9% HC payments on CMEA trade. No further financing arrangements. We have special input imports coming from them (all) 500 mill R annually. Can't pay with barter any longer. Now what will happen? So: total financing needs \$1 billion, payback period 50yrs. But good directing available credit to other, admittedly important, sectors & branches. Investment stored.

eff admits being behind, well behind, leading countries. Have the people necessary & skills. Modern techniques needed. Lg. # of people in R & D - 36,000 but going down; was 42,000 (this is good!) - and will

go down further. / How we get HC: (not self-sufficient).  
500 mill. R goes abroad (CMEA?) for HC:

100 mill R worth. (Could use a \$ figure). Of <sup>✓</sup> <sub>NB</sub>

for ex earned, 50% state - 10% min. - 40% <sub>NB</sub>  
in ent. (How long is EFFCO?) Reality (remuneration in  
ent?) not v. lg. Some cuts could export more but local  
demand v. high. Says French M.T. industry received under  
Millarand by missing st. injections in industry. &  
Claims similar outcomes in US, UK, Japan. Wants ext. fin. help.  
A pleas.

Oldander Market: Fin. Dir. → cuts now on  
self-accounting, cost acct., "equality of all forms of property."  
JCO, coop, SOEs in equal conditions (and lease ops as  
well). - Speaking about new ent. law, in effect in

1.91. 3rd yr. of changes - positive effects have been:  
debts 20% of before. How? Better use of available  
resources - efficiency gains, cutting costs, setting up "inter  
branch" commercial banks helped cross subsidization. Ents.  
financed from their "own resources" - with credits &  
budget allocations (?). Credit resources for prod. ✓  
from budget for national econ. needs. New leg. - variance  
in ent. ops. Uniform taxation for all ent. "Basic funds"  
will not be the same. Additional loans needed to create  
similar starting conditions for ent. entering into new  
system. Why such diff. financial situation  
for cuts? Planning system failed to provide incentives  
for increased production. Pricing didn't allow for  
covering variable costs.

Reflection Effects?

Review of major technical problems. Lots of JCOs -  
in effect, or proposed. What Dir. of what is



produced inside man & comes from outside - lots of imports -  
350 mill. R. worth of goods (to them). Imported exports  
for export. / On purchasing components from other branches -  
Who coordinates? Ent does itself or goes through min?  
Min. dept, self-financing, deals with this. Now acts as  
agent, semi-incl., between ent. & other branches. Is  
still mainly a ministerial responsibility. Direct contracts  
between plants in diff branches now possible, or between  
manufacturing and the supply agency - these relations  
instable, suppliers not fulfilling obligations, (what  
can one do when this happens?) as they can find  
more profitable outlets for their products. Very big prob.  
Can they import without using <sup>SUPPLY</sup> COSNAB? Depends.  
On material requested or needed, on available  
suppliers. [If they cannot obtain 380 mill R of imports  
(from COMA) prod. may fall by 4 bill R.] But  
in general, not clear. — will be  
What % of prod in av. firm accounted for by state  
orders? 47% - dont 20 - Consumer goods. (Future)  
What is it now? First time used in 1980 with the  
COSNAB system and only 14-15% accepted for by SA.  
Yes. How is rest sold? Remainder went to COSNAB.  
In future - 50% at 50 and remainder "free" but  
this not yet in effect. How will the "free" system  
work? Absolutely free, "except for prices" negotiable  
[go back to metals & review price issue] Price issues  
crucial. Not prepared for complete freedom. Under active  
discussion. But many rules of game v. unclear to us.

Non-state forms of prod - JSCos, coops, leases -

Need info on how many & where & how they're working. Data to be provided, & meetings with lease ent., coop., small org., no examples yet on TSCs. (As I thought) But Stankoimport will be TSC. Some larger entities being divided into component units which will become small ents. - people in co. want to buy from ent or min. German experts advised. Possible to do now. But: private property issues not fully resolved, unclear on some pts. Me, I'm for. Ents. need entrepreneurs.

Transfer of technology between mil. & civ. min.? <sup>Don't</sup> Concern v. much our branch. <sup>FORWARD LOOKING</sup> <sup>35% 10% ENOUGH</sup> <sup>(NIB)</sup> What are relations with for. cos.? Many & vast relations.

Purchasing licenses, creating ~~factories~~ TSCs - 11 with western firms in this min. 62 general agreements Ex ind. coop & 8 licensing arrangements. Buying few licenses; looking more for technology. Lots of training - 100 abroad this yr. & want more. Some other branches producing machine tools - auto, defence, tractors.

Other changes in min since new system? Biggest change is psychological - mngrs. seizing opportunities, creating money (never before), attitudes changed. Looking to increase profits. We started quick and got some results faster than others (88)? Country last yr. had general ~~increase~~ decrease but our min had small 4-5% increase in physical output.

Davilov - Econ. Dept. → 75% of ents ok after 88 (how judged?) - 5% growth. ↑ 7-8%. Think that these will not have much probs in entry to mkt. 10% of <sup>of</sup> <sub>with</sub> lease arrangements → Remain 25%: hard to

introduce to mkt - big losses. (3% profitability in mkt. (profitless % of costs).] all plants monopolies in their sectors. With st. prices no problem. With free prices - must still control monopolies.  
financial position of branch:

"Krasny Proletari" - Mr. V. Galkin, <sup>Chief Engineer</sup> Co. founded 1857.  
Metal cutting tools. 4 plants - this + some affiliates located in general area (and some further away toward Polish border.) Engineering co. - 6,000 units of finished prods. a yr. + service org. (5) 1st Co. to escape from old for. trade reys. - 1st plant to use this autonomy. 8 search out, now have this power - others use main for. trade.

CNC methods of prod. used. 5 yrs. output 1,000 units a month w/o CNC - now 500 month with (?)

Runs through prod.

Refurbishing underway: 4,000 employees in one plant. For suppliers how cost of production. Between 50-60 % of cost consist of components purchased elsewhere; 40 % made in plant. (Heigh?) Destroyed old plant w/o interrupting prod. Much defect of new production & new machines. EMAG - West German JV partner which supplied new machinery. Time? 18 mos.

JV: What form: cooperation - jt. design, Ger & Sov. designers, they invested money in trng., jt marketing in both mkt, w/ prod. "rest depends on result." If goes well, fine. Moving fairly slowly. A true JV - new incorp. Co. 50-50 Germ-Sov. cap. & control. German partners financed by DB - had receive products in return. But K P also gets XR from sales of prods.

no govt. interference on price setting - price diff. on domestic & for. price - 50,000 R - 100,000 R (at official ex. rate?)

V. expensive espies of valuation. (a 50k R vs. 300 of \$M) No subsidies for production. 40% for ex. earnings to ent. (80% - 1.91.) W. Germans need get something off the top. 45% 5% gen. profits tax. How to protect ent. from additional taxes from rep or municipality.

For ex. earnings are tax exempt (new rates will be variable) ?? XB

100,000 \$M - sale - HE costs = 50,000 \$M.

x 60% govt. HE tax = 30,000  
20,000 -> used to buy more HE inputs; buy goods for employees; buy shares in foreign companies.

↑  
including  
licenses,  
consultants or  
just component?

1990 ↓  
All local costs are exchanged to HE and included in deduction from earnings to determine taxable HE earnings. So: deduction is total costs, including labor, in HE at official rate for costs. And they will sometimes sell to other ents. at diff. than official rate.

About 20% of ents in min have export potential (at moment) & with 40% in for. trade - known products.

How about future relations with ministry? Complexified  
Tendency to set up TSCs. - no further mins - but TSC. associations. Min will become holding co. or a lobbyist for the ents. Relationship must be restructured. From hierarched authority relation to partnership.

lets has already happened under per.

Factory visits: Workers Council - 70 members now, elected.  
meets 1 or 2  $\frac{1}{4}$  by maximums, may. formerly appt'd by min.,  
then elected, and from 1.91 will be approved' appt'ed?  
by ext. Council - ~~to~~  $\uparrow$

Stokoimport will be converted to JSCo. soon. (sd to apply for new  
association. (K talks for too much, appear fall (oujoo)).

Maxinia - For-Trade org. - 60 yrs. old. First imported machine  
tools, and did so in 30s. After War, exports ops began,  
to neighbors, to LDCs, to JCs. \$2 billion turnover in 1990 -  
 $\approx$  4 imports. They have JSCOs in 7 countries Europ., Mex.,  
Canada. In some Cas. shares, in some minor, some major.  
Subsidiary cos. in 42 countries + agency agreements in  
some other countries.

JSCOs now allowed. Shareholders: soviet follows not  
simply of our branch but of others as well. 300 diff.  
agency agreements for ex. Orlins or bath. Receive commission for  
this. (Keof Showroom for local and imported (from prospects)  
from abroad. Staff: 450, 11 diff. ~~from~~ depts but not  
legal persons.

Cooperation agreements with foreign partners & factories.

A financing corporation also. If we become JSCo.

we would make a kind of holding ~~corp~~ company. Cos.  
Would have majority holding of "subsidiaries. Will  
give us more flexibility. Shareholding of holding - only  
ent & banks from Sov Union. JSCOs could be formed  
with foreign capital. Prim. aim: deliver internal partners  
with best products at best prices.

Min: owns our property, our major shareholder. Walking in  
law, says Amin, on transform SUES to JSCOs.

Views on Privatization (17)

3 pt. share holders: min, exts. in SO, employees. Mainly  
say foreigners welcome to buy. For workers, 15% to workers  
or staff sold, on low or nominal rates. They see  
workers buying first, or first cut. How many shares?  
20 million worth, at 1000 \$ per value a share? Let  
we calculate profit we should make on capital. Then we  
pay a dividend. (This rate by regulation.) Labor shares  
stay at 15%, irrespective of capital injection, and only  
available to labor. Merely.

Thinking of shifting to limited company, which would  
remove problems of JSCs. which would see labor  
being given 50% of board membership with only  
15% of capital. Limited co. would change BOB  
composition to equality between equity & seats?  
But all this is speculated in the extreme.

Now working on commission. Looking for working capital.  
No longer popular to be trading agency. Advantages you can  
offer firms to trade with you? Network, know-how,  
financial contacts & short credit arrangements,  
Marketing - this is what we have to offer. A package of  
services - ads, transport, business attention, customs  
processing & clearance - & they have lower rate. (distortion!)  
But other agencies doing same? Yes, competition will  
grow, but we have comp. advantage in MTool work.  
(And maybe we can expand.)

Are your fees/prices fixed? Negotiated with customers.  
No state control over fees. Our partners now could be  
future shareholders. 300 firms, only 160 from Min MT.  
Others military, other branches. Foreigners could buy

shares in subsidiaries but not in Stockport.) We are just breaking into competition with other fr. trade orgs & factory units devoted to this activity. And with co-ops & J's. New element for us, internally. So for competition not so strong.

They're trying to get a jump on competition. ~~Not yet~~  
Some firms in min have already jumped ship (8) from Stockport and they will have to work to make them come back. They see a possible split between interests of shareholders those of partner-holders want dividends, partners want high price pd (which might lower profits). Solution: make partners shareholders?

Our problems in exporting not only product quality but they don't know fr. languages, coping with foreign customs & trade - can use us or fr. trade orgs. (Some wishful thinking here I think.)

CMEA: expected 250m R trade next yr; will prob. get 50m. May recover up. after that, but immediate future grim.

E Ger. our biggest partner and that mtd. you gone or changed. Exports to EC countries doubled over last yr., looking to maintain & increase this gain.

Their view: they see a diff. future coming; they're trying to see where one is going and seize all the opportunities they can see to decentralize, to diversify, to export, to involve themselves with foreigners, to innovate administratively. What do we think? Fractured. Competent. Placing themselves in a position to survive and maybe even thrive. [20.9.90]

Price Wat.: accredited through GOBANK, not a JV, rep. office - want to start indigenous int., now long.

7 Soviets in CA Org - 6 mos. Org in London, 3 yrs. total Org abroad & will return as CAO (CAOs). Easy

and good relations with 2 firms in USSR. No problem, only one of kind.  
Business: facilitating business ops of westerners in SO. Looking at  
Sov. domestic mkt + helping on reform. Asst. on reviewing.

Draft by. - good with Min Fin. Advising on privatization. Certain  
sectors attractive to our ops - energy, oil. (Cooper, Alan - based in  
London.) All clients at moment foreign firms, but positioning themselves  
for future advisory relationships with Soviet firms. Gleckson:  
all coming adrift. Diff. situation exemplified by tax situation:  
holes in leg., few trained cadre, lots of ideas, but no details. ✓

Tax uniform across sectors including banking; claim that accounting  
standards are same across sectors including banking.

Privatization: hoping. Other acct. firms? In Jt. Ventures.

Proz. to dev. Soviet domestic bankers. Interested in dev. of  
fin. & banking sector, auditing (will be needed as capital mkt.

develop.) Suggested that across the board investment cuts might  
harm some areas of potential comparative advantage - say microchip  
tech. developed for military.) Infrastructure decayed - to red. glue.  
Pessimistic assessment of future - dis. breakdown, feudalism a work,  
ethnic/regional disputes growing, chaos & uncertainty, corruption &  
decay. Doesn't think anything much better than present mess will  
emerge. Difficult investment situation. Its money in number,  
but few in implementation. (XR)

7 pts of negotiation: defense, money & banking,  
20.9.90

✓ Taxable firm: Director, Asst. Acct -  
+ someone else.

Integrated factory: produce 200 mill. meters ready  
textiles: spinning, weaving, finishing. 3 shafts  
majority equip. imported. (\$45 mill)

Weaving: local equip but buying or discussing imported equip



here as well. Japanese & Czech equip. as well. Mainly female  
workforce, 3,500 - 2600 women. Changes: all instructions  
for all aspects of prod., inputs, price, type of output  
formerly come from above. 84% of "grey cloth" rec'd  
from other ents. all instructions came from above. Even if  
potential buyer wanted produced designs committed at min. could say offered design was in bad taste and they could  
reject it. And sometimes sib. (Chernova, Baklan). NB

Financial side: in past, banks monitored but were not partners.  
Controlled our financial activity. Tons of papers required to get  
loan, but depended on personal relations. Now: end. bus  
direct contact with supplier, determine volume & assortment  
of prod. We. Some attempts to divert us but we can now  
resist. How do they now get inputs? Use intermediate  
agency and they, the ent., orders. In some regions, the exchange  
is on barter. She has 1 person working on input supply  
full time. Inputs from all over (disintegration would cost.)  
Design: trying to match consumption demand - more freedom  
of maneuver to produce. Supply: in rep., ent. to ent.

Outside rep. - use agency.

2 prices: ind. price. ~~and~~ "agreement" prices - 6% of all  
ready-made cloth - finished production is sold according  
to these prices. (Inputs seem to come in at one price.)

Agreement prices coming into being as of 91. New to them.

So far, output sold at one price. Great uncertainty on  
future. Worry about "anarchy" of supply & demand  
arrangements if republican govts. disperse.

Sales: Before - 50-100%. All inputs supplied.  
then: So cancelled. But orders sent nonetheless, with changed  
name. No change. Now - real change coming: 50-40-60%

only & rest for our own disposition. We will determine. New.  
"V. interesting." Relations with Banks: will open branch bank of  
Moscow Region Bank. (And also with VNB - fr. trade.)

