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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

RECENT DEVELOPMENTS IN COMECON (COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE)

Note by the United States Delegation

Activity in the field of intra-bloc economic integration under the auspices of the bloc's Council for Mutual Economic Assistance (COMECON) has accelerated since mid-1962. This paper reviews developments during this period and assesses COMECON's future.

SUMMARY AND CONCLUSIONS

2. In recent years, and particularly since the high-level COMECON conferences in Moscow last June, COMECON has been moving in several directions. New organizational measures, traditionally COMECON's favourite genre, have proliferated, but Khrushchev's call for a unified planning organ with augmented powers appears to have run into strong opposition. Bilateral economic ties - which on their face would appear to be the negation of COMECON's multilateral objectives - are expanding under COMECON sponsorship. Attempts to achieve intra-COMECON specialisation by administrative decree continue, despite their obvious futility, and there has been for the first time an official admission that factories are to be dismantled in one country for transfer to another.

3. At the same time, relatively rational voices are being heard more clearly, insisting that true multilateralism can be achieved only after domestic prices are revamped on a rational basis, providing a basis for calculating realistic foreign exchange rates for intra-COMECON transactions and hence a basis for multilateral clearing of payments. Another group of economists, apparently the majority, concedes that true foreign exchange rates are necessary but believes they can be computed by using artificial domestic prices calculated in the same manner for all countries.

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4. Meanwhile, a limited number of multilateral undertakings - the "Friendship" pipeline, the unification of electric power grids - have been pushed toward completion. COMECON members have agreed in principle to create a pool of railway freight cars which, if established, could significantly improve freight-car use within Eastern Europe.

5. Many factors affect the COMECON equation. The economic and political challenge of the Common Market and the current cycle of economic difficulties being experienced by the USSR and the European bloc countries obviously play important rôles. Other factors include the running debate within the USSR on various proposals for rationalizing the economic system, as well as the Sino-Soviet dispute, which sharpens Moscow's need for ideological and political backing from its European subordinates.

6. The eventual shape of COMECON will depend upon developing economic and political trends within the member countries and particularly the Soviet Union, and upon the USSR's evolving view of the nature of its relationship with the countries in its sphere. Meanwhile, the two important current tendencies within COMECON - growing ties among the European members and the search for true multilateralism - are significant, if disparate, phenomena and will bear close watching.

RECENT DEVELOPMENTS

A. Organizational Activities

7. COMECON's activities in the organizational field have stepped up markedly since the June conferences in Moscow in 1962. The creation at that time of an Executive Committee, composed of high-ranking individuals from the member countries (all are deputy premiers, most are Politburo members), resulted in more frequent high-level consideration of COMECON's problems. The Executive Committee has evolved a pattern of holding meetings of several days' duration at two-month intervals. Published announcements indicate that the Committee has functioned relatively effectively in clearing proposals for formal adoption by the Council. It is obvious that the Executive Committee, backed up by a strengthened permanent Secretariat, is counted upon to revitalize COMECON's activities.

8. The three new permanent commissions (for research co-ordination, standardization and statistics) established in June, and the permanent commission for foreign exchange and finance established in December, have begun their work. The very significant tasks of the foreign exchange commission are described below. The commissions on research and standardization could, if their work is successful, make important contributions on the periphery of COMECON's basic problems. The standardization commission is

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concerned with unifying national industrial standards - for example, tolerances, specifications and testing procedures. The commission will also direct the research work of a newly created standardization institute. The avowed goal is complete interchangeability of component parts of manufactured goods.

9. The tasks of the statistics commission involve a more fundamental problem - the establishment of statistical methodology to aid the search for a mutually satisfactory basis for economic comparisons among member countries. Successful work in this field is essential to any eventual solution of the problem of foreign trade prices and currency exchange rates and to rationalize decisions on specialization and joint investment. A Czechoslovak journal has reported that the recommendations of the statistics commission will be binding on all member countries. It remains to be seen whether the commission, which presumably operates on the COMECON principle of unanimity, will be able to make any meaningful recommendations.

