22nd October, 1975 POLADS(75)26

MEMORANDUM

To : Members of the Political Committee

From : Acting Chairman

COMECON: Implications for Eastern Europe

Members of the Political Committee will find attached a paper, prepared by the Economic Directorate, on the above mentioned subject. This note will be on the agenda of the next Political Committee meeting.

(Signed) Edward L. KILLHAM

NATO,
1110 Brussels.

ORIGINAL: ENGLISH
14th October, 1975

ED/EC/75/71

To: Members of the Economic Committee

From: Chairman

Subject: COMECON: the implications for Eastern Europe

On 18th July, 1975, the Economic and Political Committees were invited to examine the political consequences of economic developments in Eastern Europe and the USSR, and to assess their importance for the Alliance. With this in mind, the Economic Directorate has prepared the following two attached documents:

(a) A synthesis entitled "Recent Economic Developments in Eastern Europe (COMECON). This basic paper may be considered as an initial draft of the document to be prepared jointly by the Economic and Political Committees and forwarded to the Council.

(b) A more detailed analysis: "COMECON: the implications for Eastern Europe" prepared by the Economic Affairs Directorate and intended as an annex to the document to be sent to Council. This analysis examines the recent evolution of economic relations between the USSR and its East European partners and assesses the mutual quid pro quos deriving from these relations.

2. In accordance with the wish expressed at the Economic Committee meeting of 9th October, delegates are urgently requested to elicit all possible additional information from their capitals which could complement the data contained in the detailed report at annex. Information is especially sought on price details for Soviet oil/raw materials to Eastern Europe, the scope of East European involvement in Soviet development projects inside the USSR, and possible East European military transfers to the Soviet Union.

3. The two attached documents will be examined at the next Economic Committee meeting on 16th October. Following their approval, they will be transmitted to the Ad Hoc Working Group comprising members of the Economic and Political Committees established to prepare a summary report for transmittal to the Council.

(Signed) J. BILLY

RECENT ECONOMIC DEVELOPMENTS IN EASTERN EUROPE AND INTRA-COMECON RELATIONS

Study of the economic consequences of the latest developments

Introduction - General pattern of COMECON -USSR relations

1. COMECON is an important instrument of Moscow's economic imperialism vis-à-vis its allies. This imperialism is based essentially on the Soviet Union's economic power, its vast resources of raw materials, the strict system governing domestic economic and trade planning in the East European countries and the integration of these countries in a politico-military complex dominated by Moscow.

2. The Soviet hold over its allies has been further increased by the complex integration plan which was introduced in 1971 and will be strengthened in the course of the next Five-Year Plan through a new price system, the obligation to invest more in the harnessing of Siberian natural resources and the establishment of specialized multi-national enterprises working mainly for the benefit of the Soviet Union.

3. This economic integration policy is, however, encountering some resistance from the East European countries. The example given by Western Europe, the need to take account of consumer needs and the desire to improve productivity led to a reaction away from the centralized economic system and towards neo-reformism. A further indication of attempts to safeguard some degree of economic independence can be seen in the efforts to conclude bilateral trade and technical co-operation agreements with the West. The least enthusiastic over Soviet institutional arrangements would seem to be Poland, Hungary and Romania.

4. The prospect of more East-West trade and of negotiations between the EEC and COMECON have led the Russians to tighten their hold on the latter and to organize it into as monolithic a bloc as possible vis-à-vis the outside world.

5. The rise in world prices of basic commodities and the recession in the West which jeopardized any chance of balancing the East European countries' trade with the market economies, gave the Soviet Union an opportunity early this year to strengthen its economic position in relation to these countries.

I. Recent events

6. In the West, the rise in the cost of energy (and its effects on other prices) has led to an increase in the cost of

East European imports from the West. At the same time, the world recession has had a curtailing effect on their exports to the West.

7. The Soviet Union took advantage of the fall-off in trade between the West and Eastern Europe to push up the cost of its oil and basic commodity supplies to its allies, contrary to the planning system which had been in force until then. Since January, 1975, the new intra-COMECON price system has worsened Eastern Europe's terms of trade with Moscow (increase in the cost of energy and raw materials). It is estimated that the Soviet Union will benefit to the tune of between 1.5 and 1.8 milliard dollars for the year.

8. Although these prices have been hiked - about threefold in the case of oil - they are still well below world prices (some 40% for oil). This is explained by the Soviet Union's desire not to cause too great a deterioration in the balance of payments position of these countries in their dealings with it and not to push up production costs in Eastern Europe too sharply since to do so would undermine the price system and diminish the consumers' purchasing power, with the risk of discontent and social unrest of the type experienced in Poland in December, 1970.