Bank wants firm profitable; want to cooperate with them. Opens  
potential. Mutual need. Additional opportunities. Can now choose  
type of ownership & conclude JV's, domestic & foreign. Inspired by  
ideas of perestroika. Difficulties temporary - were sick but not  
in need of care. Time needed. Want minimal economic  
dislocation. (Visited USA -)

Investment financing: from where? R - self-financed from  
~~fund dev.~~ fund of ent. \$? Different. State planners  
had allocated for ex from union budget. ~~How~~ And money  
could sell all prod. & exports if allowed. was paid given, part  
loan. This yr., 50% to state, of 50% theirs - 3-5%  
selling abroad.

Debt structure of ent: they pay investment credits at off. ex. rate  
from dev. fund payments; if not enough in fund, they borrow from  
fund.

85 mill R - total v of assets  
0 - to govt. at moment

credit for econ. needs → 11.5 R mill  
long term credit → 10.0 R mill

Profitable. Very, they say. Balance profit 28 mill R  
(last yr.?) To now (80) → 84% on profits.

Some variation on deductibles. ~~45%~~ from 91 - 45%  
union tax, (includes republic tax as well.)

lots of other taxes as well, turnover, partial  
Reports to collector of ent + min. 1st up in power, May change.  
Lud declining. Still accustomed to min, best this

23% prep.  
22% ob.

Idea - from 1.10 replaced by concern & relationships will be diff. - Should like to be leased, but don't know if they can.

Collective adds to autonomy & they liked it, they say.

Diff of opinion w. workers - 70 - had to overcome their indifference. Uncertainty - How to avoid paying some salary to everybody. Some successes. Factory profit not important to worker; personal gain is. Many looking forward to diff pay for diff work. (Many apprise - indisiplined & resistance to change.) NB

Production: not aiming at increased output. Now trying to improve quality & efficiency.

Interest: not known; they claim ridiculously high fee.

6% or normal working cap. Will rise. All rates under review - may go to 15%. We are only given rough ideas.

Wage flexibility: they've started from April & May of this yr. with premiums to reward good workers. NB

Before - production + qual. rewarded somewhat but not sufficient or significant diff. If plan fulfilled, worker rec'd premium. (Total  $\pm$  by workforce.)

No incl. effort. Now - atomized individualized.

Variations by job nature - quality - hard or soft - night or day. Now more complicated. (Was according to Seniority - some variations.)

New approach: working on new salary system incorporating new & varied determinants - worker can make much more money - will have quotas. Workers have ways of avoiding work. We want to interest workers. If no work in future, no pay (for unexcused absences.) Want to reduce overtime and link pay with effort.

Special addition for truly exceptional workers. And some get (or will get) up to 400-450 R per m (double, in gen., old system.) Norms are demanding. 5 day workweek. Sliding workweek - open 6 days, workers 5 days, 8 hr. shift normally, 7 hr. on night shifts. (Evening + night bonuses.)

Similar system applied to engineers & technicians - premiums not just add. salary → our reward in future linked to total output (a kind of production or profit sharing?) Not easy to introduce; have to break notion of premium. Quality & cost cutting the issues - total output not the issue. any more descriptive → if someone comes to work & does nothing are still don't have the right to fire him / or her. (NB)

21.9.90: (ZIL) V.P. Borunov - Dept. Gen. Dir.:

Overview: "Industrial Amalgamation" - 15 factories; this one leader. largest in terms of employment & has main assembl. line. Rest of plants scattered around country. Other factories supply this final assembly plant. Trucks the main product. [200,000 trucks annual. 6-10 tons - diesel petrol. (Dept. Dir. Econ. Issues). Shifted lately to mainly diesel & will be 100% to diesel in future. Have their own design (6,000 trucks with diesel this yr. with their own engine (+ others with engines from Komax). In contact with leading fr. car. to import diesel engines & install. Problem is # of locally available + want good qual. engines for export. (They make everything; heavy vertical integration; buy only few things electrical, rubber, glass from non-Zil firms (steel too). Self-supplied. HUGENP.

100,000 employees in final assembly 60,000 people here alone. Also make spare parts for trucks + consumer goods line (250,000 R per yr.) all kinds on display below + more. here: fridge, microwave oven. Most components including compressors made here. Rem of components larger than finished goods for spare parts.

Why do they diversify? Make money? Not the reason. We were assigned the responsibility because we had tech./ind. capacity at moment when need was perceived. Only they could cope. Why not become ind. unit? No profit, but we were thinking "in terms of the needs of the people." Here is where the engineers were. A question of planners using available resources, not of looking for profit opportunities. ← looking for fr. info & deciding on expanding refriger. aps - to 500,000 + 1 mill compressors. - on license.

Organization: 15 diff. factories - legal entity in ZIL; Component units maybe factories or enterprises - not self-financing or self-accounting: production centers. No ind. balance sheets. Heavily centralized integrated firm - specialization of firms on input supplies. Central office obtains, allocates to prod. shops, on more or less planned basis. (Doesn't sound like much has changed from the old days.) Orders placed with Min Metal, Min Met firm sends to prod. shops, sends "bill" to HQ. Is some prod. of 15 plants for other than ZIL? Yes - they do sell some prod. to firm 2 & other producers. 10% of prod. now sold to other than ZIL. Grebes, blocks, (In some cases 50% of prod. to other firms - all for same price.)

Who appts Mngrs? [Ben Mugh] Min. fr factories: Gen Mngrs. appts. (union mngs.) Relation of factories with reps? The key question at moment. Now, being developed, unclear. Taxes: we used to pay to union & they would distribute. Now being changed & we will pay part of tax to union, part directly to rep. In lack of self-acc. for factories, how? Not so hard, he says. Profits of a factory calculated and can be determined. A partial accounting has been done accidently. Beid center will pay. Other changes coming, that's certain. Don't know what laws will be adopted in rep.

Workers Council of whole ZIL - 150 members - + 50% workers;  
and @ plant has WC. Some composition. Functions: social  
problems - tech. pol. & econ. questions "prog. of general  
mgmt." Wages? They make recommendations but final  
decision remains with mgmt. Other members: designers,  
lecturers, white collars. Administratively persons: 25%.  
Doesn't sound serious, no ownership questions.

Relations with Min: offers plan #. We say # - x%.  
Negotiates with min: "final decision is with us." So -  
not some quilted plan. (?) "Part of the plan is  
Mandatory" is 80 - and is changing, or fluctuating. (46%)  
now; 60% 2 yrs. ago, 5 yrs. ago 100%.

(GOSPLAN) Mr. Transition period: figures all questionable.  
Plan of 5 yrs ago replaced by 80 and system is new.  
GOSPLAN gives 80 < 100% - GOSNAB still wants to do 100%  
100% - and they fight. 80 may vanish. And we will  
be free to negotiate entirely on all matters.

But prices? Can't answer. Govts. deciding who will set.  
So for they use GOSKOMSEN prices. May soon change.  
For non 80 - no trading, all based on some price. Coster?  
(Sensitive somewhat.) As monopoly suppliers get price freedom  
they try to raise prices. Ties with suppliers break down.  
They want to trade our products for theirs with varying rate of  
exchange - a "ratchet" he says, and they can play since he is a  
monopoly supplier as well.

GOSPLAN gives 80 + names buyers + we must contract. But  
other consumers not included want it (and are named by Com of Min)  
and we are obliged to supply. "And what is left for us is very  
small." So 80 maybe 40% but 80-90% is really  
still planned.

Could other firms produce similar trucks? 5 other firms could do some similar work, but diff. range of vehicles. No body can compete with us w/o special factories being built. A Co. in Gorky produces more trucks but smaller capacity. Re-tool costs prohibitive.

Could you compete against imports? Sure - but Khrushchev must be converted. At what rate? Admits imports are better but in country need spare parts net, etc. and Soviet cars preferable.

Exports: hard to say how price determined in for. countries; fluctuates. Most trade with CMEA in hypothetically R- with clearing house on bi-lat agreements with other countries.

% of prod. exported: 7-8% total prod. overseas.  
35 countries approx. (Demand for petrol engines dropping.)  
COMECON + soc. countries (some China).

Syria, Iraq, Egypt - some "very small" HE exports to Fin + Sweden.

Inputs: How do you get supplies? GOSNAB doesn't even give us enough for 50 ~~use the~~ "see status as a monopolist & find ways by hook & by crook." We sign contracts direct with other ents - "GOSNAB is dying." Even with a piece of paper from GOSNAB suppliers say they know nothing and refuse to honor the supposed commitment. Supply transport inefficient. Information - fax, special tele lines, telex. Selling better. 6 hrs. time diff. with one factory. Sold out. Contracts if not fulfilled are referred to State Arbitrage Comm, penalties specified. Satisfied with results of State Arbitrage. Surprise of?

How did you get rid of factory? Transferred to KAMA2 and no compensation to ZIL in return. A state matter, from one pocket of the state to another.

SMEs  
To ESCARG  
LEG

22

New laws: Ent. 1.91. Is formal affected in any way. Small  
ents: "sep. small prods. - auxiliary - tools & instr. - "we are  
planning to create small ents." How formal? legal form?

looking at small workshop - who will be owner? leased by  
the workers collective. Lease being thought of only.

No privatization encouraged though "they have complete rights to  
do so." How lease rate determined? Estimate depreciated  
value of assets will determine value. Renewed again.

We know <sup>historical</sup> ~~book~~ value, and that is all that is used. Next:  
you will pay as according to time leased + % of profits +  
for services provided by ZIL - electricity and all op.

cents. What % of profit? 10-15%. The annual  
depreciation rate on historical value of assets is the  
lease fee. Arrangements for change of fee based on

provision of new equipment and sale of old. Lease  
cmtl. in time. They have hopes that lessors will become  
owners, which can happen as all the machinery becomes  
fully depreciated. (Naurp says law spells out guidelines.)

Anti-monop. Specialization of factories high - would want  
to make them competitive. But whts. are now theoretically  
contestable.

Dezial/patrol: 1/4 on price. What happens if lease-holder  
violates terms of lease. Penalties should be negotiated in contract.  
They could take back and declare lease void. Details of  
how their output is sold to plant determined in lease.

(This replaces coop.) Discussed annually.

Total sales value "a mystery." 2.5 billion R. (NB)

How to pay for new investment? Self-financed. Build  
financing from own resources. In HE inputs? From -  
credit - St. Higher rate for HE loan in C.



Mr. Markin

Monday 24<sup>th</sup> - Leningrad: → 9 AM:

V. S. VIKHAREV: lease operation - zavod.

2 other factory visits

Key problems discussed, data, tables.

24. 9. 90

Strypin, Dir. of new, being constructed, in incl. zone outside  
Ribakov, Tech. Director. Zhennymel

CNC systems → "Service & Production Associates."

History of project: drives & inputs previously produced by MELEC.

Quality poor. We (MT) used to import \$70 million inputs from  
west each yr. GE, Siemens, Alan Bradley other suppliers.

Imports went up annually. We plan for 25,000 MTs @ yr. -  
with CNC systems. We need more imported inputs; so  
we were forced to meet increasing needs, and given mandate to produce

competitive quality products. Needed for mechanics of increasing  
complexity and were prohibited from importing by COMCON.

Regs. MELEC produced part of system but another firm  
produced drives & the admin complexities mounted. We

are now going to produce complete system of MTs - needed.

See his efforts as paid of, a total of, 500 days approach. Mof

Demand for his products v. high. NB

Personnel: many MT cuts here; trained & skilled  
personnel available. We didn't have to use - do; started  
from zero. LEMB - electro mech. (5000 people, 2000  
engineers). Can't make basic changes in their offices -

full demand for their present product and no incentives to  
change (?). No other place to buy. They produce CNC

units, 2000, a yr. Our competitors. Plan: (1st) variant:

55,000 M<sup>2</sup>; 2,500 people, 750 complete systems per yr.

Would not have done job. Would not have filled needs.

2nd variant: ASPO Finnish firm offered equipment to produce.

3500 personnel, but 5,000 systems per yr. (In same plant.)

8 "axes" of ops. in drive proposed; + 50,000 + drives per yr. then proposed. Structure of plant could not be managed

in traditional method. Developed new system of "Profit Centers" independent of Gen. directorate. Bank will

be organized & @ unit will have own account in "amalgamation's" bank.

Organizing themselves as multi group firm, almost as a holding co. Units have restricted ind. - have their own

accounts;

We got money from gov't. for construction of plant. St. owner of plant.

to 88 started. Changes underway: & now: 33% from Union gov't. 67% credited from VNB. - with state

guarantee. 5 yrs. - 7% <sup>min</sup>. 89: changes again -> VNB sees coming demise of <sup>min</sup> guarantee validity & stopped NB

discussions. Solutions: Italian, WG, Fin partners. Mod & find ways to <sup>for for. partners</sup> guarantee credits to VNB. and then the

~~sp~~ ~~this to now~~ ~~sp~~ We give for. partners prod. & they gave us money. etc: L Co-production agreement.

From WG: license to produce system of elements with part of prod. "benefit back." buy back arrangements

FINLAND: Contracts to buy part of production. They receive part of prod. but not as payment for inputs. (?)

Still buying equip from ~~equip~~ Finland - we lease equip. in Fin on our equip & make products for western

plants. Payment for our workers, trng. for our workers. Equip will come here 1.91 & be installed in this plant.

Trng. in many other countries in Europe as well. (They wanted non-exp. workers to train.) Prod will start in 5 or

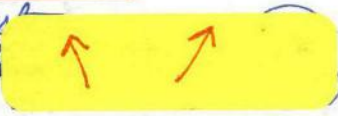
6 months. Short start up time for this type of op.

(18)

# New approach from late 80s.

Coxed. Started 88 and will begin 1/6/91. Many problems in Coast. 18 times cash stopped credits. Nature of rules changed. Can't pay incentives. Living in a wild open bog area "boggling for 1 yr. And he can handle this - and looks like he can. (How to make this a mkt?) Had an exhibition in Chicago; Co-production with W6 firms. ~~Start to start mkt~~ "We don't follow Great Britain!" Can't make sales commitments w/o St. approval. "I could go to Siberia one way." Breaking existing laws "but we don't have the right red to do it."

To Profit Center  
- General Co.  
~~Profit Center~~



System experimental:  
approved by Banister.  
per yr. Autonomous plant - does all

- 2 - cabinet prod. 30,000 per yr.
- 3 - electronic equip. -> cooling systems - "European standards"
- 3 - modules for PCBs - Am. equip. - testing equip. from Gen. Radio. (1 mill mods per yr.)
- 4 - keyboards: SMD
- 5 - drive assembly: testing
- 6 - CNC systems
- 7 - wiring & transformers (COMPLETE MANUFACTURING? can't be purchased locally)
- 8 - press forms & instruments, press shop & finishing tools
- 9 - plastics for packing: extruded
- 10 - transport

PLUS other profit centers in:  
 \* services: printing, maintain, service cent. for all  
 Profit centers can sell "above quota" prod. to anyone demanding.  
Should make money. Profit back in. (but still greatly vertically integrated.)

In future:

What to serv. + mat. from outside, what to inside? 40% components outside plant; of these - depends on who will be the owner, but in general, on tech. grounds, we need to import: 100% of prod. from western countries, but will have to balance availability, the avail., partnership agreements, Cos. Sr. prod. components essential, price decreases. Partners don't like; relying, the trend of increasing price? As quantities increase? **HUGE DOWNGRADE**

All managed with Mfg. info system computerized and based on western methods -> Motorola system.

Prices: They will be competitive ✓ CNE = NB

CPY -> Stanko imports deals with Western partner. & they provided reached & known service (Owner not known); -> 2nd visit: / made imp. question for them.