B. Transportation

10. COMECON is currently giving much attention to co-operation in solving transportation problems. The most advanced project in this field is the "Friendship" pipeline, which when completed will carry petroleum from the Kuibyshev oilfields to Poland, East Germany, Czechoslovakia and Hungary. The section of the pipeline from Brody, in the USSR, into Czechoslovakia has been completed and began carrying oil at the beginning of 1962, and the Hungarian leg began carrying oil in September. These sections are delivering oil carried by rail within the USSR to the pipeline terminus. Reports in the Polish press indicate that work on the pipeline is proceeding in Western Poland and is approaching the East German border. Pipeline construction within the USSR apparently faces delays in view of the refusal of many free-world countries to supply large-diameter pipe.

11. COMECON's Executive Committee in December approved a draft agreement for establishing a joint pool of freight cars embracing its European members. The agreement is expected to come into effect on 1st January, 1964 if ratified by participating countries. It is apparently envisaged that about 20 percent of each country's freight cars will be contributed to the pool. Pooled cars can be used domestically (so long as the total borrowed does not exceed the number contributed to the pool) or can be used to ship goods to other participating countries or under some circumstances to Western Europe. A group of experts met in Prague early in April and decided that a railway despatch center for the pool should be set up in Prague, according to a Czechoslovak radio broadcast. The same broadcast indicated that the USSR would participate in the pool but that Bulgaria would not. Soviet participation would pose technical difficulties because of the difference in railway gauge; earlier discussions had indicated

that the USSR probably would not participate. If the pool is actually created, it should contribute significantly to a more rational use of available freight cars in Eastern Europe. A pool of motor trucks and major improvements on intra-bloc highways are also envisaged, but apparently in the more distant future.

12. The December session of the Executive Committee also approved a proposal to create a bureau for co-ordinating ocean freight. The bureau would attempt to protect the interests of member countries on the international freight market by exchanging current information and attempting to extract better terms from noncommunist shippers. It would also seek, by exchanging information, to utilize more fully unused capacity on member countries' ships in order to hold to a minimum the use of noncommunist ships. If the member countries ratify the proposal, the bureau will work under the supervision of COMECON's permanent commission for transport and will have its seat in Moscow.

C. Power Grid

13. The bloc continues to report progress toward its eventual goal of linking the electric power grids of the USSR and the European members of COMECON. In July power was reportedly transmitted for the first time over a new line from the Soviet Ukraine to Hungary, providing a link between the USSR and a unified network already existing in Hungary, Czechoslovakia, Poland, and East Germany. A line is planned between Rumania and Slovakia, and a new line is scheduled for completion this year between Rumania and Bulgaria. A new high-tension line has apparently been completed between Byelorussia and Poland, but it is not yet determined whether this line will feed power into the inter-satellite grid. A central electric power control organization has been established in Prague, thus becoming COMECON's first operating joint administrative organ. The Prague organization will operate a central control panel for directing the international flow of current.

14. The rationale for the unified grid is the savings in required reserve capacity in the individual countries made possible by mutual exchanges where peak loads occur at different times or when breakdowns occur. Outright sales of power are also envisaged, particularly when Bulgaria begins receiving power over the grid. However, as the director of the Prague organization commented in an interview, "the accounting is not simple". The lack of a uniform price basis and of multilateral clearing stymies even the multilateral distribution of electricity on any basis other than exchange of equal amounts of current.

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D. Search for Multilateralism

15. The growing awareness in COMECON of the importance of solving the foreign trade pricing problem and creating some form of foreign-exchange convertibility was demonstrated in Bucharest last December at the 17th session of COMECON and the concurrent meeting of the Executive Committee. At Bucharest it was finally agreed to establish a permanent commission for foreign exchange and finance. It was also agreed in principle to establish a "bank of the socialist countries" which, among other things, would handle multilateral clearing (when and if achieved), and provide short-term foreign trade credits. The bank might also eventually act as a lending bank for joint investment projects.

16. Trade within the bloc has been hampered by the absence of any but strictly bilateral means of payment, and by arbitrary pricing of goods in international trade by unco-ordinated bilateral negotiations. Realizing this, bloc economists have paid lip service to the importance of multilateral clearing for several years. They have also been gradually awakening to the fact that multilateral clearing cannot be brought into existence by decree, but must be preceded by fundamental reforms. As early as 1957 COMECON decided to set up a multilateral clearing arrangement, and as a result a system was established at the beginning of 1958 for voluntary "multilateral clearing" of accounts arising from trade in certain specified commodities. The clearing was supposed to be carried out through accounts in the Soviet State Bank in Moscow, and bloc economists asserted that the arrangement, although at first narrow in scope, could be gradually broadened until it would embrace all intra-COMECON payments. Predictably the scheme failed, and its failure is now acknowledged by bloc economists.

