Negotiating Technology in Romania

Romania holds great potential as sizable, rapidly growing marketplace

BY GUS PREKOPA*

It is essential to the full understanding of the why and how we do things in international business to know a little about General Tire's philosophy in doing business overseas. Since our very first foreign venture in 1932, General Tire International's key approach in overseas joint ventures has been *total flexibility.* Quite uniquely in our industry we have never insisted on full ownership of an overseas project, nor on an unyielding majority ownership concept. Our ventures have ranged from pure technical assistance contracts to management responsibilities without ownership to minority ownership positions and in a few rare cases to majority ownership situations; whichever posture was best suited to accomplish the job and assure maximum success of the venture was the one we chose.

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Today, on these bases, we are part of over 40 tire or rubber plastics-related manufacturing operations throughout the world outside of the United States.

In looking back over these 42 years the biggest single benefit, outside of our gains in the friendship of our associates the world over, is that we have learned, and learned quite well, how to "listen" to our overseas partners, instead of just telling them how things must be done. This art of listening and getting along with a host of varied attitudes and ideals is quite a precious and valuable "know-how," and one that you must learn, especially when your partner holds the major aces — that is, the ultimate word as the majority proprietor of your joint project.

Tire Venture

It is because of this attitude and philosophy that General Tire International, without excessive inhibitions and concerns, pioneeringly entered early in 1971 into negotiations with Romania for a $75 million radial tire venture; and in 1973 became the first U.S. company to participate in Romania in a project of this size. When completed in 1975, this tire factory will be the most modern, efficient, tire plant in existence. General Tire International does not own any equity. Its role is confined to the supply of the plant, to the supervision of its construction, and the placement into production of the factory. There also is a long-term technical assistance contract which will assure that this plant is maintained technically at the peak of the art of tire manufacturing and is capable of producing the highest quality tires known during the life of this ongoing technical service contract.

Our interest to join with Romania on a tire project early in 1971 was much influenced by the potential we believe Romania holds out for the future as a sizable and rapidly growing marketplace.

Notwithstanding earlier and more recent spectacular oil discoveries in and around the European continent, Romania has been for decades, and still is, a European leader in oil production and has vastly developed petrochemical industries for the conversion of this precious commodity of the 20th Century into various end products. Tires are one of these.

Heavy Industries

Aside from oil, Romania also has very heavily developed heavy industries in other fields and an excellent infrastructure; but mainly it has 20 million hard-working people who in the years to come will consume more and more, offering a very sizable domestic market.

In addition to this, Romania, with its Black Sea port of Constantsa and its well developed road network toward the rest of Europe, has all the potentials to remain a leading exporting country in numerous products.

The tire industry in Romania is a perfect example of the fact that Romania's wealth of technology is not a thing of the recent past, but goes back many years. Romania has two other large tire factories; one dates back to the mid-1930's. For years Romania has been self-sufficient in supplying most of its internal demand for tires and has engaged in aggressive export marketing of tires.

With this background it is evident that tire construction technology is not new to Romania. It possessés well-trained, sophisticated specialists in this industry. But as with all human knowledge, the more one knows about a field the more one strives to know; to keep his technical competence in step with the many changes and vast expansion of technological knowledge. General Tire's progressive research in the tire technology is a well-matched answer to this quest in the Romanian venture.

Let me turn now to the more specific questions of how and with whom does one negotiate in Romania. The state organizations in Romania dealing with a specific industry can be roughly categorized into four levels:

1. At the top is the Ministerial level, that is, the

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Ministry to which a particular industry belongs. The tire industry falls under the Ministry of the Chemical Industry of Romania. At this level one does very little negotiating.

2. At the serious negotiating level are the various State Enterprises for Foreign Trade under the jurisdiction of the respective Ministries. They are responsible for the negotiations of the contracts and their finalizations. They are the buyers who act on behalf of the customer, that is, the state organization, that will administer the plant. In the case of General Tire International's venture, this state organization responsible for the contract negotiations is ROMCHIM.
3. An individual industry is administered by an industrial "centrale" possessing the full technical competence to evaluate offers and carry out technical negotiations. In manufacturing plant projects at this level they are many times aided by design institutes under the various Ministries having the technical requisites needed for the plant design and construction. In our case these were respectively the Tire Rubber Goods and Plastics Industry Administration and the design institute called IPROCHIM.
4. Last, but definately not least, is the state organization that will administer the plant under consideration, truly the actual buyer on whose behalf of all the previous agencies act. In our case this entity is the Victoria, Floresti tire complex.