Gear plant - also has consumer goods line in childrens toys. 525 employees. Works as a lease since 1989. 430 R per month av. wage per worker. 150,000 items per yr. (gears & motor gears) 40-63-80 mm. gears. <sup>Small.</sup> Turnover - 13 million R a yr. Monopoly position for reducing gears - mtd 500k, they produce 150k. This formerly on defense prod converting to civil. prod & demanding reducing gears (didn't before?). But we are at limits of prod. and our space is v. litl. Much of our firm is in need of reconstruction **CONSTANT CALLS** (and they are seeking foreign partners, capital, market access, etc.) who fills prod. gap? Cap just surfaced.

They used to fill all demand; now expanded demand.

(Conveyers, exp. eq., all need reducing gears.) Some other - one-plant produces some larger reducers, but our quality is better and lighter. Hard for competition to emerge? Not a very complex prod, but needs special equip. Would require consid. investment in employees. Plant v. old. This plant requires reconstruction.

Casting rec'd; bearings bought, manufacturing gears here and gears cut here. 50% purchased, 50% manufactured here. So? Yes, though officially a long-term agreement with min - we supply reducers & min supplies inputs. Part of the agreement of the lease. 12 yr. lease from 1988. **V. EASY TERMS, EG.:**

Terms: signed when plant was in ~~budget~~ deficit. So - 2 yrs - no taxes, price of lease 150,000 R a yr. - small price.

Determined as 7% of asset value of plant. Normally would be 500,000 R but we had old equipment, we had to buy new equip, steel & why we got a good deal. We bought equip., out of retained earnings - dev. fund. But plant was in deficit; how was that handled?

2 yrs. ago plant was closed because of poor comm. standards. After that they sold some equip not needed and raised money and re-started prod. **prod. up as incentive**

Aug. 88 - 700 reducers **Wage pd. 3** Dec - 12000 - 100,000 in 88  
89 - 140,000. with some # of workers & reduced part of mngt. Worked over - negotiated with suppliers new prices" - 105,000 in 90. projected prod. this yr.

How did lease start? whose idea? If no lease then plant would have been closed, former dir. elected by collective and high official of Kessian gov.

Silayev (now PM of Kessia) then working in union gov. 1 of first 3 leases. (bearings & castings) 13 deficit plants - 3 to lease, 10 closed. (? really?)

Sis. signs lease; decision taken by whole collective. Mngt of collective: collective chooses director; many wanted. I wanted lease and sold his view to workers & min. Collective meets 1 a quarter and rat all call. goes - 150.200 representatives. Discuss monthly - in represent. exec. comm of 15 - settle

PLACE WAS IN  
COLLAPSE BY  
LATE 80's.

(25)

(NB)

Have -  
depend on  
the needs?

question of how to allocate profits. Salaries double on average.

Who speaks for capital? Retained earnings for funds.

Had to raise wages to provide incentives + get people  
to "follow technology." Profits last yr. 4.5 mill R.

He will need equip 2.5 wages - 500k for  
~~reserves~~ reserves. [ Their system basic wages +  
premiums from profits, not a cost? ] Wage bill  
is presently taxed, but wages will go "to other part"  
of profits. From 1.91 new tax and accounting system.  
If prices no change for last 10 yrs. Still sold 100 to  
(with small exception) at state prices. Some special  
cases. Deficit: how cleared? An accounting trick -  
previous prod. was high but confiscatory taxes produced  
deficit? Maybe. ~~Not~~

In future: Simple:

45% <sup>to who?</sup> to tax, something to local society, 500k to men.  
and workers must attempt to receive present  
incentive wages, either through increased price or  
quantity or some such.

Engl. also has double the salaries; they are happy  
"from the material pt. of view."

Who owns replaced machinery & new investments?

The "zawad," the collectivist. (What would happen  
when all replaced?)

Lease fee not fixed, 150k for 2 yrs. then 500k fixed  
fee + no percentage of profits. Who we will pay the  
lease to after next week? a share society.

"No equipment can be bought for roubles." Ready to  
contact any fr. firm. The machines produced here cannot be  
obtained - why? Because so few machines produced.

Argument is shortage of various selected key machinery items. At end of lease, how is balance settled? What will belong to Min or its successors, & what will belong to lessors?

Depends on who is owner. Might be given to us free w/o payment or we might buy it. Workers same # as before but 25% mugs fewer. *No one had a clear idea of what was coming next.*

V. Sverdlov MT Factory - АЕИРХИПРАД: Mr. PORASSYOK - G. D. Dir.

Oldest MT corps in Russia. 130 yrs exp. Begin with simple machines. 4 prin directions now - boring machines and flexible systems machines, jig boring machines, copying or milling machines, & 4 - special machines. 350-400 machines per yr. Turnover: 58-100 mill R, depending on orders or plan. 25% exported, and 50% to HC currencies

+50% for Soc. Countries - COMECON. As of 1.91 all exports in HC. Sold some in N. Am. - or working to do so, unclear. "Saw a certain interest..." (hasn't yet broken into this mkt but doesn't know prices.) So. Am. Brazil Argen - milling machines. Europe & Japan, So. Korea, China also included in mkt. Egypt, India, Iran. 50 countries of world. 4000 of our machines sold to date outside USSR, after WW II. "We possess all necess. equipment to produce good machines." [CHEMNE]

30,000 T a yr. casting, of all sizes. Own construction co., own service providers. Designers, 7000 pieces of equipment. (B)

Typical structure of MT enterprise *as a selection no special.*  
Consumer goods line like everybody else: 5 mill R a yr. products (with lg. increase 50% per yr. increase for last 3 & we want to continue). 3000 small machines for wood working; (more closely connected to line than judges, kayaks, etc. In a sort of profit center with sep. accounting. In one shop - anal work on

V. Sverdlov MT Factory [a coop basis; buy from outside & sell back to it. + garden tools. ~~has~~ has a co-production arrangement through firm in which we have shares - firm in Yesselskoye - 6% of shares. [Schiss + LSPo Sverdlov in a JV for sov. machine tool with western control systems & hydraulic units.]

A form of buying components?

Re coops: a lease? they buy inputs from us. Produce goods. Sell part back to us. They sell surplus "as any shops." Why? Because we have to send our prod. to other cities. (Why is that a reason?) Not worth to do so for our <sup>in-house</sup> comm. services. (So did not prod is the reason for a coop? Doubt it.) Av. wage in coop higher than in amalgamation.

Price of inputs sold to coop? State prices, some as pd. by ent. <sup>NO MARKUP?</sup> We ask for GOSKOMSEN approval of prices. (of in or outputs?) Want more freedom to set our own prices for sales of consumption goods. (Outputs)

87-90% cap. utilization over last 3 yrs. (he says). Was 70% in 87. Up appreciably since reforms. Mostly 2 shifts, a couple of shops 3. Situation not ideal. Measured by? Calculate all that is required by plan & "cap. utilization" is % of plan achieved. In West Machine x labor time, to optimum used. Yes, we do too, at least on Machine time. 3,500 workers don't work MTs workers.

for 1000 tools. Not enough he says. Lots of other needs other than MTs. Only 1000 working on MTs directly.

~~For~~ 100 machines a yr. CNE. We could produce more but depends on orders; we have 41 diff. types orders. But about 60% with NE & 40% with simplified control, and some few manual machines. % of inputs from outside amalgamation? 26%



of ~~cost~~ prices of products wages. 35% inputs purchased from outside. Balance is what is produced here. Of the 35% from outside - but for MT prod. - 6 mill R per yr. - 2 mill for HC payments. 4 mill for CMEA. Hydraulics, pneumatic, stuff for exports. In some cases "nothing is bought" but in others heavy import content. What problems caused by CMEA ~~inputs~~ trade moving to HC? If god works with us certainly we will pay for everything - meaning if god makes HC available. But if god doesn't translate R to \$ we would be in weak position. Privatization? We have a big army of workers, mngt. v. complex, doesn't think privat. could handle. Preparing ground for - of analog. into production, ind. units. We think "mngt takes too much money" & is not flexible enough. Meaning inside the ent. (meaning him?) He says no accountability at prod. center level, no interest in work; payments poor & inefficient; wages & bonuses don't reflect performance. Last yr. Org. <sup>introduced</sup> good accountability system, passed it through the collectives. Didn't work. Why? Because the national salary system overrode the system we proposed - insuff. incentives for technicians. To pay wages & give Bonus:  
1 - money from clients 2 - document saying you have worked & produced certain goods + 3rd paper. This paperwork overwhelmed our attempts to impose good accountability & incentives system. Worker presents paper, signature needed man works through schedule & must ... pt - can't beat system which is designed to

✓ Banks really control or controlled in part.

(27)

SWEDEN

See that a penny is not stolen, not that a \$100 is made. Coops work more & earn more - why not turn over all out to coop prod. units? That is what we are proposing to do? Banks a hindrance, bureaucratic, slowing process. How do coops escape? Bank doesn't have legal rights to interfere. Who owns the out. today? Good question. <sup>1981</sup> 3 yrs. ago → wanted to make workers/mgrs "owners." Tripped & failed. "We are not owners of the plant. State prop. Means what? Who are they? [Cons. - sell plant to workers - legs Cons. grip.] led us think that god is owner, but I have a deep doubt they are exercising, or can exercise, proper ownership etc." What is the state? I cannot answer the question. I am the owner, speaking frankly. But I can also be administered. "I leave out nothing into plant." If god. gave out. to workers & mgrs, would efficiency gains result? Frankly: we would like to try. So that those who earn money could dispose of it completely - rewarding what @ has put in. Wages only a part of valuation of worker. To awake int. of work. to pay for the assets they use. Issue shares in firms, give so to workers, sell rest. Long & reg. exp. with prop. that costs nothing. And if it doesn't cost, behavior will remain the same. Attitude toward free prop. is v. bad. Have to find the right price. Maintenance poor, work doesn't cure & mgmt doesn't have means to impose discipline. Long speech on need for private ownership to speak & represent properly capital. Attitude can be changed if goods are earned if investments made by those taking over the assets, if personal cap. is at risk. Excess labor here? You must consider our situation. We made big plants even when we have



that small units of prod. most efficient. Specialized worker. Have to use more works. than might be needed. Low labor productivity, Low av. wage. (What is he getting at? Yes, we have too many people but unavoidable. Break down of excess specialization. So

What is the #? V. reluctant to put a number on it. So tells stories and historical anecdotes. And we don't get a number. Trying to slip from "more and more" to "better and better." Diminished personnel by 1000; will go down by another 1000 in next 4 yrs. and more could be reduced. If small units + coops become norm, must be  $\frac{1}{2}$  of what we have now adequately suffice. (Finally.) 5,100 total workers. (Sol. something diff.) And  $\frac{1}{2}$  would still be too much.

— other firms make wood working tools — 10 plants — ours best. Could export but domestic mkt takes precedence. Wants to go to 15,000 a yr. and export some to and would not fill mkt. (But once again, bro. spend passing with us? Why? Because we might bring money? Or because he hasn't much else to do?)

Preference on main prod. to export, preference on exp. goods to int. mkt. Not satisfied with tools produced domestically. We know that pushing tools today will mean down line tomorrow.

Says there is a confiscatory tax on "excess" wage bill figures. KB Heard that really work?

Could help now, needs money, wants assistance on a factory. We explain. [Newport: says lawyers say that lease have not generally improved prod + are being looked on as same saw. But Reductor says quantity same, but quality much increased under lease ops.] Is Reductor a scam? Hard to say in absence of price info.

KB Conflicting Views

25.9.90: Officials of the Leningrad City Soviet. Mr. Chervisov, a physicist and Deputy + 2 others Staroverov + ?, all members of a committee of external economic development of Leningrad City Council. We have started a huge work to develop local economy led by new Len. City Council. Many differing views in the council but new system definitely needed. New econ. system will be defined next week. 2 parts: (main part the concern of this committee (another part the responsibility of others.)

Plan: "North Gate" — aid from Moscow, end of some customs, develop with Western partners, good coop but some barriers between weeb. coo. + LCC. Lack market internally. No good bank & "guarantee system" (of credit).

We're trying to org. independent system. Working with JCs of US to establish Banking system.

Star: free zone. 2 parts of issue. attract investment.

Deleg., eliminate barriers to repatriation of profits, customs levels & regs., eliminate decrees from center.

What kind? Men Fin regs. JCs — only they can do. We want local authority to conduct & construct JCs. Only Moscow can approve banks — want that changed. "A long list."

Strong statement of local independence. Diff. criteria? Not answered. Do they want to do diff things or the same themselves.

Banking system: a central monop to now. Only one ext. bank, need comm. banks, new creating. Want one in Leningrad. want to both allow new entrants & sell

old SOEs; bank will facilitate through full-service banks. Co-op could participate. Stock exchange; attract foreign banks to establish in free zone. Very complex. hopeful for future.

What powers should Moscow retain? Ex. relations between USSR & any gov't was v. centralized. all profits from L. ents went to center. all JVs pay 30% profit only to Moscow. Said that 5% would be paid to LCC but was never honored. L. Entail pay 10% of profits to LCC - insufficient, "a monopoly of Moscow." Want to eliminate; regulate ourselves, keep KE earned in L. here, not send to Moscow. Local tourism, local services.

You want to substitute Lenin gov't for Moscow control? Haven't spoken about control, only evd. from Moscow. We want to take part in MCB reforms in "Kecassa" and maybe in the USSR too. We were first in demanding reforms - we want help from Sov. Gov't. (not hindrance, implicit) Their feeling: we gen. KE, Moscow takes it.

Needed changes in existing laws. Who would legislate? How would you obtain legally the needed powers? ① The LCC is new and the idea is they have competence to deal with all econ. matters <sup>How 8/10 106 Miss 74/75</sup> ind. of central state. ② Russ. Rep. has declared its ind. + our relations with them good and the legal authority for our action is ok. We have some prob. with Shatalin program, which oks anybody having freeze + heavy graders feel or fear that others will exist on using the plans so carefully prepared by LCC to study - They feel that would be unfair, would give up their hard earned advantage? Not yet signed by Russ. Sup. Sov. when it does, their gov't. has no longer any rights to intervene. **DISCRETIONARY UNTIL GOES TOO FAR**

Why should a westerner invest in unstable pol. circumstances? Their opinion: it will be a normal business relationship, not to worry. (Don't get it.)

Local investments: Eg. SOEs have monop. powers. How will

Competition arise? Complex prob. Detailed steps: (29)  
create stock mkt., already started (dis named).  
Created new comm, incl. banks which can fund any venture.

Abuse of monop. SOEs. Want to stimulate comp. & financing new entrants. Want gov. to pursue anti-monop. decrees. What

will happen to local SOEs? We want to "control" <sup>SCORE? USE?</sup>  
financially any SOE found in the LCC territory. Own or  
tax? We have big cuts in this city. We have several  
forms of ownership. Some small services belong to city. These  
could be passed to single or private individuals. For (NB)  
Moscow VSCs, no financial disclosure - a mystery.

Can't be tolerated in a FEZ. Negotiators now going on re  
ownership (?) Will decide where reps. can operate in private  
sector. Strong system of local nationalism. heavy can  
I enter & undersell? Will happen (is happening). will they

stand by & permit bankruptcy of undersold SOEs? yes. No  
transfers from LCC. Happening - Coops squeezing  
out firms, some firms have collapsed. Workers? Depends on  
which sector cut. was in. Some workers reabsorbed, or  
cut. was bought out by workers. Some r & d units.

were closed. How did workers get money to buy out? "Waltering  
of any significance." In future can get loans from banks.  
Who got money? The ministry. Example of a buy out of  
an unprofitable unit where purchaser cap. was 28 mth. (NB)

Fedorenko the eye surgeon cited as case. Texmeda co. around by  
mug skills & hard work and is expanding abroad. If given  
opportunities Sov. manys can put assets to work. External

business associations recommended, Have Comm on hCC  
that follows industry. Has a great bad example. Coop  
example. Talk to unions of Cooperatives.