9. The rise is, however, fairly big and is calculated to have a deterrent effect on domestic consumption and, consequently, on imports of oil and raw materials by these countries from the Soviet Union. It has to be remembered that the Soviet Union, in addition to supplying Eastern Europe with oil and basic commodities at well below world prices must:

(i) meet its own development requirements with what are still scanty resources;

(ii) export oil and other raw materials Westwards to earn hard currency and obtain technological know-how;

(iii) compete commercially and politically with the West by making its presence felt as an exporter of basic commodities.

It has thus been necessary to strike a balance between these different demands and this partly explains the rate of price increases finally decided on; at the same time the problems connected with the opening up of Siberia (the remoteness of deposits, the high infrastructure costs and Western reluctance to finance development) has led the Russians to force their allies to participate, in exchange for reliable supplies at below world prices.

10. By way of partly, but by no means fully, offsetting the financial burden arising from the increase in the cost of its partners' imports, the Soviet Union has authorized a rise in the price of the manufactured goods it imports from Eastern Europe. As a result, the terms of trade, and the possible balance of payments deficit of the East European countries, should not be as bad as they might have been.

11. In addition to price changes, the new agreements include the granting of soft loans, the carrying over of any trade surpluses from one year to the next to the benefit of the Soviet Union and possibly transfers of gold at lower than market prices. It is, however, difficult to make an accurate estimate of what these respective advantages are worth.

II. The economic (and perhaps political) consequences of the new situation

12. The new arrangements affecting trade between the Soviet Union and Eastern Europe entail both advantages and drawbacks for all the countries concerned.

13. On the Soviet bloc side:

In the light of the foregoing analysis, the consequences for the Soviet bloc of recent developments will probably be as follows:

USSR - Advantages: dominant position reinforced; tighter control over the economic development of the East European countries and ability to draw on their investment funds;

Drawbacks: drop in availability of energy and raw materials; stopping of exports of basic commodities to the West and increase in the price of imports from other COMECON countries.

EASTERN EUORPEAN COUNTRIES

Advantages: reliable supply source, comparatively low cost of basic requirements, opportunities to develop their technology within the specialized enterprises;

Drawbacks: deterioration in the terms of trade with Moscow and the West; slower growth rate (around 0.5% to 1% a year depending on the country) with the possibility of a drop in living standards, greater indebtedness, which strengthens the Russians' hold; part of the capital goods, some of which are imported, will be contributing to Soviet economic development.

14. The Alliance side

The Alliance cannot remain indifferent to recent COMECON developments and signs of closer integration of the USSR and its partners within this organization. A shift in the terms of trade and the fact that the East European countries have become greatly dependent on the Russians for their basic commodities have strengthened Moscow's economic sway over the disparate COMECON grouping. There are a number of questions which will have to be answered in the light of the development of international economic relations:

Strengthening of the Eastern bloc

(1) Because of its increased cohesion, will the "Eastern bloc" become in future "a focal point for development" centred on the Soviet Union? Is the bloc really united, or has it its weak points? Are discriminatory policies the West indulges in vis-à-vis the Soviet Union and its satellites still economically (and politically) conceivable?

(2) Is it likely that Moscow will allow the East European countries to enter into bilateral contacts with Western Europe (as part of negotiations with the EEC, for instance)?

(3) Will the East European countries be able to defend their national interests in international fora or will Moscow use its tighter economic hold to prevent them from doing so?

The economic and financial future of Eastern Europe

(4) The situation of the East European satellites has worsened as regards (i) their growth rates (ii) the balance on their external account and (iii) their foreign exchange assets. What solutions are they likely to choose? How will they go about safeguarding their threatened growth rates? Will they turn increasingly towards the Soviet Union, thereby reinforcing the role of the ruble and giving a fresh dimension to the question of its transferability? Or are they more likely to turn to the Euro-currency markets? Will they combine both policies and, if so, how? If the last two assumptions are correct, what would be the best policy for the Alliance?

(5) How will the Soviet Union on the one hand and the East European countries on the other seek to benefit

from the prospects for East-West trade stemming from the Helsinki conference?

The Soviet Union and the North-South negotiations

(6) What role is the Soviet Union likely to play in the future in negotiations between producer and user countries of oil and raw materials? Will it gradually become a third partner?