17. Following the COMECON conferences of June 1962, the question of multilateral clearing again began to receive increased attention. The permanent commission established in December is now undertaking to study the complex financial and currency obstacles to multilateralism in COMECON. It met at the end of March, 1963 to discuss a draft agreement for multilateral clearing in "conversion rubles" and a draft charter for the COMECON bank.

18. Current published discussion of these questions by bloc economists emphasizes the difficulties involved and the necessity of basic reforms. Most such discussions begin with the assumption that it is necessary to arrive at realistic exchange rates between the various bloc currencies and the ruble, at least for foreign trade purposes. Divergencies occur, however, over just how to arrive at realistic exchange rates. At least two main tendencies can be detected on this question. One tendency is to seek to calculate artificial coefficients, based on domestic wholesale prices (or costs of production, or a combination of prices and cost of production) of goods which enter into trade, weighted in

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one of a variety of methods, from which could be computed a true rate of exchange between the currencies of the various countries and the Soviet ruble. If this could be achieved, it is reasoned, a foreign trade price structure expressed in rubles could be established and made binding for all intra-COMECON trade, and multilateral clearing in rubles could be facilitated. It is claimed that work has already been done along this line. For example, teams of economists have allegedly made computations for converting Czech crowns into Rumanian lei for the purpose of computing comparative cost indexes. Some economists have apparently argued that it is only necessary to make such calculations on a bilateral basis for all COMECON countries, then use the coefficient for each country's currency against the Soviet ruble in order to establish a set of multilateral indexes for currency conversion. According to a Soviet economist, however, preliminary computations have shown that this leads to "controversial" results. A COMECON working group is said to be at work on the problem of computing coefficients for recalculating currency for comparing costs and prices in the member countries, and is apparently pursuing several means of making such computations.

19. A second school of thought argues against attempting to compute artificial coefficients on which to base foreign trade prices. A Soviet economist has offered two arguments against artificial prices: the computations would be technically very difficult; and, more important, the resulting foreign trade prices would not be used in the domestic economics of the various countries and therefore there would be no "objective criteria" of the correctness of the prices. The same economist emphasized that before the socialist countries can establish an independent foreign trade price structure, they must introduce domestic wholesale prices which more closely correspond to costs. (If this argument were pursued to its conclusion, presumably trade would be carried out under some variation of the "capitalist" principle of comparative advantage - i.e., each country would import those commodities which the new costing and pricing mechanism showed to be cheaper to import than to produce domestically.) It is obvious that this line of argument runs into the tangle of conflicting views among Soviet economists on the question of domestic prices. An editorial in the Soviet journal Voprosy Ekonomiki has commented that "in the price question all the cardinal political and economic problems of the Soviet state intersect." This is undoubtedly true, and it is obvious that unless the Russians solve their domestic price problems there can be no real solution to COMECON's price problems.

20. The bloc press has devoted a great deal of attention to the decision taken at the December session of COMECON to revamp the foreign trade price base now being used as a guideline for trade among COMECON countries. The present price structure which is based on 1957-58 world market prices, is to be replaced as of January, 1964 with a new structure based on average world market prices over the five-year period 1957-61. Some reports of this

decision have given the impression that the new prices would be more rigorously applied than the old prices. A Polish writer has asserted, however, that this interpretation arises from a faulty "editorial formulation" of the announcement, and that in fact actual delivery prices "will always be established bilaterally by the interested countries."

21. A Hungarian financial specialist has proposed that bilateral trade within COMECON could be given an immediate boost by the use of three-year swing credits, rather than insisting that trade be balanced annually as at present. He indicated his belief that multilateral clearing, desirable as it may be, will take years to implement, and urged that in the meantime some means must be found to overcome the limiting effects of bilateralism in trade.

22. An agreement on multilateral clearing of noncommercial payments was signed in early February in Bucharest at the conclusion of a conference of finance ministers of all communist bloc countries, including Albania, Communist China, and the Asian satellites. No details of the agreement have been announced. The conference was not held under COMECON auspices, but the representatives of the COMECON countries stayed on in Bucharest for a meeting of COMECON's permanent commission on foreign exchange and finance.