Their view of cooperatives - but if truth is what they're  
saying reg of coops - not put on level playing field -  
given certain ats & access to good goods that are now

being sold at high prices & making rich. Unfair - a "rotten aspect of excessively centralized system." Craps. More flexible. People have more initiative. At limits of law. All the more: Senior SOEs don't try hard to steal. (But they do their share.) In F&E priv. investors must rep. at least 4% of above, but mix, looking for mid price down. How to reform gov't fixed prices? "Gov't. will have to support price of basic foodstuff." Can't forget millions of relieved people - gov't. will reg. salt, wheat, etc. (Targets vs. subsidies)

SOEs forming comm. banks. Will not take deposits from other than ent./owners. (?) Who will regulate? Gosbank will continue, but on a rep or local level? Nat. Gosbank will deal with money - a fed. - a regulatory role, ok. Does Gosbank retaining a role as financier of social obj's, such as housing. (Seems fishy.)

Is there an anti-monop and/or people or advisers or experts? Explorations of intent or org.

Results:

26.9.90 ✓

Leonid Talmoch, ~~Chair~~ <sup>Chair</sup> of Board - Exergomark <sup>Bank</sup> ~~Bank~~.

1988-May. 1st Comm Bank of USSR. 2x registered.

1st under one name - because Gosbank didn't allow → 3 other banks in this region registered - 1/89. Registered informally with ind. bank. State Bank of Russia will be the reg. agent in future and has started. Criteria more or less the same. Strategy: universal bank, doing all bank business - credit, short & long; deposits - spec. cuts & ind.; leasing, deposits passbook - securities only for original stockholders. Who? ELECTRISIL, 4 mill.; Leningrad Metal Co., 4 mill. R; NEUSK - 2 mill. R - 4<sup>th</sup> firm: 1.5 mill. R (23 mill. R lat

"Bank owned" by ind. enterprises,  
themselves 80%

(30)

Capital - orig. 20 mill R - added 3 mill later. / 70% shareholders  
in energy prod. another Bank holds 6 mill R de shares &  
is the largest. And an "association" of some sort - a group of  
firms - and they have "secondary" resources (non-voting shares?)  
Why do these firms invest in this bank rather than self-investment?  
Profitable. 10% decided on 89 holdings. Profits: 20%  
return on cap. - split between expansion & div.

Stockholders borrow? Da. 2% of loans? Most all the shareholders  
borrow, in some cases for above their cap. dollar limit. Limits on loans  
to shareholders? 35 million R limit on loan to any borrower,  
not only shareholder - (this is exception; most limited to what they  
pay in) Exception because of our stability. Excepting new limitations  
on loans to any one shareholder. Have clients who are not borrowers.

98 borrowers, 16 are shareholders, some shareholders (3)  
don't borrow. (and an Ind. R&D, association). ✓

Dividends treated like ordinary income. Tax rate varies. Max.  
tax 55% - (Some ents. 20-30%). Can't explain reason for great  
differences. / In future: 30% for TVs. 45% ents Soviet. 1  
55% Banks. This is considered as a "unified system".

Why are they borrowing, to do what? Used for cap. & social SAVING  
investments. And why borrow from you rather than state banks?  
Resources limited; shortage of official funds - we help @ other ents.  
Diff. mentality here. Good people. No higher int. rate. We're  
competitive - we win. Big problem: getting a place to do business.

Could have 1000 customers. City can't "give us" bldg. 11

Comm banks in assoc. in L. all Union association 300#. Also  
in that. Int. rates on loans & deposits: <sup>av.</sup> 8-10 on dep. <sup>New w/pt.</sup> (sometimes  
15 on mob.) Some loans, small amt. 1.4% per y. - social  
dev. loans. Average 7% - highest from factories: 15-17%.  
Profitable. Because high priced loans are numerous. Rise



Embryonic banking and not so embryonic.

in both sets of rates through yr. "Absolutely no problem," we'll make  
to the yr. too. We have <sup>SOMETHING</sup> neither eq. nor deposits which  
is parked here by cuts & we pay no interest. Why? A short  
term parking which will shortly be deposited. (No MM Fund.)  
~~Only coops will pay for short?~~ We pay int. to coops but  
not to SOEs for the parked funds. and return with no serv. charge.  
We do have an inter-bank mtg developing. One member serves as  
embryonic clearing house - broker finding out who has money & who  
needs - & gets commission. Why would Comm bank make a 1.5% soc.  
loan? We're new; we want SOEs to think they can get some services  
& these were provided by other banks & this was good Pk. And  
we're raising prices. (Accused by normal banks as gougers, had to show.)  
Beliefs in washed. SE banks pose obstacles - but they too  
are becoming Comm banks and will, it is hoped, lose these  
blocking powers. Customers of so specialized banks must  
remain; so Comm banks are forced by cuts. Very difficult;  
much sabotage of us by state ops. ✓  
How are loans appraised? (Small new borrowers.) Co. (ateral -  
"guarantee of return." No prop.; no assets; no loan. For  
priv. firm simple: (But no law of ownership - can't take your  
prop. away from you) Your personal prop can't be calad. But  
not settled here. We must know what kind of mktng, activity,  
where you are in the conjuncture. Negotiate a sensible maturity;  
estimate your profitability; if you have a project we analyze technically.  
Check your authorizations & approvals necessary to start proj.  
Staff expert on reviewing applications. We try to protect  
ourselves & minimize risks. You must persuade us re the  
quality of your proposed item vis a vis its competitors, local  
& foreign. US GOT IT  
What do they do about bad debts? We can get something back.

If borrower a client or shareholder (depository acct.) part of prod. reflected in acct. We can negotiate to remove profits from his account.

Securities we can remove too. (No great power - "limited")

Proposals being changed. (No power to impose bankruptcy.)  
 Will not take non-JSOs as clients (as stock can be taken).  
Loans have to be changed so we can get co-lateral. We take customer demands into consideration.

38 people in bank - 1.5 annual monetary circulation (billion).  
 Negotiating with Swedish Cent Bank, NYSE, on equity mkt. creation.  
 We need "insurance fund" to guarantee loans. We need bldgs., hotels, & retention schemes would fund. Purpose: assure for investors that money will be returned. Accepted by City Council - Guaranteed of Risk & Credit. (City would take a hit or two.) Then we need an insurance co. approvals

made, developing idea/proposal. In cadre of FEZ. For ourselves have bldg. Swiss to equip/computerize/all equipment.  
 2 Swedish banks (Bank of Sweden & Savings bank) + Swedish people to Sverige to become brokers/specialists. Working on Commodity exchange for 12/90, for MTS (not real commodity exchange). This mkt will require clearance of people now in a bldg. Housing will be privatized - all. LCC approved privat. of housing & trade (retail). Competition - auction of stores, 70%, starting 1.10.90. Bids were supposed to be sent in, 10 bids for store were received, and winners will be rec'd. Private people will buy, and LCC will receive the money. "Goods Administration" organ of LCC.

First retail then, SMEs. Eventually, lg. Solo issue shares which will be purchased. Priv. citizens not yet allowed to buy shares in banks in theory (but coops really). Workers buy or get shares? So far, not

# Psychology of change required, say the entrepreneurs.

mech. in place. Don't know how it will work. Pop. illiquid. Remains to be resolved.

Insurance co. Estab. already a Moscow. "Without an insurance co. mkt. will not work." We need what you have. This co. carries risks of banks, stock exchange, creditors, investors, (Sounds half-valued. Cube/cad prob.) ZB - new and needs loan, bank says no. Go to ins. co. - ins. co. - and they appraise to see if the mngt & project is worth the risk. ~~Bank~~ Your bank would not lend because ent would not be guaranteed by govt. (Sort of a DF1, venture cap. fund, ex-im bank/world bank?) We want to create org. that would satisfy your lending criteria. JV possibility with Doyardner Bank & Berliner Bank.

General Rep surf deatct.

No physical shares exist - not printed. Ento. have them but not comm. bank. Not waiting for shares to be printed to open doors. Possible to issue shares in absence of st. ex. We get money from shareholders. Min. Fin. putting out rules & regs. for share issuing. (Another demonstration of need for infrastructure.) Some comm. banks GMB, some A&Sellochaft. Priv. people can buy some shares of some ents in past. Equities. Nobody has got issued fixed income securities. Sav. Bank issues something. They hope to issue CDs. Min. Fin. busy on good issues. "I really believe mkt. will take off." Retreat not possible. Law & challenges. Pop. attitude neg. toward mkt, priv. sector. Explainable: comm ideology pervasive; equality the bc. all, and all, wealth denotes theft. "We now have to start all over again." People who started coops - grey elements, thieves, hoodlums were 1st - honest people followed. People will grudge - and emporing. Getting used to it. Thieves will succeed. Need many coops to create competition & then

progress will come. Comm banks regarded (32)  
~~as~~ suspicious too. Providing services and changing  
diff rates & this caused problems. Plan was 1st, money 2nd -  
we turn this around: "only one thing is of interest to us; we  
expand our money base. What its used for does not interest us."

But must study - Go & then over it. your problem?

Absence of infrastructure. We don't know who has money. We

need intermediaries, brokers, access to legal funds. Takes too  
long now. Can't advertise, need st. mkt. Will advertise.

Hope to see in op 1/91. Feels he has already overcome great obstacles & diff. & I'm

sure he's right. It banks sometimes simply won't allow transfers when  
cos. want to switch. They want customers, let them pay same int rate -  
(Various tricks used to overcome.) Some of the investors are surprised by  
the strong competition now provided. Can't they influence.

Board → of dirs. 1 a yr. (as best). Consultative body of 6 major  
shareholders meets. Meets 1 a yr. Address questions of depr, moupt

of bank - auditing co. Finance ops. yrly. Approves  
accounts. As ACM prop's dec'd Gen. pal. decided.

Main fin reqs. Supp reserves must be built up to rep. 25% to orig.  
pl in cap. <sup>NOT TAXES</sup> then distributions could occur. That's why we  
did 50-reserve 50-dist. as div., because isn't tax break.

Assisted in 2 leasing in computer industry. [12% of total]

Strange story: they buy assets from ent & then lease them themselves to collect. They are the benes. So it seems. Da.

(But it's just purchasing goods & leasing them out - not a plant or  
anything major.)

10 people working on starting st. ex. Not treaties. Level of  
dev. rising rapidly.

Kroll afn U? Consulate recommends:

MR. MEDVEDEV - St. Exch. man in LCC

MR. CHUBIAS - Econ. Plan - LCC

MR. FILIPOV - Econ. Admin - LCC

24.9.90: ✓ L. Fed & Comm Bank: V. G. Semenov: <sup>[PRES.]</sup> What are views outside Moscow regarding reform? Concentrate on banking. Key problem of reform, he says. Gov't late in initiating reform in this sector. Trying to transform present system to a comm. bank status. Absence of leg. or banks "most complicated problem." Major blockage to dev. of ent. & econ.

Transition as a whole. Diff. for banks to work seriously esp. for lg. banks. Why esp. lg. banks? ZB - our bank - 15,000 clients, many lg. ent., 5,000 Corps & SMEs + associations. All done from center. (Seems to imply prolif. of clients & firms & reg. make life of lg. banks more diff.) This bank is to work on "self-repairing" (incl. financial) system - 2 yrs. ago. 1st step to increase autonomy! "a necessary degree of freedom" didn't get posit. reaction from Moscow. Tried to reduce our profits. Def. of profits? (possible). [Long disc. with interop: I We "buy money for our clients. To of int. charged. Profit depends on maturities. We get profits from turnover + spread. Factoring system an element in determining profit. F. system: many ents in diff. because non-payment of customers - no firm discipline on acct. rec'd. b. - goods still delivered) Bank took over role of payment control to ~~reg~~ that inter-ent. arrears don't run up by paying itself suppliers. (?) How did bank get its money? Bank deals directly with customer and "ent. is out of the game." Bank plays role of fin. dept. of ents. "greatly improved fin. situation of ents." and our dividends. Ent. crucial for prod. of ent. Bank pays ent. Customer pays bank. (Why doesn't and pay bank; what added power has the bank got? Ent. don't care - but relation of ent. with bank is "more strict" & respects banks more than other ent. Because they have power to retaliate.) Correspondent network around country means they can influence ents to pay by exerting pressure through their supplying bank. V. interesting. Many sources of funds for this bank. Vague. Other banks, ins. Co., lg. ents. deposits. Till now, Gosbank main supplier. No longer. Central resources diminishing rapidly. 70% own resources, 30% to outside; total = jt. capital 150,000,000 R + ~~5~~ 50 mill R a reserve. 3 1/2 Bill R working. What happens when ents. demand bank deposits? The rights of

claims to demand is limited. (Not sure whether you believe here are trans. & them.) Seems to be limits on (33)  
legitimacy of demand. If each wants to go to another bank, can they get their money? For sure. And he can cover demand. From where? "Some things are commercial secrets." Conversation not completely frank, he says.  
He has assets. (Looks like the banks play a direct and active role in the fin. affairs of exto., severely reducing autonomy.) Don't give fin.

Statement? If bank law passes law will be op.? Don't change much since we act now and in full accord with old law. (But he said each of laws was major obstacle.) Will they op. differently from existing comm. bank. "Yes, in getting new business & expanding activities. All banks, he says, according to new draft law, will be commercial. Don't like existing comm. bank.?" "Diff. to call them commercial." Very small range of credit services - not dealing with all needs of clients. (We need full service banks. One in op. now are "speculative." Foreign bank has land - does it have shares in comm banks? Yes, in 5 comm banks in Lening. why? We expect these banks to destroy banking monop. those a pale for action - don't get big dividends. (We thought we needed to break down state control and we wanted to break monopoly.)

~~That's a first.~~ Banks joining all the time, now 17 he says in L. area (not 12), serving specialized needs of timber and L (at least?) also established in R Baltic bank. Main risk in banking here is in servicing of coops. - incurring considerable losses in this field. What's the default rate? 15% of total exist. to coops. of the 200-300 mill R to coops how many in doubt? had yr.: 10-15% of loans to coops classed as non-paying or non-payable. But rough: coops quickly estab. - quickly liquidated, law permits them to form w/o initial cap, courts didn't take any corrective action.

(IMI) TV with Italy.  
Luen Hngt Inst. Purpose: to train sov. businessmen for domestic & for. op. Courses: 1 basic, 2 specialized. Helping foreigners to understand sov. mkt & economy. Org. conferences here & abroad. Sovietia: TV accounting, confidentiality of trouble, etc. Want to form special MBA prog for Soviets. Not yet possible. Not yet acceptable - needs work & conceptualization.

Training abroad of Soviets now underway intensively.  
Research contacts with foreigners, contacts with foreigners - translation ✓  
of 60 tes, and they will train & distribute - & Lotenswill know  
their people. Res: case studies on how to do bus. in USSR. JVA,  
functioning of Sov. ents. Bud very young, just started. How many cases  
complete? Not published. Watch plant, TV ~~with~~ <sup>with</sup> W.S.M. firm.  
L. i. b. & comp. facilities? Not much going yet, it seems.