There are basically two avenues of approach for the U.S. businessman to initiate negotiations for a manufacturing venture.

One is in which the initial contact is made directly with the State Enterprise for Foreign Trade which likely will have in its possession a specific inquiry for a given project. Since in this case much preliminary work has already been done between the buyer, the industry administration, and the design institute, considerable time can be saved by starting out directly by negotiations at this level.

In projects for which a preplanned inquiry does not exist, the initial introduction of ones product and capability should start at the potential buyer or industrial administration level. Introduction of such new products or technologies can be accomplished through exhibitions in trade fairs coupled with direct calls on the mentioned state offices. Once their interest and basic premise of their needs are established, negotiating will be transferred from this level to a State Enterprise for Foreign Trade charged to act as the buyer.

18-Month Negotiations

In our case, negotiations took only about a year and a half, which is a relatively short time for a project of the magnitude into which we have entered.

An important fact about contracts and contract negotiations in Romania, and for that matter in most Eastern European countries, as well as in Western Europe to some degree, is that these contracts and negotiations are much more detailed and exact than the American businessman is used to. In the negotiations of contracts one must be extremely well-prepared and send only the most competent people to carry these out.

The American businessman realizes that contracts are required but considers them mostly a necessary evil of doing business. His general attitude is that contracts are negotiated, signed, and then filed for posterity, to collect dust. The implementation of projects is being carried out mostly only with a reference in mind to the contract. In Romania the contract document is the Bible of the project. It cannot be detailed enough as the more provisions it covers the more smoothly the implementation period will proceed. The Romanian parties discharge their obligations usually to the letter of the contract with a precision that is again almost unknown to us; but in turn they expect equal performance from the foreign partner, to the letter of the contract.

Naturally, this preciseness in adhering to contract detail is much easier to achieve in a planned economy society than in a pure free supply-and-demand-governed economy.

During the negotiation stage, as already mentioned, the primary office one deals with in Romania is the State Enterprise for Foreign Trade. In the implementation stage of the contract, the contact reverts mostly to the buyer and industrial centrale. It is, therefore, important that all of these offices are kept fully advised in detail of the contents of what is agreed to.

Evidently we do have an attitude difference toward contracts which can be the cause of many difficulties at a later date. To bring these two attitudes closer in harmony much work remains for both sides. But from experience, I have to admit that the Romanian parties in most instances are willing to consider some compromises, provided it is beneficial for the project as a whole and so proven to them, and provided they have the latitude to accept same.

Difficult Period

Our own project was consummated during a time of great economic upheavals, some specific to the United States, others affecting the whole world. Our deliveries of equipment have run headlong into a period of acute raw material and energy shortages and an inflation spiral for these goods unprecedented in the past. It is evident that these circumstances have put a strain on our ability to perform with the exactness expected. Here again I have to admit, the Romanian parties have appreciated these difficult conditions and extended their collaboration. They made our added task easier to bear and as such proved themselves the type of partner with which General Tire International is happy to deal.

Romania has felt very vividly in the past years the burdens and benefits invoked by the materials shortages. The appreciation of their oil reserves has forced Romania to reconsider the allocation of this precious commodity and seek its better utilization. Simultaneously, it has also increased Romania's potential income and economical growth for the future. Under this reallocation of resources markets have opened up, for new products and new technology used in the development of better utilization of their raw materials.

All of this has opened new avenues for American business to sell products and know-how in Romania.

Coupled with this, Romania, of all the Eastern Bloc countries, has made the greatest advances in the development of joint ventures between private business and state-

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International President's Message

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and LES France will hold an International Licensing Forum on Tuesday, June 10 in cooperation with Inova '75. The meeting theme is "Licensing and Promotion of Research Results: An International Comparison". Speakers will be from LES France, LES UK, LES Scandinavia, and LES U.S.A. The Inova '75 licensing meeting is another example of the health and vigor of Member Societies of LES International in organizing effective educational formats for disseminating information about licensing and the transfer of technology — a subject of ever-expanding importance in our increasingly complex and interdependent world.