23. Noncommercial exchange rates among bloc countries have some significance. Unlike the commercial rates, they are actually used in certain transactions - tourists' currency exchange, expenditures of diplomatic establishments, the transfer of royalties and other payments to individuals - which, while relatively small in volume, affect a significant number of individuals. The non-commercial rates are in theory computed on the basis of a comparison of retail prices in the respective countries, but in practice are apparently subject to a certain amount of negotiation. In some cases, noncommercial balances are probably transferred into the commercial accounts (this would be particularly true of countries such as Bulgaria and Rumania, which have constructed resort complexes specifically to attract tourists from other bloc countries.)

24. A few weeks after the Bucharest conference, Poland and Rumania put into effect new noncommercial exchange rates between their currencies and other bloc currencies. The new rates represent a devaluation of the Polish zloty for noncommercial purposes, the extent of devaluation varying from currency to currency. The new rates for the Rumanian lei represent a depreciation against the Czech crown and East German mark and an appreciation against the ruble, the Polish zloty, and the Hungarian forint. The Polish and Rumanian actions are probably related to the Bucharest conference, but thus far no information has been received regarding similar adjustments by other bloc countries. (The Soviet devaluation in 1960 and the Bulgarian devaluation in 1961 affected only commercial rates and left non-commercial rates for other bloc currencies essentially unchanged.)

E. Joint Investment

25. COMECON has seized upon a device loosely termed "joint investment" as a possible means for providing a framework for specialization (particularly in the vexatious extractive industries), even in the absence of a workable multilateral clearing arrangement. As currently described, it can take many forms, and can be on a bilateral or multilateral basis. Typically it would take the form of an agreement whereby one or more countries provide equipment for the exploitation of raw materials in another country and are repaid in kind from the output of the new installation. The advantage such a scheme offers bloc countries, hobbled as they are by lack of a convertible currency, is that each party's inputs and expected return, both defined in physical volume, are tied together in a given project.

26. Such arrangements are not new. Czechoslovakia three years ago undertook to help Bulgaria develop its copper resources on this basis. Czechoslovakia is assisting Poland in exploiting coal, sulfur and copper deposits, and numerous other proposals are being discussed. The USSR recently concluded an agreement with Poland which illustrates one type of joint investment, unusual in that it provides for Polish assistance in developing Soviet raw materials, but otherwise typical. Poland agreed to provide to the Soviet Union over a five-year period, machinery and equipment valued at 70 million rubles under an interest-bearing credit; repayment will be made by Soviet deliveries of potassium fertilizers, beginning in 1970.

27. Another type of agreement, which the USSR concluded with Hungary in November, provided for Hungarian alumina to be processed in the Soviet Union and shipped back as aluminum metal to Hungary. The agreement provided that the alumina and aluminum would be paid for at "world socialist market prices," and apparently no credit is involved in either direction. The Soviet Union probably expects to pay for any required additional investment in the USSR through profits realized from the transactions. According to the Bulgarian COMECON representative, the Executive Committee as of February was working on a multilateral agreement on the joint exploitation of apatite deposits in the Kola Peninsula, in the Soviet Union. He said that Bulgaria would be one of the countries to participate in this venture.

28. COMECON has for some time been wrestling with the problem of finding means for encouraging COMECON countries possessing raw materials reserves to exploit them in order to supply the raw materials to other member countries. Countries which have such reserves complain that the amount of capital which must be tied up in developing extractive industries is out of proportion to the return from such investments, and that therefore they cannot be expected to make such investments on their own. The Poles have

particularly pushed this argument with regard to their coal deposits. The panacea being recommended at the moment is joint investment.

29. Fuel and power problems were apparently in the limelight at the fourth session of COMECON, held in Moscow 15th-21st February, 1963. COMECON's Secretary General, a Russian, in a published interview urged a pooling of efforts (presumably through joint investment) in the production of coal, oil and gas. He referred to the large lignite resources in Poland (and also to various non-fuel mineral deposits in Hungary, East Germany, Czechoslovakia and Bulgaria), and urged the construction of new thermal power stations and hydroelectric power stations on the Danube and Tisza Rivers.