Glennard means books avail & western economic thought. This  
is at top mgmt only, not middle & lower mgmt.  
— 6 wk basic course - 46 participants - deal mgmt from  
ents - coops, ents., LCC, mins. In 30s, 40s. In fr. trade activities  
normally. They have better chance to understand free mkt.  
620 mgmt from incl. area in special prog. - younger men, in  
L. Enin. area.

Content of basic course: 6 hrs a day. Mostly lectures, some rd -  
Exam is "business game" - 2 days, 2 teams. (at wh diff main  
topic: how to do bus. in west, applicabil. to USSR.)

Lessons from Min Fin & other units; Reps. in Western  
mkt. What is mktng? Advertising? Corp fin? Banks?  
Accounts? 1 wk: org. behavior & c. cul. mgmt.  
3,000 R total cost + R&B for 1 student. Other ~~schools~~  
schools (120) charge as much as 5,000, to  
20,000. Why so cheap? A non-profit org. But 2,000  
R covers all costs he says; no donation from subjects.  
Not able to send participants abroad to practice. Few  
can afford. // → 6 wks course, 1 wk. break - start  
new course, all yr. long. Good relations with Henley  
Bus. College UK.

Fall time: 10 → hope to have 20. Paid-time: every 1  
or 2 days a new prof. - 30 or 40. Easy to obtain lecturers.  
Why? "A special culture here." Ents get a tax break on trip?  
Well, ents use Sov. fund to pay; can't use it elsewhere anywhere.  
1st course 2 yrs. ago. or Feb. 89. Shabloms: over  
manages interested in practical things. Cannot see all picture.

CEOs ask practiced questions but looking for pat (34) (NB) answers. Blueprints wanted. For them, prop. rts uncertainty and no sense of self-reliance the 2 major problems. Managers not prepared to take decisions, fear risk, ready in spirit, but waiting for someone to tell them what to do.

Need change mentality or nothing will happen. How? Look at us; we are innovative & diff. Trying to instill personal d.-making in managers. Don't understand. A. Smith, don't understand that selfishness helps society. Needs an education of leaders of H.C. And we are working on it. FEZ? What is it? Will not come about it like planned; etc. They got fixed idea protect people How to do monop. by. Does a major question. This seems to be 1st step on a lengthy route to privatization. First, JSCs - then sell to other ents. and then we'll see.

~~Some~~ Govt. fears complete demise of min. allocation would lead to collapse; speed of reform the issue. Fear & uncertainties. Maybe Shalateni at PM?

are you teaching mkt info skills to managers - re supply, wholesalers, retailers. Who is working & thinking on this? Some info available from All Union Mkt. Res. Inst. (of Fin. Econ. Affairs Min.) Changes too quick for them to handle. See sources of info for ents for "so called mkt." on prices. Some documents, handbook, data put out. Good story on ent. behavior, supply, barter, mktng. Com bank: insecure; don't trust, could collapse tomorrow with a change in policy. Legal/prop. rts at base of problem.

Intermediaries in barter system? Yes, brokers - but people don't trust them, this is unethical. In gen, its fair.

But when they use dirty tricks or are not fair to customers should n't be allowed. Know some who are smart, active, take advantage of ignorance or ignorance of officials, say they have contacts. But they can't provide service. (But they give money back.) Even these give suspicious.



Prod. coops in all kinds of goods. Shoes, etc. Coop. price  
3-5 times higher and is not unethical. No-normal, mtd.  
Send these guys some literature, papers. We follow exp. of  
free mtd firms → nothing much on privatization. Premature.

LIM1 - group of 6 guys. →

1- JV - computers, cars, VCRs, software connects with W. Expor.

↳ hopes to start factory producing PCs - flow control of local plant.

2- Transport ~~company~~ <sup>AEROFLOT</sup>: Too big; needs disaggregation,  
his firm will take competitive position and control some lines?

Var: a - may lease b - buy them and bundle c - find foreign  
partner + start competitive airlines (Siberian.) This is part of  
de-monop. and AEROFLOT cannot resist. "Market and monopolies can't  
coexist." Looking for foreign partners and access + knowledge. Has a  
great idea - competition on these monster routes a great idea.

Engineer. Irkutsk. Fr. Trade exp. Wants help.

3- Rep. of Info & Consult. Center - Atomic Energy Min. → His firm  
deals with concrete problems - mktng, consultants, analysis, R&D,  
new branches - full service service firm in the sub-sector. Designing +  
mngt of production/construction in Henniged. hg. # of elements of activity of  
his institute. Contacts with ~~domestic~~ (foreign) firms. Needs help.

Has a new. ent., in future, small ent. under new ent. Law - has only  
43, and these qualifia. Main prob. with his firm: absence of info.,  
no fax, no tele., no access. Needs direct contacts with western co.

4- Pres. of coop "practically private." In telecommunications,  
repairing - montage, remond - assembly, repair - great market need.  
Assembly satellite + vid. TV - control and observation. Creating  
manufacturing - TV cameras. Employees: <sup>50</sup> ~~20~~ persons.

Practically independent. Obtains inputs by hook & by crook.  
Obtains credit from Pomstroy Bank. Where do you get customers?

Better quality prod. he says. And after service better. Mktng  
not a problem because demand is so high. Not a problem. How does  
he price? Based on state price? Yes. Adds a mark-up.

Assembly same price. Service higher - a mkt. price.

we calculate costs and calculate variable coverage +  
mark up. Problems: neg. attitude of people to coop. 30  
Reflects mentality of people & policy of gov't.

2nd pract. private coop person in multi-direction  
firm. Body body equip. - reconstruct from  
petrol to petrol + gas. - souvenirs - trade -  
broad spectrum - 30 people. Lease bldg.

Big problems: facilities, material resources.

Shortage not of shops, but of willingness to give  
it or lease it. We keep inputs with all  
difficulties this poses. "Our little secret."

Price higher. Thinks as people deal with  
them, coops will become more accepted.

Coops will change name to SME and do  
something with new name. They fear  
neg. being resurrected.

6 - May. Dir of Juvenile Delinquency

prevention. Only one in country. Deal with

prob. kids: Part of LCC - working contacts.

Sort of civil, sort of commercial. Council of  
Youth Orgs. Helps to protect property: Ho  
to guard society (service-commercial). A  
soc. service aspect as well. - 500. Money making

but great part sent to rehabilitation of J.Ds.  
Not armed. But have arrested 600 J.Ds & 10

dangerous criminals. All kinds of cheats:  
hotels, entos., Rd stations, houses of culture,  
tourist org.

JV - partner: IBM branch & USSR acad.

of sciences - lease fee: official vs.  
unofficial. Variation. R per sq. m.

Probs: absence of pol. stability, absence of  
materials, corruption, (adopt) shalater

plan). Absence of stability. Excess monopoliz.  
Absence of workable laws - not reg. our econ  
levels in ~~our~~ normal way. Telecomm.  
diff. Financial problems.

28.9.90 LEC. Financial authorities: Privatization: old  
story of highly centralized command planning of past; now changing.  
Gov. of Min. doing away with this. Can start out. easier than before.  
Starting an active prog of SME dev. Councils can do this and we will.  
Up to 100 people emp'd. units < 100 in retail. (We know law better.)  
Register with dist. council & open acct. in bank. Levy: new entrant  
in field undercuts SOE. What happens? Yes, they can firm. But  
getting equipment would be hard for new plant. Most diff. issue.  
Process v. simple - (80% of coops ~~not~~ working; come into exist and  
go out quickly) ~~20%~~  $\frac{1}{5}$  not working.) Won't cent. controls  
on supply be eliminated? Yes, but will take time. Level playing  
field for SOE & private firm? Coops will have better conditions  
than state, not a prob of SOE over coop in allocation, rather the  
reverse. Can I-coop-sell at lower price than SOE? In past, no.  
No, only a few prices ~~changed~~ controlled. In future, price will be  
between producer & consumer, no interference. SOE complains or goes  
bankrupt? Problem? Not for moment since we are so short of con-  
goods any production of any quality of any price snapped up.  
its competition. (Before price changed on basis of living product changes.)  
hard to all prices up - salaries, profits, prices of final goods, int.  
rates. Salaries up faster than productivity. Shortage increased,  
(+ hidden inflation). In future, will you need price control agency?  
Yes, in CC, (for they don't understand mkt.) If they or officials  
determine that some price increase is not justified, they  
want to retain the power to review and revise prices, rises.  
Why? a psychology issue. We have to show people their interests  
are being protected, and that key areas (stateless) will be  
intervened. 8-10 key pts & areas, some prog. propose 15- to  
protect needs of people. And monopoly prices will be

regulated. We have cases of many difficulties (36) for some products; final. Levingrad's surprised; not used to this but they accept. But will take time to establish. Registration fee for founding ent? No - but may pay lawyer fee to prepare documents in proper form. But newspapers & book pubs.

Must pay 500R costs on publishing the intentions or prospectus of the firm. 400R for taxi self-owned (license? reg.?)

St. exchange will start simple.

Reg. of coops took a lot of time? Yes, but not so bad. LCC-16 dist in city, 5 around + loans & subvns = 30 units total.

Povitcher title changed too.

Strypapin, this time as Head of Ind. Enterprises Association.

But he says - decision just made to turn into JSC - 50%  
33% from center, 67% from credits. So Min will have 20%.

So we are forming JSC & I don't know how to do it.

Total plant cost: 200 mill. R. - If we make whole plant value as share value: 20% of 33% → Min. MT - !!

80% of share 33% to:

Employees will own all of the 67% on the credit system.  
(and when debt is pd. back the collective will be majority owners.)

Not less than 30% (of which part?) will be sold to western investors. ??

Strypapin says Talmach's bank had 80 employees last yr.,  
30 this yr., cuts no longer see need for it, and he is a  
spend or declining force. (We comment on his plans & offer variation on JSC - they just don't know.)

Western cos. & banks know of our existence & are waiting for  
settlement of legal / property issues.

How to choose & attract foreign partner? Pick people in some area, prepare prospectus, prepare projected cost of op.

His probs: finishing ent. & searching for partners at same time - overwhelmed. Ok. // Prob. 30% to plant under contract to finish - Ok. 20% depends on Soviet supp.

and this is slow, a nightmare, no money, no material, no coordination - working furiously on having banks free credit ("crazy bank system") and this is the obstacle. w/c this being completed, no progress - won't make date of opening. Credit "animal" (and has no finished products to barter for supplies - explains why so many projects start but don't finish.) Cells would not approve of cuts. Buying shares; they want all excess cash to go to purchase of consumption goods. Banks out of cash? But if it "goes public". Notifying Local bank for partner - his only hope.

Can't borrow from comm banks (high rate of int! but personal contacts necessary.) Coops too small. Reg. banks best. Employees won't contribute. Foreigners vary. Few prospects. Prod. of Association - most on this just to state, some from outside. Creation of SMEs in this estate. Guarantees from Min to LCC for supplying equipment. Cooperation. Common Information Bank created, creation of stock mkt. involved somehow. Create bank for this association. To make + coord. inter. activity. Exhibition in Helsinki of all cuts in group - leasing ops top. Construction materials, plastics, rubber, electronics, med. equip., consumer goods, transport metal - varied products including foodstuffs. 89 diff. cuts, some coop + SME + 2 "limited companies." People create co. by cash payment to bank not less than 50,000 min. cap. - a form of coop. Lots of diff types of bldg. materials - private co. of "physical persons."

**WEATHER GAPON** **SEARCHING**

Textile firm: Hennigal. 4 little works that comprise this est. "filler" Workers: 2,000 total (in 4 factories) Elasticity - lg. range. Try way to export part of product to Finland, Norway. Technical use of textiles - industrial usage. Appeal of Swedish designs. They use people at home - invalids - some contracting. Hand made ex from Japan provided by plant.

Use acrylic & blend/Wool. 800 home workers. Italian materials made at home. (37)

Prices: hat set 8/80 - ex-factory price the consumer price. Thinking of selling directly, not through store, but will be able to set their own price. Woollen scarf: 100% wool 6/60.

Min formerly provided with all inputs - Russian "concern" is now Russian Textile & they provide inputs. 500 textiles firm come together and mass purchasing/negotiating power. (NB)

Another export concern. Ministry divided itself into 3 geographic associations. New functions & purposes. Assist rather than allocate. Juzova, Stechovskiy (moscow), Leningrad <sup>Russ. textile.</sup> (NB)

Who owns the enterprise? Republic owns, but a good question that poses uncertainty. ||

40 million R total prod. Recovers wool yarn as "raw materials".

Comes colored, no dyeing. Shawl: 20R - anyora. Kids. products low priced. Can't estimate the prices for their <sup>RETAIL</sup> (NB)

products. How will you set "market" prices - dependent on quantity purchased - is their nature of how prices should be set. Tech. dir. can't quite say % of wages vs. non-labor inputs, guesses - 50% labor, 50% non-labor costs.

Practically no state order, working on "requests" from established clients. Could change but good to use same (NB)

dealers or other long-standing clients/enterprises. Contracts with big shops. Nothing quite clear cut. St. Arctovoz Comm. Could or will order me to continue dealing with client even if I wish to sever links. In 2 yrs. hope to set all these orders and outputs for themselves. They hope. (NB)

Could they get out of children's line? Maybe st. could interfere. Maybe, probably - 600 different products.

(They are prod. engineers. I started in showing us the design, the product. Have a contract that says concern will provide in future all inputs; they have confidence but don't know what will happen in future.

They consult with customers (not gov.) on design. Have some medical production. Artificial blood vessels. And some other services. Small part of prod. New bldg. 14 km<sup>2</sup> going up for medical production ( $\frac{1}{2}$ ) and rest for some v. old factories relocation. For the main factory. Most machinery Soviet, some Swiss. Just started to think of inventory control with computers, for. & domestic. Just begun. Difficult to control.

800 buyers. Firm is profitable. 76% in prod. No debt. Very stable. All Union Gosplan paying for new factory (one way to keep your books cleared of debt.) 230-40.50 R a month av. wage. Tech. dev with Naery Med Center (Kerenskiy) & Inst. & R&D centers in Moscow.

Thinking of changes: privatization? well. Thinking of many ideas, somewhat vague. Rent/lease arrangement a possibility. More freedom to all little enterprises? Another pass. all prod. above quota could be bought by collective and sold to other units ("kux ned to black market!" - why not?)

No very old machinery. New of card production last yr. New type, Soviet machines. Oldest machines 10 yrs. old. av. 4-6 yrs. last 2 yrs. renewed much.

2 shifts. Mostly operators are women; tech. men. 90% capacity utilization. Trade union and then Collective Council (since 3 yrs.) Council discuss plans, how to  $\pm$  profit, after sales. Where to invest. Council is the authority but mgmt. must sell ideas, council must approve. New law: how well change - they will get more freedom of maneuver. Can modify wage bill & salaries & more closely relate to performance. Before: diff. people got same wages.

Dj yachenpo - gen. director. For them aid & money not  
the essence - rather how to train our people to break into business.  
Wants to create new mentality - like MacDonalds - 1st exp. in  
USSR. Teaches people to work precisely. How to apply to larger  
units with large workforces. Esp. in service industries "to work

good." Existing schools of magt "useless" based on  
old system; using only old cases & abstract thinking, wrong NB  
psychology, wrong mentality. Some western cos. only  
coming in to siphon off funds from existing methods. Formal  
training or TV? on-job best but small. Have to teach  
LCC personnel at same time; "most imp step" <sup>to</sup> LCC official.  
How to start new magt schools to do job? [what are they after -  
foreign training, money to ~~set up~~ <sup>run</sup> here?]

