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DATE: May 27, 1964
10:00 A.M.
Export-Import Bank

SUBJECT: Export-Import Bank Financing for Rumania

PARTICIPANTS: Rumanian

Mihai Petri, Deputy Minister of Foreign Trade
Petre Balaceanu, Rumanian Minister to the United States
Romulus Petrescu, Director, Foreign Department, State Bank
Ion Lupu, Secretary of Rumanian Delegation
Ilie Vintila, Second Secretary of Legation

U.S.

Walter C. Sauer, Export-Import Bank
R. H. Rowntree, Export-Import Bank
Glenn E. McLaughlin, Export-Import Bank
William S. Balderston, Export-Import Bank
Edward R. Fried, State Department, S/P
Knute E. Malmborg, L/E
Peter Warker, EUR/EE
Owen Lee, INR/RSB
Leon Lewins, Commerce, OIRE/BIC

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Mr. Petri said that the Rumanians had been informed on May 26 that export licenses could be issued for 11 of the 15 plants on their shopping list. Before discussing the possible purchase of these plants from US firms, the Rumanian delegation would like to know what financing the Export-Import Bank might be able to make available in connection with these purchases. Mr. Petri said the total value of the 11 plants for which licenses could be issued was in the range of $250-$300 million in foreign

exchange

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exchange costs. These plants generally fall into two categories, the first group ranging in value from $20-$30 million, and the second group from $80-$100 million. He asked Mr. Sauer to outline the financing that Export-Import Bank was able to provide.

Mr. Sauer responded by indicating that Export-Import Bank was informed of the discussions the Rumanians were having at the Department of State and the Department was aware of what Mr. Sauer was going to propose to the Rumanians. He said there were two conditions which would have to be fulfilled before the Bank could do anything by way of guaranteeing sales of equipment to Rumania. First, the Bank would like to have answers to the questions regarding Rumania's trade and financial position which had been presented at the meeting on May 21 by Mr. McLaughlin. Second, President Johnson would have to make a determination that EXIM Bank guarantees with respect to the export of US industrial products to Rumania are in the national interest.

Mr. Sauer then made the following points:

1) Assuming the above two conditions are fulfilled, the Bank is prepared to entertain requests from Rumania for credit guarantees on industrial products on a case by case basis. He said he was thinking of cases in the first of the two groups mentioned by Mr. Petri. After Rumanian representatives have had preliminary discussions with US suppliers, the Rumanians should present an outline of a proposed transaction to the EXIM Bank so that the Bank can discuss with them, and, possibly, with the supplier, whether the Bank is prepared to issue a guarantee for the transaction.

2) If EXIM Bank decides to participate in a transaction, the Bank will enter into an agreement with the State Bank of Rumania which will set forth the terms of the financing. The principal features of these terms are the following:

(a) 15% of the contract price is to be paid to the seller prior to delivery of the commodities. This comprises 5% at the time of signing the contract and the remaining 10% at or prior to delivery (progress payments).

(b) Of the remaining 85% of the contract price, the supplier must extend credit for a certain percentage from his own resources and without an EXIM Bank guarantee. Mr. Sauer mentioned 15% of the contract price in this connection and stressed that it was important for both the supplier and the Rumanian representatives to know that supplier participation in financing was required.

(c) Repayment of the 85% balance is to be made in 10 semi-annual installments over a period of 5 years, with the first installment due approximately 6 months after the equipment is delivered in Rumania.

(d) The cost of the guaranteed transaction to the Rumanians would be divisible into two parts. First, the cost from the time the commercial bank agrees to provide the funds and the Export-Import Bank agrees to guarantee up until the time the funds are disbursed to the supplier, and, second, from the time of disbursement of funds to repayment. For the period from the time of the beginning of the transaction to the time of disbursement the Rumanians would pay 1/4 of 1% per annum of the guaranteed portion by way of a commitment fee to the commercial bank which had agreed to put up the funds and a fee of about 1% per annum to the Export-Import Bank for its guarantee during the period involved. Upon disbursement the Rumanians would pay 6% per annum on funds outstanding from time to time. The 6% would cover both the cost of the money from the commercial bank and the guarantee fee of the Export-Import Bank.

(e) All commodities shipped under EXIM Bank financing must be carried in US vessels. Any waiver of this requirement must be negotiated by the Rumanians with the US Maritime Commission.

(f) Insurance and freight charges paid to US firms may be included in the portion of the contract for which credit is granted (85%).

Mr. Petri commented on the request of the EXIM Bank for information regarding Rumania's financial position by saying he wanted to make clear that the Rumanian borrower or guarantor for these credits would be the Rumanian State Bank and that all the resources of the Rumanian state were available to meet this Bank's commitments. He agreed, nevertheless, to supply information regarding Rumania's financial position along the lines requested by the EXIM Bank. Mr. Sauer made clear he understood that the obligations would be undertaken by the Rumanian State Bank but said that EXIM Bank still needed the information requested.

Mr. Petri probed Mr. Sauer to ascertain whether the five year repayment period and the 15% cash payment requirement could be adjusted in a direction more favorable for Rumania. He said that some countries in Western Europe have extended credits for longer duration than five years (from the date of delivery) and that downpayment requirements in some cases were considerably less than 15%. He mentioned a 3% downpayment requirement in a recent purchase from Italy and one of 5% in some purchases from the UK. He agreed with Mr. Sauer that the normal cash requirement for purchase from the UK was 20% but repeated that the Rumanians had secured 5% in some cases.

Mr. Sauer responded that the five year repayment period and the 15% downpayment requirement were not subject to change by negotiation under current policies.

Mr. Petri said that as an engineer he appreciated the high-level of US technology and would desire to purchase equipment from the United States. As the Minister of Foreign Trade of Rumania, however, he had to weigh commercial factors in his decisions regarding the source of purchase. Since Rumanian exports to the US were low, and since there was no immediate prospect of MFN for Rumanian goods, the purchase of commodities in the US would be difficult. However, he said, Rumania would plan to convert into dollars some of its favorable bilateral trade balances with Western European countries in order to purchase from the US. He noted that West European countries did not generally favor this practice although some conversions could be made. He also mentioned that "other resources" of the Rumanian State Bank would be drawn upon to purchase commodities from the US.

It was agreed that Rumanian representatives would meet with Mr. McLaughlin later to provide the information regarding Rumania's financial position requested by the Bank.

Mr. Lee acted as interpreter during this meeting.

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