Finally, under the auspices of UNIDO and LES, plans are going forward for a licensing conference in Yugoslavia during late October 1975, and a number of LES members noted for expertise in certain phases of licensing, have been contacted by UNIDO to help prepare and present this conference.

As can be readily seen, from the foregoing, there is an enormous number of important activities taking place in what is now the very large and complex organization known as LES International. Already it has almost become too much for any one person to hope to direct and supervise. With the formal admission of LES Switzerland and LES España, we will have our tenth and eleventh Member Societies.

Accordingly, at the Paris meeting we took steps to investigate the idea of having two or three regional *vice-presidents of LES International who could coordinate the affairs of the Member Societies in their respective parts of the world, and be responsible for attending major conferences. Such an organization could help solve problems of communication and coordination among our many and widespread Member Societies.*

Meanwhile, LES International is a vital, active, and growing organization that is becoming ever more varied and interesting in its scope and long-range possiblities. It also is clearly an important force in promoting mutual good will among people of many nationalities. It is a promoter of international understanding in a practical and productive way.

Case Study: Product Sales in Poland

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many, and as they do so they will alleviate the problem of equitable currency exchange. This will also enable them to reduce costs of product and to more aggressively pursue business opportunities in the Eastern Bloc markets. The needs of Comecon markets are great! The machinery produced under license from Koehring is very well suited for the general applications within that market, so there is little doubt as to the ultimate success of the Koehring/Bumar cooperation venture. To further demonstrate our confidence in this regard we are now discussing certain other product lines in which our Polish partners have indicated an interest, an interest we also are eager to develop jointly with them.

As you may know, Koehring was the first U.S. machinery manufacturer to conclude an agreement with the Polish heavy machinery industry. We are proud of that fact. And I believe our Polish partners also appreciate the efforts we made helping to find the language which brought our halting, initial exploratory meetings into a meaningful, mutually beneficial business relationship. We are told the language and format developed by us was helpful to them in negotiating a number of other cooperation agreements which were subsequently concluded.

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owned Romanian enterprises. There is a lot that has been done but even more remains to be resolved, as this is truly pioneering ground and I feel that preciseness, exactness, the truthful statement of each party's desires, and the striking of compromises are the prime tasks that will refine joint ventures to a true "win-win" combination.

In joint ventures, incentives have to be shared equally by both parties. A true understanding of each party's *modus operandi* by the other and the patience required to acquaint one another in detail with these things are the only actions that will assure continuous improvement in the success of joint ventures. Some ten trips to Romania have demonstrated to me unequivocally the unbiased appreciation and welcome that is extended to American businesses there. The American traveler and businessman is without exception received by the man on the street in Bucharest, as well as in the highest governmental offices, with warm hospitality and unprejudiced openness, being judged only by his own personal behavior and performance.

This attitude, coupled with the potential of the country, I feel, can only encourage continually increasing trade between Romania and the United States.

An evidence that these assumptions are true just crossed my desk a few days ago in the form of the latest trade statistics published by the U.S. Commerce Department, which included data for the first three-quarters of 1974. A quick analysis of U.S. trade relations with the 10 Socialist countries shows that the most solid growth over the past two years has been evidenced in trade between the United States and Romania. Our exports to Romania have in 1973 grown 69 percent over the previous year and for the first nine months of 1974 are up by 70 percent over the entire previous year. Our imports from Romania have grown at an even greater rate — in 1973 by 90 percent over 1972, and in the first nine months of 1974 by 73 percent over the entire previous year. Our exports to Romania are more balanced. They do not consist of principally one commodity such as food. The Romanian balance of trade, in spite of the still outstanding Most Favored Nation treatment, has improved considerably over the past two years.

We are just now completing our fourth year of the difficult but very rewarding curriculum in "how to do business in Romania" and though at times we may have had differences of opinion our work together has continually prospered, our collaboration has been most congenial, and we look forward to a long-continued and growing partnership between General Tire International and Romania, in the years ahead.