Only 4 or 5 out of ~~100~~ <sup>1000</sup> It's able to take on large  
function; alters too small.

← 1/4 members of the assoc. ↑ 80,000 workers in Leningrad.  
Area. ~~74 shops lead up.~~ 74 shops lead up.

Decided to form new org. // not all lease, some coops,  
some SMEs - this an org. of non-organised SOEs, or  
org. breaking away from old forms. Bureaucratic steps  
to form endless & major. This op. assists units to  
break away from old form, either in whole or in part, mainly  
in lease form. NB

Eats. start lease, or people start coop by saying we can provide  
services better than you are doing. Transport inside ent. a good  
ex. Div inside ent. ineff., coop does better, leases cars &  
performs more eff. & makes ~~profits~~ <sup>profits</sup> and replaces  
leased cap. goods with privately owned goods. A  
step on the rd. legally/procedurally v. difficult; endless  
steps, paper, harassment.

If people approach, they assist. No fee. Check his bona fides.  
If ok, they can finance or assist in financing (hard)  
the lease fees. Sec. ways: rent money, (obtained from



Ents gave start up costs. Now no more from ents.  
Essentially will charge on contractual basis for services.  
Fee for services - no % of profits come here. A payment to  
them from profits from members. Some units of members  
funded here, as well. Fin. man: "little Ent. Coordinator"

Lilal. of this asso. Father: 2CC. Help conversion: goal me.  
Didn't get a Kopeck. Again: contract with, contract with  
the paraxia, the nyvna, the escape. But here, didn't  
work or not get. Scepted from mil. & countries to rock and end  
materials. Then coop become SOE. (!!) And got 10% of  
"rights" - meaning access to materials, and most needs  
important right to represent "official structures." And  
get guarantees on debt. As little Ent. they retain  
th. to pay outside normal salary scale. And  
obtain credits from banks. S: peace Assoc. & CC  
"own" the ent. Variants: go back to SOE or become  
private. Way to operate in the rules of the Soviet  
game. This association a "limited company."  
This convoluted set of ops is the way one has to work  
in this system evolving from a rigid but secure  
past to a wildly flexible and totally insecure  
future.

### Prof. Meisin - Property Rights

Sov. Gov. - Russia & S&W preparing, considering leg. now  
on:

- bankruptcy and insolvency - mortgaging of prop.
- fin. protection of for. investors. Law passed this summer  
gives Sov. citizens <sup>(legal persons)</sup> rights to sell prop. other than real  
land. Bldgs, goods now theoretically possible,  
though examples not yet in place.
- Max rate of tax on coops 65% (confiscatory) but many  
pay less. av. 30% - but local authority can  
reduced.

Birjukov (?): 25 yrs. in <sup>managerial</sup> ~~the~~ off. - now new in his office - RIZHOV, Dept. Chief Finance Committee, Stepanov - macro planning & modelling. (We need to understand future role of GOSPLAN; how will it evolve? We would like to know too! His ideas:

Our app. with planning lengthy. Our planned system highly centralized.

Ents. lacked independence; weren't ents. were prod. units of the planned st. system. Means of prod. in hands of state, miss mg'd. The myth.

Can't reject all that we've achieved; we've worked out some v. good planning methods - prognosis, balance methods, allocation of prod. forces, of (something). And huge state projects, industrial plants: many of these were solid & beneficial accomplishments. But new situation evolving:

Transition to mtb. economy - mkt - instrument to raise & upgrade effective work of our org. To increase efficiency of productives labor - asset/empire mgmt of economy, open-ness, better

ent. performance, integration to world economy. We had mtb relations before but were ltd. 10,000 types of prod. were planned, but was ~~decreased~~ increased (?) when? // So, going to mtb economy

New principles: 1- tolerance of diff types of prop. incl. private lg. class. # of laws adopted to support.

2- indep. of incl. ents: much more autonomy, law enshrining lies 1.91

Instruments: contract with @ other, no planning from above. They plan, determine policies & we estimate (evaluation)

3- Problem item: econ. sovereignty of union republics - econ & pol int. ad issues. # of laws defining division of labor passed.

Deep law on books re econ. relations & pol. too. (?) Working on new union "treaty" to govern overall relation (so not complete in a legal sense). Priority of laws. Discussion on who owns

what? CSSR will retain control of: energy, RL & aviation & sea transport, communications & mass media, space activities, - mgmt of defense complex, + "others" -> NOT OK!

On monetary policy, money & banking: under discussion. For. debt issues involved. Principles of econ. mgmt. not yet revealed.

Unified custom reg., social support of pop. during transition period. Underdespite; no consensus reached on these & some other issues. Social support of pop. Key — unemployment, lg. families, students, pensioners: must be compensated for higher prices or indexation of pensions & salaries to be decreased.

Stabilization measures also at Stab. - Income up faster than productivity. Wage policy needs review. Should be linked to productivity.

Changing role of Gosplan: "Deepening of function of econ. analysis." New priority. Quite diff. process & new methods. As uncertainty increases needs more effort, "economic prognosis" needs new grant. Had new altogether but now much more emphasis.

5- Med-long term. Forecasting. 3 assisting major state projects. Ecological problems, grand issues demanding state intervention. Chernobyl, conversion, Aral Sea.

4) Mugs of econ. affairs of USSR as seen above. -- reserved list. 5) Forming direct & indirect regulatory instruments. Direct: border. being cut back but not eliminated.

In loans & communcie. and in huge st. financial projects. Scientific research. Supervises effort to resolve major soc. problems. new law on pensions. (Matter small levels of gov.)

Included: Gosplan & Min Fin, & others: preparing econ. regulations to set rules of game for all Union MTD including price policy, taxation, financing & loans, & external trade legs & principles. Assisted in law drafting. as well "analyze functions" (review) & if needed correct the economic regulators.

6) For. debt. matters our concern. Functions changing.

Conversion a major theme.

1991: no longer planning as such, different concept, diff. behavior. We forecast conversion will function in 91. A prognosis, based on avail. data and policy changes we see coming. (Talks a blue streak.) We are creating a plan for enterprises remaining under our jurisdiction.

Not old style plan; more flexible, lower SOs, (40)  
more independence. Mkts influence them too,  
but state important. Guarantees sales of prod. ordered (Y input),  
at set known price. Some SOs for Union republics, in concert  
with them. For ex., food supplies. Army needs guaranteed  
supplies, ZB.

Soc. spheres "need our support even though they function under reps."

We conclude contracts with reps. & support certain aids —  
medical supplies, vital necessities [soap, washing] — these latter  
interventions only for transition period. When wholesale  
scarcity gone, rules will be relaxed. ~~2nd aspect~~ We  
will order 10-25-30% (control) of mkts in special products &  
areas I mentioned. In 80 firms 85-40% of prod. for 1990;  
diminishing in 91. Overall system & ideology changing in  
plan. Before: alt. to material aspect of prod.; now — financing &  
cost & soc. issues taking precedence. "Logic of planning  
changing;" new goals stressed. Just starting, laboring in  
cave of perestroika. Hege dispute between reformers &  
relaxers, centralists & regionalists. Problems: GOSPLAN  
still needed (some say no). We see much of influence in western  
countries, but a diff. rate. Studied France, W & G, & PWA. Concluded  
that organ to regulate economy necessary, to promote the transition  
to mkts, to help the functions of the MKD, (Double gas bag.) Can't  
function in isolation from GOSVAB, R&B inst., GOSKOMSEN, Main  
Fin. Old system gone; new system not yet in place. Personnel of  
old system don't have skills & exp to make new one function.  
Legislation needed quickly "before economy gets out of control  
completely."

Fuel man: Price policy: now we have 2 suggestions: 1- SHATALOV  
prop — trans. to free mktd prices. 2- State price:

"wholesale prices." Differences? It is afraid of neg. consequences  
of inflation under free price system. Fears it would go out control.  
Wholesale prices in USSR 2-3 x lower than world prices on av.  
Don't want to jeopardize inst. by complete & rapid price increases.  
D. suggested 60% ↑ wholesale prices — but would not

be a border price equivalency situation. Some cuts would be guaranteed. When equilibrium established wholesale prices would be changed & "contract price" substituted. St. prices would be ~~the same~~ reference prices - contracts could be higher or lower. Draft order of Pres. on this

Being worked out. Wholes. prices on ag. produce up; farm gate prices must go up as well.

Next step: Change retail prices for consumer goods & foodstuffs. Must be handled by soc. security steps for pop. segments at risk. System of indexes must be changed. We planned prop. b. Now - more flexible, norms suggested on financial - 7% tax to social security, 12% for debt - guidelines for operation.

Change credit system for cuts. Was cheap - free. L-term 0.5% int. 10-20 yrs. Everyone become indebted. Int. rates going up, related to maturity. Up to 3-11% range.

Must raise savings int. rate - now low; plan to raise to 2-8% range, depending on term. (ridiculous?) Change depreciation policies to modernizing plant. Faster rates: by 18% increase. Bid will cease allowing for totally depreciated machine, in line with European accelerated deprec. Lots of other minor pts being done.

Stepanov: macroeconomics: changed role of Gosplan. Formerly worked out NP by: planning checked many things in ind., ag., all sectors. Costs estimated of prod. products of sectors become NP of industry as a whole. An aggregate of costs of prod. in various segments of econ. Now: uncertainty accepted and the prognosis changes - new ways to value output being looked out and hope to eliminate distortions. Millions used in your ~~quarter~~ <sup>quarters</sup> the model we are following. Fin. regulators more & more important.

Particularities of mkt at moment: their emphasis on I/O analysis, economic models, link models, modelling. On national acct. Being steered for introduction.

GOSPLAN a center of econ. analy. & advice, but not an op. (41)  
agency? Giving advice to Min Fin, & others? Not quite,  
GOSPLAN would still retain some degree of essential role. Will still  
give directions to some extent. But we would "recommend" to  
govt & ministries. Work on legislation & involved in functioning of  
all union. m.kts. Will this role diminish gradually?

No. These fields - defense, energy - not really free mkt  
anywhere, needs unified mgmt. But ind. suppliers  
could "possibly" be in private sector. Will the changing  
role of GOSPLAN be set up in law? Looks like not.

In some cases "cannot be and should not be any discussions  
on this point" - referring to some function he regards as prime  
enfers. Some reps. have Committees, some have GOSPLANS. Pres. has powers  
to apply reform prog. (to 31.3.92). Parliament can  
interfere or negotiate. [They are moving away cautiously, adopting  
reforms tried in Hungary in the 68-75 period, looking for a 3rd way.  
Does even Stratalin know this won't work?] [Use gas.]

Sub. rates take into acct. inflation? Real or nominal? based on today's  
prices, and could be revised. Exts. looking at all this rather  
cautiously they say. "Everything is taken into consideration" (by them, they  
suggested). On sub. prices we set some, free some; plan is to reduce  
fixed prices, they would not be fixed & kept fixed - this is a mis-  
representation of govt. position.

Competition in industrial sector? (Word not mentioned.) What  
about de-monop & excessive size issues? (Not to mention  
competition against exports?) How to deal with or get rid of  
monop? Very complex. We understand issues. Decisions already  
~~to~~ taken - miss (monop) Changing at once - SME measures  
adopted. Important. Open-ness of econ. It's being encouraged.

In competition with EC products. FE 2a. Introducing  
foreign produce in ind. mkt. Privatization related. # of  
units in poor position; many not profitable, before state  
aided, now we must still support many though "some  
other owner" being sought in cases where closure is a  
real threat. Change of owner means change of character

of ent., for or influx of capital. Lower Ltd. monopoly under discussion - through price reg + taxation + through other econ. regulators. We realize ~~that~~ competition will spur efficiency. Would make firms innovative; make them seek least cost operation. Privat. a main issue.

Can't just sell a plant to private sector - involves a lot of humans. Looking at V.Ko. share issuing entities to sell shares to workers. And then gradually privatization would follow. State would retain control over many lg. ent. org. as V.Kos + carry out social/econ. prog. **Key: (NB)**

at ent. level mngs doing anything they wish or nothing at all, both because of uncertainty. When will rules of games be settled? Can't say. [While we talk across the st. from Gorbachev a huge line is forming, to buy what I don't know. A splendid testimony to the failures of this system.] Implies he is not fully familiar with

Shatalin's plan. Complains that Shatalin's plan gets much more publicity + coverage in press than Gorb's plan. (Welcome to the modern world.) **ABALV.11**

Says many Westerners approve + support Gorb's prog. - drops name all the time. all these tensions + difficulties causing great problems.

He says rep. "feel real for strong center." "we don't interfere in their treaties + contracts." "We're ready to help them."

Problem of the "supremacy of laws" v. imp. ed. Law adapted in rep. cannot be higher than law adapted in Imp. Sov. But many "intoxicated with theory they're preaching, but we have to go through this."

✓ (Tatters)

Sergei Shatalov: Mos CC. Inst. of N. Studies main affiliation; interested on Mos CC in privatization, banking, acctg. What to create Moscow business center, lay foundation for mkt structure in Moscow region.

85% of Mos CC sub. centrally controlled. MCC mostly in favor of rad. reform including priv. ownership + privatization; substantial obstacles. Major prob. public opinion. "A lot against" the majority, but demands that social justice accompany any privat. Means? Goal: <sup>accumulated</sup> rad. income equitably between

citizens to start all off on an equal footing. But Mec  
"controls" only 20% of M. prop. Real estate most important  
asset. No adequate procedures for valuation of these. If  
we had R-M mkt could value, but don't know where to begin.

Welcome advice; will announce competition fr. & domes. to look  
for solutions on how to value assets & start. Another obstacle:

pub. opin & law don't accept priv. ownership of land. Land  
excluded from valuation & sale. Complicates procedure. Have to  
construct regulatory mechanisms for mkt ops. - not in place. Forces us to  
keep in place existing system, with all its inefficiencies. "If  
we dismantle this it would simply be worse." Ex.: prices now  
meaningless. Mkt wouldn't correct overnight. Change of ownership  
couldn't by itself raise a bakery's off. Eventually correctable. NB  
but only period requires regulation and intervention to prevent  
severe dislocation. Have to retain old methods but modify them.  
Implication: real steps toward the mkt very few. "Who is the  
guilt? He knows.) Food situation in Moscow "dire." Why? Collapse of  
old methods I said official: →

Our problems immense. We need real knowledge of real functioning mkt  
system. Desperately need knowledge of fr. exp. "urgently." We  
want to invite fr. firms in banking, insurance, mgmt, etc. - give  
them acceptable conditions and let them sell their services to Soviet  
businessmen & enterprises. R-M mkt their major hope & emphasis. NB  
hynd lease mkt can be launched, even if sale of land prohibited.  
Leases of 25 yrs. Want recommendations consultants &  
contacts for R-M mkt? They have some proposals from  
western firm. They want to buy property for 40. We want to  
develop Ruble mkt? Draft ideas say: fr firms lease land for  
4c, Sov. firms only for 1. Lease fee goes to? Fog.  
Shatalin 10% to CC, 90% "wiped out from the books." (?)  
Meaning goes to GOSBANK and removed from the money  
supply. (To get rid of monetary overhang.) Want several  
firms to get involved, to set cadre. Law requires that  
transfers must be "reversed" - to see what?



Fairness of valuation? Will result in signing of a new contract, terms to be defined. What is received, orig. or secondary sales? Indicates that secondary sales should be banned until legal situation cleared. Some in favor of sub. leasing, some opposed. But m/c's want open, no reop. (?)