30. A Polish commentator gave the impression, however, that the USSR is asking for assistance in developing its own fuel resources. He stated that the Soviet Union, with 95 percent of COMECON's fuel reserves, will be able to maintain its fuel balance over the next 20 years; in the other COMECON countries, however, there will be a significant deficit. Because of limited fuel reserves and shortages of capital, the smaller COMECON countries must meet their needs by importing. But the Soviet Union cannot be expected to meet these needs in full, since investments in fuel extraction are capital intensive in comparison with investments in manufacturing. Therefore, other COMECON countries will have to help finance the expansion of Soviet fuel production. Since it is doubtful that the satellites can spare large sums for this purpose, this commentator concluded that efforts must be made to reduce energy consumption.

31. Khrushchey has called for the creation of international economic combines on a commercial basis in order to develop raw materials resources. Such combines should, he proposed, have at their disposition a specified share of capital investment in their respective types of production. This proposal would at first glance seem reminiscent of the joint stock companies of the Stalin era, but in fact it is more complex and more potent. Such combines presumably would be on a multilateral basis and would have the power to decide what investments to make and where.

32. Joint investment apparently is not to be limited to the extractive and raw materials industries. A meeting in March of a working group of the permanent commission on light and food industry discussed possibilities of establishing joint enterprises. Eleven factories will be built jointly, according to the press, in various branches: food-processing, textiles, footwear. The working group was scheduled to meet again April to decide on the locations of the factories. The question obviously is not so simple as this press release would indicate. But the Bulgarian COMECON representative has asserted, in an article published in Moscow, that "the first steps are being taken toward establishing an international socialist ownership."

33. Ball-bearing production, which is apparently inadequate to meet bloc needs, is a prime candidate for a COMECON "combine." A conference was recently held to discuss the possibility of reaching an agreement among producers of ball bearings which would involve co-ordination of production, investment, research and marketing.

34. The Poles have proposed extending the principle of joint investment to agriculture and have offered a radical solution to the problem of periodic fluctuations in grain production in Eastern Europe. An article published in a Warsaw economic publication in January cited the grain problem as one which has been treated only peripherally until now, but will have to be solved in the near future. The article proposed "theoretically" that the USSR might designate a section of the "new lands" on which interested COMECON countries might make joint investments (fertilizer is mentioned as an example). The crops thus attained would go into a mutual grain reserve, to be borrowed from in years when the grain harvest in Eastern Europe suffers a shortfall.

F. Specialization

35. Production specialization continues to be cited within the bloc as a principal instrument whereby COMECON will achieve an appropriate division of labor and consequent rise in productivity. Much of COMECON's effort has been devoted to negotiating list of goods to be produced by specific countries. This has been difficult because each country has pursued its own interests in specialization negotiations, and even if ideal conditions of fraternal international-mindedness prevailed, the lack of reliable cost information would make it impossible to arrive at rational decisions as to where a given product can be produced most efficiently. Despite the obstacles, agreement has been reached on many items.

36. COMECON's permanent commission for the machine-tool industry has been particularly active in working out lists of machines to be produced by specific countries. It has also apparently tackled the difficult problem of sanctions to ensure that a country which has undertaken an obligation to produce an item and export it to its fellow members will in fact do so. According to an article in an East German legal journal, the draft "principles of specialization of production in the area of machine tools" (approved by the Executive Committee in July, 1962 but apparently not yet ratified by the member countries) take up this problem. The "principles" are said to provide that after a specialization recommendation is ratified by the country doing the specializing, bilateral agreements must be made within a specified period to implement the recommendation. The "principles" also apparently have a clause whereby the trade organization of the specializing country, if it signs contracts to deliver the specialized item to other countries but is unable to fulfill the contracts on time, must pay a penalty of up to 8 percent of the value of the shipment.

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37. The above discussion of sanctions concerns obligations of the specializing state to produce and export the product in question. There has apparently been little discussion of the other side of the problem, namely how to prevent other countries from going ahead and producing the item domestically for their own use. There have been complaints, particularly by the Hungarians, that plants producing goods under COMECON specialization arrangements have been operating below capacity because of lack of orders from other countries. This is where the function of prices enters the picture. Khrushchev last year urged that more attention be given to "material incentives" in encouraging co-operation and that attractive prices be established for goods produced under specialization agreements. The obvious difficulty is that a price which is attractive to the buyer will not necessarily be attractive to the producer, and vice versa. But Khrushchev may have been closer to the mark when he urged "healthy competition" among bloc producers of consumers' goods.

