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The Control Data Joint Venture
in Romania

Since I don't know how much you know about the Control Data joint venture in Romania, I will give you some background. The first negotiations took place shortly after the law allowing joint ventures was passed in 1971. The Executive Vice President of Control Data Corporation, Bob Schmidt, is very interested in East European matters, and he discussed it with the Romanians at that time.

The first real negotiations took place in about December of that year when a Romanian delegation came to the United States to review potential products to be produced by the joint venture. The first contract negotiations took place in February of 1972. The agreement was signed in April of 1973 and the first products were finished and delivered in December, 1974. In that period of time I acquired 29 Romanian visas related to this project. Some of those visits were only for a few days; others were for several weeks. This experience is living testimony to what people have been talking about today as to the arduousness of East European negotiations.

Let me tell you a little bit about the structure of the joint venture agreement, so that perhaps some of the comments that I will make later will make some sense. There is first of all the Joint Venture Agreement itself. It is about 50 typewritten pages, and it has 29 appendices, two addendums, and a number of what the Romanians refer to as "refurbished appendices." It seems as though every time we go back to Romania we have to "refurbish" a few appendices.

In the Joint Venture Agreement, obviously, the duties of the two parties are defined. Control Data contributes essentially technology, training and specialized items of equipment for the production of the products. The Romanians contribute essentially a factory building with furnishing and also some training. Using the contributions of the two parties the joint venture produces peripheral equipment for computers.

The Joint Venture Agreement also spells out how the joint venture is going to

be financed. The capital contributions of the parties are valued at $4 million, with Control Data having contributed 45 percent and, therefore, having 45 percent of the shares. The Romanians have 55 percent.

In addition to equity capital the joint venture needs working capital. That is being provided by the Romanian Bank for Foreign Trade under the guarantee of the two parties in proportion to their ownership of the company. These borrowings are all in dollars at a rate of interest fixed at a certain percentage over the London interbank rate. In addition, Control Data agreed to provide sub-assemblies and piece parts to the joint venture on a deferred payment basis for the first year.

One of the sections of a Joint Venture Agreement that deserves a great deal of consideration is that which deals with the personnel sent to work in Romania. Control Data has five Americans who will be located there fulltime for two years as employees of the joint venture company. Control Data made a great effort to prepare them. They had a special course taught here in Washington, I believe by American University, concerning Romanian history, traditions, language, etc.

In the joint venture agreement it was specified that the Romanian party would provide "adequate" housing in Bucharest for these people. The Romanians made a substantial effort. They reserved for the Control Data personnel a new apartment building which they were in the process of constructing for diplomats. Still, in order to convert that building into what would be attractive living accommodations for American families, Control Data spent a good deal of money.

Another aspect that is very important to the Americans is their salaries. As previously mentioned, the Americans are legally employees of the Romanian Joint Venture Company. Like many of the problems that one encounters in negotiating such a joint venture this question raised issues of ideology and national pride. These can be resolved if you can find words around the ideological difficulties. This was the case with the salaries of the Americans. Their salaries are considerably higher than those of comparable Romanians and the Romanians just didn't want to show that in a public document. The answer was simple. The Americans' salaries are divided into two categories. There is salary and there is a supplement. The salaries are identical to the Romanians' and the supplement is also paid every month, but it is not a salary.

Another delicate issue with the personnel was working hours: Romanians work six days a week, eight hours a day. The Americans weren't terribly excited about doing the same thing. The Romanians, on the other hand, again for reasons of equality and ideology, didn't think that they should pay these "enormous salaries" for people who only worked five days a week. Compromise was again reached. The Americans do work six days a week, but once a quarter they take an extra week off.

Because my time is running out, I would like to make some general comments. Bob Starr talked about his pessimism as to the outcome of joint ventures which may come in the future in Romania. He is certainly right in saying that the Control Data experience up to this point is not sufficiently developed to serve as a basis for optimism. The only way that this joint venture makes any sense is if the Romanians can integrate into their local production a significant part of the piece parts and subassemblies which are now being shipped in their entirety from the United States to Romania to be assembled. Of course, it was planned to operate in this way in the first stage because there wasn't time for the Romanians to gear up production of piece parts. Unfortunately, they are behind in that effort, and from what we have seen there is substantial question as to whether or not they are indeed going to be able to produce those parts on time and with appropriate quality. That is the essence of the challenge that Rom Control Data now faces.

The basis of that problem is, I think, not within the joint venture concept. I am very optimistic about the working of a joint venture from what I have seen within Rom Control Data. I am very impressed by the flexibility that the Romanians have shown.

So I don't see the problem from that point of view. The problem is, as Bob Starr again pointed out, that a Romanian joint venture is an enclave in the Romanian economy, and when that joint venture must depend, as this one does, on the performance of the remainder of the Romanian economy, it is limited in its possibilities of success to the potentiality of that economy. As we are all aware, the ability of a centrally planned economy to make changes fast, to adapt itself to new conditions, is not very good.

This is our problem with the production of piece parts and subassemblies in Romania. Almost all Romanian plants are vertically integrated to the fullest extent possible. There are just no economies of scale in that arrangement. You just don't go out in Romania and look for a metal-working shop to order cabinets for a piece of equipment. So in order to obtain such items, the joint venture has had to go to the various Romanian plants in the same sector who are capable of producing these kinds of piece parts and ask them to help out. There is little interest on the part of those plants because it is not part of their quota. Recently, however, the decision was made that in those kinds of transactions, even within Romania, payment will be in dollars, so that does give these suppliers some incentive. Hopefully the situation will be improving.

In that regard, one of the things that we did in our joint venture agreement was to require that all of the Romanian materials and parts be provided by the Romanian partner itself. Thus it is the Romanian partner who is contractually obligated to provide all of those parts and who would be in default if he can't do it.