Privatization: major issues? Digression - gives gen. picture of Moscow's increasingly grim socio-economic situation. Overcrowded, strained

infrastructure failing, living conditions declining. Ind. grown rapidly. primary processing industries common. Housing totally inadequate.

Fallout on dramatic increase. MCC little or no influence on W/O  
polluters. Can fine 50 R. (But elsewhere we hear of plants closing because of local opposition. Not here? We have a way to move most

noisier polluters but they don't comply and enforcement is v. slow.

400 falling out. Supposed to be removed but only a handful gone. Excess liquidity in ents & individuals.

Multiplication of leg. authority in recent months - From CC to Dist C to Locality Council. Some useful ents objected. Why? Local authorities don't want to pay for ents.

upkeep. Major increase in crime rate. C. A revolution of TRUMP

Disillusion? of resentment? of expectations? Are they objectively worse off? Subjectively, it is clear they feel worse off. I Food supply prob. +? Yes, & priority consumer goods. Soup. Increase production of goods & services essential. (Tendency again to think in terms of Moscow? Not sure.)

Employment: It's complaining hard people leaving. (Don't blame them.) Well accelerate. Have to create incentives to retain key people. Soc. safety net for groups on fixed income. Says SOBs suffering shortage of skilled good staff. - "Looking, like everyone else, to see up banks to gen. currency & HE for Mos. Comm banks lend short at high rates, gov't has no HE for Moscow, trying to squeeze out deep. needed HE for Moscow projects. Direct cent gov't allocations 75% of MCC budget. 'ed yr. for tax transfers

from ents contracted by CG. Not yet. (43)  
P. Bone rec'd so far. Coming in future. Law on tax under  
discussions in Russia. (passed by all Union). Base rate

45%: 25% split further between rep & local  
authority. We think 45% too high for "emerging  
businesses." Maybe cut, and if so, ce share would

be cut. Est. missng next yr 12 bill R - deficit 12 bill,  
no revenue raising instruments to close gap. No real estate  
tax, no sales, no property taxes, no local income: ~~etc~~  
HC generation: already have right to take 5% of  
the earnings from Moscow-based ents, but never can  
collect from VNB. ✓ K Brooks: ?

Potatoes: no so, free from gate price, still regulated at retail?  
No - still 80, but price free & dealers asking "exorbitant  
prices." Want barter goods, not R. Proposal: ask  
12% of prods contracted by MCC sent aside to barter.

Central govt. Controls 88% and would need to  
approve sent aside for us, but has considered for 2  
months w/o decision. (XNB)

Future says: We have here a sort of "beligient incompetence";  
everyone wants to make laws but no one want to work."

10.3.90 - MCC. ✓ ✓ ✓

Mess Giosoketz, Vishnikov, Chernyok, Kazanvski.

Privatization: "Clearly understand that the only way out of the critical  
situation is privatization." Many obstacles to starting process. Population  
illiquid (despite monetary overhang?) ② Procedures & methods not settled or  
agreed upon in policy & law by Union or rep. 50% auto. controlled by centers;  
20% by MCC - those producing goods for municipal needs (??)

Some in ag. sector - wholesale trade & warehousing, downstream consumption &  
food processing & dairy, bakeries. Not necessarily, the small, but  
mainly so. Bread making & transport (some). ~~Metre~~ Buses (not  
metre). # of ind. ents. ~~etc~~ Not clear. } all these monopos.

1.5-1.8 million workers estimated in MCC ents. (of 4.5 mill people)

in all of Moscow ent.) Frigida: in book on stats. given to us.  
BUTEK corp. as example.

Union Act. 77 of 25.1.90 - Co. given "monopoly" to incorporate other  
SOEs into itself. Not a JSC itself, has some exceptional rights. Can  
take enta. Special St. Comm. evaluates. Staff bypass firm +  
joins BUTEK. Don't know how many (2 to P). Set up because  
there is no way to value assets, no way to privatize. Butek an  
"experiment" with buyouts (?) BUTEK was a construction NB  
material SOE. Goal: to find way to transform SOEs step by step  
into private sector ops. Butek was 1st lease in USSR.

In short term pd. off all values of its funds and "debt" the assets now.  
Several firms gravitated to this op. as suppliers. "Concern" set up  
to coordinate these activities. More autonomous of min. powers  
than other ops. led to this gov. decree.

Collective initiates or decides. Spec. Comm from Min. Fin. (Union)  
values the assets as net book (historical). Ent. pays seem  
valued to state & local budgets in some proportion. (?)  
same % as profit is split between budgets. Natting

is mentioned on credit or debt. (Good deal for Butek) Collective  
has pd. Butek as an SOE is given these assets? A bus to pay?

Contemplation. But now he says not the coll. that pays but the  
"enterprise" - who is the ent.? More contemplation. Haylee

"nobody pays to nobody for this transaction?" Says: "Not the only  
crazy document adopted by central gov." NB why does SOE want

to be part of Butek? Simplifies their administrative life and  
layers of command, frees from admin. control; more freedom to  
set wages and salaries (and their major). Another reason: do not NB

believe in union gov. - want to be under MEC or Russ. Rep.

But BUTEK a union firm? Yes, but independent. Who  
owns Butek? Butek's collective. Butek not exempted  
from state orders. Still under partial plan. CONFUSION

On asset valuation & who can buy (another document): (Constant  
confusion in office.) Inc. by Palovats of Ernest + Young.  
They see Butek as yesterday's news. NB MCC will issue

text and all firms in MOC (only those in their jurisdiction) (44)  
Approach as follows: priority to buyers & employees. Use own savings. Or debt-led by bank which would get shares for its contributors. If workers want 6 months and don't decide - auction will be held - and only legal entity can bid. At first, Were there any?

to Soviet "entities" meaning private Sov. individuals - could be a real private. (Shatalin says 1 month; they say 6; they think their position more reasonable.) If the buyer is non-Russian? Well, 1st preference to Moscow dwellers, or resident (irrespective of nationality). [MOC has adopted Shatalin plan; yesterday in Kremlin and told bureaus to implement.] If no Moscow residents, then an auction in which all citizens of Sov. Union bid; if none, then offer to foreign bidders. Proposal, not adopted. Kuch: goes from narrow mkt to broader; and broad mkt max. mizes price - will cost. Bud: "You have to consider the mood of the public & observe the concept of social justice." Over paid 70 yrs. 6/7 of prod. of incl. taken by state. all have a stake and want something back. How about foreign partners participating? Yes, with collective or with partner - and a decision made by collective. Chernykh disagrees with "social justice" notion, and we shouldn't give everything away to fr. investor; we must teach Soviets how to deal in mkt.

What about other 80's? (If Shatalin plan adopted: They will be dealt with (become subordinate to) Russian republic. Indiv. actions re the 80's - rents for use of land, ecological standards & taxes, service standards, anti-monop. reg. (?). ~~Physically~~ Physically divide them into smaller units; those not amenable to this a "level of profitability will be determined." Criteria on ÷ of cuts? Many diversified conglomerates, should be split. Will divide vertically & some other cuts. (these under their control.)

How to regulate monopoly prices? Limit on profits means they'll increase costs? Union govt. has adapted policy on cuts. 75-75% of mkt. - price control & restricted. 50% to 30%. Some regulation, strict prohibition to reject orders from reg. customers. Pricing: "municipal orders" for 20% of cut under our control.

and we - central sources - will provide inputs, price set by Mos Soviet, above quota inputs & output - prices set by ent. Will set "coefficients of profitability" because we understand costs. If price results in "excessive" profitability then we raise taxes. A mix of planning systems.

We explore <sup>NS</sup> active debate - They admit need for TA. Want to know what a "natural monopoly" is.

How will payments be made? No one knows.

3.10.90 DAY OF GERMAN UNIFICATION

Min of MT: Panitcher & associates: (S) Panitcher responds to our observations. We in fact have learned something and passed on attitude to ent. mgmt. Inst. of branch (R&D) <sup>WVA</sup> we would like to turn into mid-level mgmt. try in concert with NFM, Europ. try cooperation. Taking steps, he says. Pt. 2: accused by press & media of being benevolent, but we're "morally responsible for the cuts in the branch." Horizontal ties between ent. "so tight." "Level of cooperation" 45%. Sarad of immediate de-reg of system would result in massive prod. declines - but we see this a bit already.

Only 1 ent. voted to leave present system of control (in discussion). Ent's don't want to be thrown in the "pool." Started DC - giving them full respons & freedom. But: horizontal tie, Ser, R&D, for econ. tie = these demand coordination and we would keep. (A natural plea for his min.) Would welcome supplies joining VSCs & joining/going with his even though they now belong to other branches.

And idea: "holding" have to have competition if we are going to have mted. Desaggregation of ent. our policy. Create SMEs, spin-off of product line (consumer goods). Our mgmt not ready; need study. Who will solve problem? Not central authorities.

Thought themselves Process should be under control of "units" - ent. Some women figure looking to form association of MTs & consumer good producers at SME level. Will discuss with officials of Mos Soviet. Document enabling this "not yet signed." Prices: forced without any reason.

True of MTs. Irrational. Many raw materials trans. (45).  
non-profitable. Wages low, prices low. Exports/imports prices  
balance: 10,000 R int. \$15,000 → 20. -; Much up double for  
exports in HC. - on average 1.2-1.5 times domestic price.  
Convert R to \$ at official price. But they have a coefficient.

Ex: MT 5k R → \$12-15k abroad. So: P<sub>X</sub> Chate<sup>R</sup>  
coefficient = \$ price.

Danilov on price: diff products have diff. prices. By  
using this system some prod profit on foreign sales, some not.  
(Figures depend on orig. price, no?) Fear of speculation. Need to  
close borders before facing mkt. ~~But~~ People in TVs not  
"responsible businessman". Going to mkt and we will still  
want to control mkt. We must free mkt.

If raw materials & MT prices freed tomorrow? "Nightmare."  
(Caution). We need staged approach, phased, not  
all at once. The prices for all goods must be controlled  
gradually. Price prop laws, stock cas., low situation  
a "mess." Main issue: property → we think there  
should be paid as well as other forms of property. Out of  
our control; 2. the highest pol. levels. "No one ashore."  
Minister asks for some recogn. of his MT in bur report. Notes  
"experiments" underway - nuclear translation. Making a plea for  
the special and advanced nature of his min vis a vis others.

Be to all the non-producing affairs.

Points from the Shatalin plan. Part I. p.3 - "Development funds  
of state increased 10x 1985-1990. Social + wage incentives 3x.  
Soft budget constraints & govt. refuses to withdraw the uncommitted (NB)  
portion of enterprise profits. Since 88, steady decrease in growth  
rate of ind. prod. ③ "All gov't bodies, along relinquish their  
direct engagement in business..." In mkt's "negative  
unintended consequences should be prevented." These are (NB)  
unstoppable prod., "excessive differentiation in prop. or soc. welfare, or  
uneven dev of diff regions." ④ Old dem. ⑤ Republic's sovereignty.  
on ownership, wealth, reserves, etc. Reps. Delegate

to union: (12) defense, consult. org. crime, forecasting (lg. scale prep. for econ. dev.) credit, monetary - no restrictions of credit flow. Customs - no barriers to trade union. Prices for raw materials, for. trade union; ecology policy, standards, etc.

Logic and Stages: power of d-making of enterprises increased. (18)

Monopolies & privatization the methods to achieve MBE economy.

SOs & allocated resources "remain in force during all the transition period." "at least for basic economic products."

24 "... maintaining <sup>the price</sup> level of salaries & wages at production plants." (26) By early 91 "many enter. will already have encountered fin. difficulties due to fixed wholesale prices and shortages..." Particularly serious for low self-financing SOs.

Privat. of "low perf. enter..." disorg. lg. SOs. Close 100-200 SOs.

Ex. oblig. econ. lies maintained to c. 30.91.

Union of Coops - Mr. Tikhonov: Sov. coops differ 146 "only from other countries' coops; they are private enterprises. They use coop form to be estab. & exist." Initial cap. formed from diff. shares of priv. persons - dominant: production 37% of all coops. 215,000 coops have 5.2 million members. (35% hired; 65% members.) Vol. of prod.: 40.3 bill R. (Total sales) 5% GNP. 6 month. 90 - 320 b.R. by

12.80 - 70-75 b.R. est. 8-10 GNP. Started 88: rapid growth,

(materialized by decreasing prod in 80s). Now coops "work out their own

structures. "Coops unite on a geographical basis: dist - bigger - rep. to Union. Changes: promoting dev of priv. ents, incl. farms, "collectives etc" - # ↑. Opened up to new forms of members, to include pure priv. ents. (or entities from former SOEs). In 91 our union will include SMEs of all forms, prob. majority (in country?) Many wish to join.

Central Soyuz not a member of union. (managers retail trade in rural area). Formerly CS is a coop, but not one of theirs; a state structure.

Prod.: hldg., consumer goods, manufacturing, contract work etc.

Employment: (coming)

3 steps of st. attitude to coops:

① favorable in 88 - but neutral, allowed but no assistance  
good tax. conditions + 140,000 formed. - 1.5 mill people

② 12/88 1st attack on coops: hld. activities allowed to coops.  
But val. of prod. ↑. 6/89 - enlightenment on coops by state 147

Increased input prices by 2-12 times more than SOEs.

"Terrible" customs tax for exports; discriminatory - still exists.

"Really terrible" - 250 R tax on suit of 60.00 as example.

So - coops get unjustly expensive goods.

Increase of taxes 3.4x over previous; 31 ↑ SOEs.

Comm coops min tax 65% on all "supplies cost"

Many coops started going under - service & production. Party speaks against in 1989. Last 6 months <sup>89</sup> legislated 18,000 coops.

Stage ③ "Liberalization" → 2nd 7 90: leveled conditions of tax. on coops & SOEs. But still no free access to resources. State has priv. lower cost access. Kom3 + SOE pay



7,000 C - Coop: 72,000 R. Just a diff. price for diff. consumers.  
(and diff. tax.) Realized that competitors to SOEs were problems &  
SOEs supported these measures - struggle against crops. Things  
better now. It "had to" allow diff. forms & leveler playing field  
in evidence. Why? Failure of SOEs?

Construction and industrial ex.: Coop "Builder" with 600 employees  
Pr. gr. output 20 mill R. Karelia Reg. In some <sup>coops in</sup> SOEs:  
1500 employees - 11 mill R. What's the reason? Coop independent?  
Work longer, more days, salaries 1300 R a month, free meals,  
housing on job. (off in winter 7 months). SOE - 5 days a week,  
8 hrs., 18 days vacation, salary 260 R. Time much shorter (3x)  
for bldg. in coop over SOE. Incentives give coops qualified  
workers vs. SOEs. Now a competition to work of coops.

Coop: 2 to workers > 5 to CNP? Claims. (NB)  
Prices diff. - similar structure of work. Bldg. Coops have  
same SO price, now we are really looking at efficiency gains.  
(GOLD MINE!) Many SOE workers abandoning SOEs; for coop.  
which pay on av. 2x higher. No bureaucracy; no ministries.  
(Important clients &akers-off of basket trade.) <sup>coops</sup> <sup>AV.</sup> Total earnings -  
prod costs: 65% (same as in US). In SOE → 34%.

Main difference. Need legislate system of state monopolies and  
open mkt. Coops were deprived of access to productive resources;  
no access to premises, higher prices - already said.  
"Moral & political side:" from 6/20 to "started being treated with  
respect" as consumer good mkt desintegrated. It consumer good  
does not use & sell our products (only avail.) Higher prices  
with fewer & fewer st goods available. 7-goal prices (rapidly,  
2.5% per month - coop prices stable. (he says).  
Difference less. In ag. retailing; no, why not?