38. The COMECON countries apparently are trying to push ahead with specialization through administrative measures, despite the formidable economic and political obstacles. A Czechoslovak radio broadcast, in the context of denying alleged Western reports that Czech plants are now being dismantled and moved to other countries, went on to say that in the future some factories will in fact be transferred to other countries. The commentary also acknowledged that there will probably be opposition and resentment on the part of the workers. Nevertheless, it expressed the hope that the process can be accomplished with the utmost speed in order to eliminate the overdiversification which it admitted is causing difficulty for the Czech economy. A segment of the Hungarian radio industry was apparently transferred to Bulgaria some time ago, although it is not clear to what extent this involved an actual transfer of plant facilities. In any case, Hungarian consumers showed so much sales resistance to Bulgarian radio sets that the Hungarian press had to undertake an educational effort.

G. Increasing Ties Among Satellites

39. As COMECON's inability to provide multilateral solutions to the economic problems of its smaller members has become clearer, there has been an increasing tendency to seek refuge in bilateral arrangements between satellites for specialization and division of labor. While this has proved to be the only means of implementing many COMECON decisions, it is debateable whether such an approach will actually further COMECON's long-range goal of economic integration. Furthermore, the tendency toward increased reliance by the countries of Eastern Europe on one another could have serious economic and political implications for the Soviet Union's relations with its East European domain.

40. The most active country in seeking to expand bilateral contacts with its peers has been Poland, which has been particularly assiduous in cultivating arrangements with its neighbors, Czechoslovakia and East Germany. Polish-Czechoslovak co-operation

has a relatively long history, and includes Czech assistance to Poland in developing the latter's raw materials. More recently, Poland and Czechoslovakia have agreed to produce a unified series of trucks and tractors, each country specializing in certain models and certain interchangeable spare parts. The two countries have also agreed to produce jointly automatic telephone exchanges and are discussing co-operation in other fields. The Poles have also suggested possible Polish-East German co-operation along similar lines, for example in the production of ships' engines, machine tools, diesel engines, and motorcycles.

41. The most interesting aspect of the evolving series of bilateral ties among the satellites is the possibility of creating a "northern tier" consisting of Poland, Czechoslovakia, and East Germany. The Poles now speak openly of the desirability of trilateral economic co-operation among these three countries. One article, which appeared in a Polish journal in January, pointed out that the extremely slow development of economic co-ordination activity in COMECON is partially explained by the fact that the level of economic development in COMECON varies widely from country to country. The article then commented: "The situation has become ripe for economic relations between Poland, Czechoslovakia and Germany to develop with particular rapidity in the direction of organizing a specific three-country economic complex. In general, the directives of COMECON can be implemented only through bilateral or trilateral co-operation." A recent interview by the Polish COMECON representative, disseminated by Czechoslovak media, also urged tripartite co-operation.

42. Polish motives for seeking trilateral ties with East Germany and Czechoslovakia are not difficult to perceive: Poland is the least industrialized of the three and probably hopes to receive capital injections from the other two. All three countries might see an advantage in placing greater reliance on each other in order to reduce their individual dependence on the USSR. It is tempting to speculate on the possibility of the creation in Central Europe of a grouping of countries with a combined population larger than West Germany and a combined area larger than France. The facts indicate, however, that there is little economic basis for such a grouping at the expense of Soviet involvement unless there were a major political reorientation of the "northern tier" toward the West. The USSR supplies to these countries important raw materials and semi-manufactures (coal, POL, iron ore, pig iron, rolled steel, cotton and grain) in return chiefly for machinery and equipment and other manufactured goods. There is little opportunity for the three countries to replace the Soviet Union in their trade with each other; only free world countries could replace the USSR as a supplier of many of these items. By constructing the "Friendship" pipeline, the Soviet Union is further reinforcing its monopoly position as a supplier of petroleum to these countries, and economic ties between East Germany and the Soviet Union have grown to the point where the arrangement is referred to as an "economic community."