Coops have no access to ag. resources. Rural areas conservative - call &  
st. farms monopolists (food sold by individuals?). Most land owned  
collectively; farmers not ready to break up and use coop principles.  
State acted against ag. coops in 1989. Losses led fruits & v. veg.

Losses staggering in fruit & veg this yr. What will happen?  
we have lawful basis for creating butts, farms, coops - but on paper. (47)  
we need a land reform - redistribution of land from st. land to ind.  
ownership if former wants. No law on land reform yet. Hoping,  
relying on Yeltsin & Russ. Fed. "who is very positive about priv.  
est. in all spheres." (18)

More info.: got from god this yr. More freedom on creating coop & private  
ent & wider access to foreign mths. We are creating an  
external economic amalgamation for import/export. licensed. Direct  
deals with foreigners w/o gov. approvals. Have to create  
"mixed banks" here & abroad.

Credit: none in west; all done on barter deal basis; looking not for  
currency but goods. (had of currency earned in the steps in west) (18)  
About \$380 mil in West. by coops; will grow as liberalization grows.

Ex.: Komi Republic. - 100% of economy almost coop; privat.  
Kampon, etc. going coop - good nat. resources. Ldrship. (Sup. Sov.)  
closely coop. with us. Wants to broaden im/ex trade. We  
need ag. processing tech. - bldg., etc, equip for farms, wood processing,  
etc. - pollution free if possible. His group will act as  
agent in finding approp. local coop partner with foreign. Doing  
this with Dutch/American mill industry investors. How do  
you identify locals? Assoc. of Russian farmers & coops. Unites  
people outside state units. Working with.

Internal credit: "not difficult," west not of comm coop banks - difficult  
to get credit from st. bank - but easy from coop bank, with  
12% int. rate vs. lower rate ~~there~~ here. Not a problem (18)  
diff. more in obtaining prod. resources because of monopolies  
supplies. "No anti-monop law exists," no single law yet adopted.  
80% of all ind. prod. monopolized in USSR, he says. Lend. only  
for all union common. "We need a sep. of anti-monop  
leg." - many changes. Curtailing monop. policies & prices.

In Skatulin plan. # of ind. units already ↓; "min in # rows."  
Free trade, etc. etc.) Reg. attitudes: we are on 1st steps -  
only 7 yrs. old... "still infants." Anti-coop attitudes in the  
society has 2 sources: ① people used to low & stable st.

prices for a ltd. # of items." Used bottles. Items < cost.  
diff. between retail & real price v. great. 7 R kilowatts →  
soon up to 11-12 R. St. sells meat, in short of. at 2 R k. off. pp.  
coops: real price, ready avail., higher price. Consumers don't see  
reasons, only the price which is shocking. Threats coops are  
not being heard. (2) Gov. anti-coop prog. ("from reps of st. monop"  
& party. Good ad propaganda. Bid forced to stop end of.  
And neg. attitude disappearing. Reopen fall reced.:  
people (a lot) fear - Majority fr. 1 more thing: party  
bodies stopped campaigns because Gorbys said "priv prog &  
Priv end not in contradiction with soc. but promotes it &  
strengthens it." Party coop. to be invested in all  
types of private enterprise - banks. (Offers us more time later.)

10.4.90: Mtg with 2 VP & CoD member of Butels "People's  
Concern." V. Voronin and Pavel Nejidov (CoD.)  
Interested more in learning more about our banks - see comm. bankser  
framework of our concern. Include 350 ents., incl. associations,  
organizations & various expts. 25 public ents. (Sovs),  
recently "bought out themselves from the state." They employ 12k peop.  
Wide range of activities - machinery to "gypsy choirs." Sev. sub-  
units: machinery division, construction material div, R&D  
centers, (to dev. new tech.), several fur farms, transport,  
tourist, publishing (Sec of Res. School - Chmn. of Admin. of  
Sallest Res. School.), const. of ind. ents. Relation of Butels  
to ents.? 2 sides: org & econ. 1st task help newly created  
ents to get on their feet, material & fin support & advice &  
mngt of restructuring (holding/turnaround mngt?). Do you  
hold shares? No. No equity holdings, but we make  
sometimes "a financial input in capital" to several  
ents. Why; get what in return? When we sign protocol  
with out. certain fin. terms - % of profits - 1% on average,  
with us as promoters/advisers. Suggests limited cap-  
involvement? Precisely, we provide economic leih-

Make cap inputs & profit % then higher (and <sup>48</sup> varying). Extend consulting/mgmt services - we take them only 1% profit. Target % taken by Butek? We sometimes inject 20% of cap., we then take most of profits. Butek

will sell or retain as a holding? Hard to say, varies according to exts, very unstable macro situation, can't predict. Some here

between venture cap. and holding co. Where does Butek get invest. cap.? From profits. Borrowers? Failed funds cap. injections from member exts. What do exts. get from Butek? Does gain because they gain autonomy, freedom from admin. control. Lose inputs? Sometimes yes, some no -

mostly strong position of Butek. Can't replace completely govt supplies but they organize inter-enterprise transactions. Legal Collectively owned co., but not a VSO. Employees of Butek the collective or the firms investing. @ ext. member of Butek is a collectively

owned ext. as is the Butek itself. Some funds inject cap., other receive. No debt or credits whatsoever. Does Butek yield "dividends" on pooled results of all firms? No. - "we don't recycle profits from winners to losers." They don't average out - @ ext. Separate & independ.

We are not responsible for the exts., we don't run them. Then what do cap. injectors get? The funds are ext. specific and the money returned in wth the operation of that one ext. We monitor. Why would I invest in a Butek ext? Answer not clear. Scores of ex-coops in structure. Why? Neg. attitudes externally towards coops, our "roof" provides shield against this neg. att. <sup>100</sup>

Gain expertise, mktng, advice, organizational, access to Butek banks (can use any other?). No failures to date. Principal l-t objective of org.? "Used to be comm. secret." But we would like to evolve grad. to consortium form of western priv. firm.

How does an SOE go about the buy out process? Case. Scores of examples. Reg. of Merit in USSR specific procedure + details. Our own statute gives general procedure for entry to Butch SOEs. Decree of Coen. of Min. (Dec. # 77). Legal framework there. Compliance sometimes fuzzy. Leg. common; implementation weak. Case of major Moscow plant 2000 work. - Kalininskiy Paper Mill - also B.O. Price tag: 20 mill R for fixed capital. In this case assets valued on basis of depreciated book value. Comm created in plant & fin. officials and they value by the formula. Ent. pays the sum all at once. Collection got 20 mill R from: "own sources" or bank or from after Butch ents (overseas here). → easy case: had whole 20 million in dev. fund (which can be used.) More typical: borrow from bank normally. Who initiated the idea? Someone in mngt has idea and goes & persuades collective this in their interest. (as I would expect.) NIB Valuation method of formoment. Others want valuation on some "market" basis which might be much higher. (But impossible to calculate at moment.) This view in mind. NIB This is likely to be an undervaluation of considerable %? What happens to liabilities; debts? "We never dealt with an ent. with a major debt burden." Some of our ents. buy other ents. with debts or weak fin. position - some of our ents. even have purchased land. Need clearer lawyers EXCEPTIONAL: [NOTE SPECIAL LOW-30% TAX FOR BUTEK.]

Once ents become members perf.? 2 weeks data coming. Think results are better. Wages and salaries up 10%. Workforce & mngt reductions: yes. - First 3 months of actually doing. They are interested in coop & financing. Our banks have great prob. in for. econ. activity. Thinking of org. enter. cash. - TV. Have something to offer. Ready to work on priv. sector

dev. projects.

Mr. Tkatchenko - Tallinn School of Mgmt. 88 -> Legally ind. from start. Middle level mgmt the target. Aided projects yr. for top mgmt. Have leading acad. inst. & gov. agency personnel on faculty. "Business Camp" - month long "resort" prog. Customers represent wide array of sectors & regions. 50 cities rep'd in last prog, 28. 1st started with bus. games. Have to break down old bad ingrained habits of Soviet mgmt. Account in future on narrowly focused (case study?) problems. Will ~~plan~~ have bus. camps for 150 @ - 3 in summer. Conferences both inter & domestic. Weekend seminars: small (15-30) groups of top mgmts focus atten. on subjects covered in document. Runs business club. Alumni club active. Mgmt. consulting for exts. Several underway. Prog. for children - entrepreneurial training for sup. 2nd school students. Will create branches in other cities including Black Sea resort town (TEZ underway there).

Several branches. Courses in Russian. Good relationship with Union of High Tech Coops in Zelenograd. (Silicon Valley). Restructuring on ext -> where is expertise in USSR? Working on a film of successful bus. strategy in USSR for western business interests in USSR. 5 full-time fac. & looking for more. Financing: started from scratch. Invested profits back. Net profit 50,000 R - 2nd income from courses - menu costs of lease, prop. Looking for 400k profits this yr. No credit. A coop itself. Not yet ready for MBA - want learn not lease long center. In Zelenograd. (In Inst of ~~the~~ АФРИКА students) How to change? Change mentality? Then will eventually reach goal. S-T long for mgmt.

Express opinion that Sov. mgmt. ~~was~~ less receptive to mkt than Polish mgmt. More familiarity here with mkt mechanism, diff. education, higher communication / communal ethic & tradition.

Computer Factory: Min of Electronics Industry: St. Yakov,  
Gen. Dir., Naydin, Dep. Gen. Dir., & Tech. Dir.  
Makes PCs, to 1987 had cut off from world. Used western  
models. Practically only suppliers of computers in vast Sov. market  
**ZELENOGRAD**

Investments increasing but father we have exhausted capacity to  
dev. tech. on domestic basis. Plant value est 200 mill R.  
Further growth practically impossible. Plant young: have not  
been "benefiting from interx. div. of labor." Vertical integration  
the result in a fed where small firms dominated worldwide.  
"Network" then formed within Electronics Min. - unique - mil. ind  
complex even wasn't able to copy. Gap emerged between intel. & rest of  
economy. Funds pumped into sector by st. budget, R&D, new  
firms, heavily financed. Main absorbers of budget funds.  
High-tech ind supported by state - closed off from rest of econ.  
Started in 1964, with special transistors. 65-chip. & then 1cm,  
next steps. Vertically integrated complex in Zelenograd was  
started. R&D + prod of microelectronics + chips. Can do  
all known technologies + chips to capacity of? 32 bit  
architectures: 5 mips. - now chip 1c<sup>2</sup> = 360k transistors.  
Now produce 4 mill McProc. chips a yr.  $\frac{30}{100}$  Est. 6% as  
a prod of min, from 7% a firm. Comprises 40 companies in  
association. 8 in Zelenograd. Others scattered in USSR.

Produce  $\frac{1}{2}$  bill PCs a yr. of diff. types.  
Latest events: signed agreement to become "concern" or  
association of group; here is  $\frac{1}{2}$  of. All mags of diff. cos. **(MP)**  
signed protocol - they recognize Central unit's order role;  
leading role. Change from before? Was admin. hierarchy,  
now economic hierarchy. Was admin. dir, now Chmn of  
BoD & Dir. of R&D wing, Gen Dir role downgraded.  
75% of components within firms of the concern, 25% of  
supply from outside firms; permits reliable supply &  
assures inputs. (Others like this?) Hqs in Zelenograd, 80%  
of ind prod. in town. Others smaller. Others elsewhere.

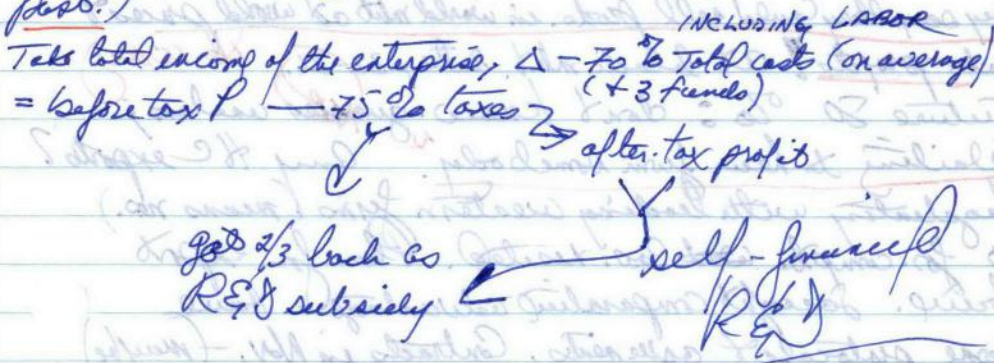
Are you now or will be JSC? will become one head

Depends on gradual weaning from state ~~aid~~ (50) budget. Will seek for participation; need HC for inputs. Might go public; member cos. of concern may at some stage become JSCos (but not under this group). Happy to be member of Min of Electronics. Only outside links with Metals & Chemicals & textiles. Components come from silicon.

@ entity has clearly defined interests. If component not produced within complex I go out and get it. If I can't get it, min. doesn't help any more. (Suggesting Lehar to ~~leave~~?) Honey doesn't do it, have to track goods. Already living in mkt economy. Suggests "uncontrolled emigration" of SEASIAN talents. Always had 100% to 80. Now changing; will be (?). 10% of # of seats in Z produce 50% of output. 50% in other seats. & we might lose them if rep. and we become new.

As Chairman we can be new do - or not do - that he formerly could not. Before queue orders. Now I recommend. Allocates centralized fund for investment. Divides profits on basis of share of investment. If Jatin wishes to leave consortium can do so but he would have to find a partner and his thinks that unlikely.

Profit this yr. at X R. Before: 70% as income tax. Now 45% - no return from 0.5 or this sum (was something in past?)



To 1. 1. 91; then new system, of 45%



~~We produce 49% of prod. ICo.; 6~~  
competitors, all in same min. PCs, 3 competitors and  
numerous competitors (15) in other min. (Not taking into acct.  
JVs & coops). In other areas, scores of competitors. Figure:

1 R of wage bill we sell 3R of goods, high ratio. Share of  
consumer goods, 13% of prod. Computers 21% of prod.  
Range of items very wide. In consortium 11 firms produce chips.  
Competition exists, he says, among Sov. producers very tough.  
Means what? Price differences? Quality differences?  
Price factor not relevant, not applicable. Acute shortage  
of chips. Demand for lg. minifones down. Uneasiness in  
mkt. Forced to take urgent measures - help change prod.  
mix & tech to surviving. <sup>they</sup> were forced to expand production of  
<sup>these</sup> more successful models."

Quality diff. we're confident. (Black mkt prices for their &  
competitor products)

Will switch to contract prices? Price factor will mean  
something. Competitors troublesome, can beat us on price.  
Don't know how contract prices will function? Now price  
list fixed for all products. Chg to new prod. only.

We want customers, and willing. Comparisons: ~~prices~~  
they say they could sell prod. in world mkt at world prices &  
make profits! At black mkt. rate, 22-26. ~~to work~~

Future 20%: don't know. ~~guesses~~ useless;  
willing to hear from somebody. Any HC exports?

Negotiating with leading western firms (means no.)

So for comp. ~~with~~ Cos. ~~visited~~. Plan for export  
brief. Incept comparative advantage. Have  
some protocols & agreements. Contracts in Nov. (maybe)  
No licenses for imports (or exp.) Chem's comp. act in Comp.  
aided design (CAD). Input abatement? Until recently no  
~~any~~ problems because no imported inputs & we self  
supplied but now increasing diff due to for ex shortage.