H. Disagreements Signalled

43. Whatever else it may be, COMECON is evolving as a product of compromised disagreements. But the disagreements that can be compromised concern specific conflicts of economic interests, which are subject to bargaining. A more significant area of disagreement appears to be emerging, however, concerning the small amount of autonomy retained by the East European regimes.

44. The disagreement apparently centers upon Khrushchev's proposal last November for the creation of a "unified planning organ" staffed by persons "empowered to formulate common plans." Khrushchev called for an early meeting "at the highest level" of representatives from the COMECON countries "courageously" to carry out his proposal. Spokesmen for the East European regimes subsequently expressed support for Khrushchev's proposal, but the projected high-level meeting has not thus far materialized. Despite the public endorsements, there are indications that Khrushchev's proposal was coldly received in the COMECON countries. The Bucharest session of COMECON in December considered the proposal, but differing views apparently emerged and nothing was decided. At the time of the fourth session of the Executive Committee in Moscow in February, the Soviet press several times reiterated Khrushchev's call for a high-level COMECON meeting and the need to establish a unified planning organ. The press also reported that Khrushchev received the Executive Committee, and it seems likely that his proposal was discussed. The announcements at the end of the session were very low-key, however, and gave no indication of any forward movement on the Khrushchev proposal.

45. A new planning organ was in fact created following the June conferences last year, but little information has been provided regarding its activities. It is called the "Bureau of Planning Questions" and it is subordinate to the Executive Committee. Charged with studying the 5-year and 20-year plans of member countries while still in the tentative stage, the "Bureau" presumably is supposed to make recommendations for bringing each country's plans into accord with other countries' plans and with COMECON objectives.

46. Co-ordination of national economic plans has long been cited as one of COMECON's main objectives, but it has always been obvious that such co-ordination was a paper exercise without any significant effect upon each country's formulation of its plan. Genuine unified planning implies supranational control of economic planning and thus impinges on the principle that COMECON decisions are not binding on individual countries except when enacted into national law.

47. A meeting of the top leaders of the COMECON countries will probably be held this summer, and Khrushchev's proposal will probably be considered. It will be surprising, however, if it is accepted in anything but a watered-down version.

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48. Rumania displayed unusually explicit signs of disagreement following the most recent Executive Committee session in Moscow in February. A four-day plenum of the Rumanian Workers' Party Central Committee heard a report by the Rumanian COMECON representative and approved both "the instructions given him" and "the way he carried them out." The announcement following the plenum also made a gratuitous reference to "respect for national independence and sovereignty" in COMECON's activities. All this adds up to the possibility that Rumania feels its interests are somehow being infringed by COMECON. The announced principal topic at the Moscow session - the fuel and power situation - suggests that perhaps the Rumanians are upset because they were asked, for example, to give Bulgaria increased assistance in developing its newly discovered petroleum reserves, or to pay more than its share in developing hydroelectric power installations on the Danube. It is also possible that Rumania was asked to cut back on certain pet projects. The COMECON Secretary General, in an interview following the Moscow session, suggested possibilities for joint exploitation of raw material reserves in every country but Rumania, which suggests that Rumania may be under pressure to pay for developing its own resources (or perhaps that Rumania rejected proposals for multilaterally-controlled operations in Rumania). It is also possible that the cause of the Rumanians' apparent unhappiness stems from some other topic discussed at Moscow but not publicized.

I. Non-Member Attendance

49. Communist Chinese observers continue to attend occasional sessions of COMECON's various permanent commissions on an erratic basis. Since 1st January, Chinese observers have attended sessions of the nonferrous metallurgy commission in Budapest, the economic commission in Moscow, and the agricultural commission in Sofia. North Korea rarely has sent observers in recent months, but North Vietnam has been more regular. Mongolia, COMECON's newest member, does not attend all commission sessions, apparently restricting its attendance to those sessions whose work has some relevance to Mongolian problems. Albania has ceased participating in COMECON functions, although no formal action revoking its membership has been announced.

50. Cuba has sent observers to two sessions of the new commission on standardization, apparently taking advantage of the provision adopted by this commission that any "socialist" country can participate fully in its proceedings whether a member of COMECON or not. Yugoslavia, despite the thaw in its relations with the Soviet Union, has not thus far resumed the practice followed in 1956 to 1958 of sending observers to COMECON meetings.

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