Political advantages for the Soviet Union

(7) In more general terms, what political advantages can the Russians extract from what is for them a very favourable shift in the balance of power between themselves and the East European satellites? How will they use these advantages as COMECON "big brother" and in their dealings with the West?

ANNEX I to
ED/EC/75/71

COMECON: THE IMPLICATIONS FOR EASTERN EUROPE

INTRODUCTION

1. Since the adoption in 1971 of the Comprehensive Programme on "Further Co-operation and Economic Integration" of COMECON, the Soviet Union has made slow but unequivocal progress towards realising its blueprint of a Soviet-controlled economic area throughout Eastern Europe. This of course has been rendered easier by the economic disproportion between the USSR and its East European partners as well as the political dominance exerted by Moscow over its allies.

2. The extent to which the East European countries consider their membership of COMECON a privilege or a heavy economic burden is now acquiring significance in both economic and political terms as three additional factors enter the scene:

(i) the new intra-COMECON price policy introduced in January, 1975;

(ii) the growing number of "integration projects" on Soviet territory, e.g. the Orenburg pipeline, and East European investment in the exploitation of Soviet raw materials;

(iii) the increased importance of "multinational specialisation enterprises" (e.g. Interatoministrument; Interkhimvolokno; Interatomenergo, etc.) in providing R and D for the Soviet Union.

These factors, moreover, are now operative in a very disturbed economic context - that of the current recession and inflation in the West which are having an effect on East-West, indeed on world trade.

*

* *

I. NEW ECONOMIC FACTORS IN THE COMMON CONTEXT

A. The Price System

3. Since January, 1975, the Soviet Union, in the light of changes occurring in the world commodity markets, has raised the prices of many of its exports - particularly selected raw materials and energy resources - to its East European partners. This unexpected decision reflecting both the new OPEC price pattern and world-wide inflation conflicts with previous intra-

COMECON agreements; it may represent a greater Soviet awareness of the need to realign prices realistically. Although Moscow feels that the gap between its export prices to COMECON countries and world market prices is still quite large in favour of the latter, the USSR cannot close this gap entirely as this measure would deprive it of political leverage which it needs to enforce integration more rapidly.

GENERAL ASSESSMENT

Advantages for Eastern Europe

4. While the impact of the price increases will vary from country to country, it is clear that few concrete advantages will accrue to Moscow's East European partners. Little information is available on price hikes of raw materials apart from oil (+120%-140%) but the price of the latter will still remain below current world market levels for the foreseeable future. The blow is further being softened by an upward revision of the prices of industrial and consumer goods sold by Eastern Europe to the USSR, although it is not believed that these increases will in any way offset the new financial burden created for the Eastern countries.

5. Given the growing indebtedness of the Eastern countries towards the West (estimated cumulatively to be at least $8 billion since 1970), the USSR could have eased the burden by maintaining its low prices or at least by only passing on the marginal costs of new Soviet oil production in the high-cost areas of Siberia. Still the Eastern countries are being somewhat protected price-wise in the oil sector as stated in paragraph 4. by the upward price revision of certain East European exports to the USSR and the extension of Soviet credits via the International Investment Bank (IIB) (details not available). Presumably as a counter-service for such credits, the East European countries will now be required to make investment resources available to help develop Soviet raw materials. While no data are at present to hand on the variations in such investment costs, these will most likely be based, among other factors, on the individual country's investment effort as well as on its politico-economic status within COMECON.

6. Of course, it must be assumed that Soviet credits will be made available throughout the Eastern countries not merely to avoid the kind of unrest that produced the December 1970 Polish protests, but additionally to further raise the indebtedness of the East European countries, a factor that can only assist Moscow ultimately in its political objective of closer integration.

7. Finally, it may be anticipated that the Soviets will rapidly also readjust intra-COMECON prices to ensure that their

allies do not pay either above or at world levels and concurrently to avoid the risk of national discontent.

Disadvantages

8. The new Soviet price increases have clearly arrived at a bad time for the Eastern countries. Moreover, these countries have apparently almost exhausted any possibility of extensive growth. To modernise their economies, all the Eastern countries need rapid evolution which can only be realised by importing high technology, know-how and sophisticated machinery. Their economies are suffering from the burden of spiralling Western prices, the more so as since 1970, with the exception of Bulgaria and Czechoslovakia (where trade with the West has hitherto been given a low profile for political reasons), the other Eastern countries have significantly increased their share of imports from the industrial West.

9. It would seem therefore inevitable that the new prices will produce a change in the terms of trade to the disadvantage of the Eastern countries, thus increasing their dependence on the USSR and representing a considerable real cost to the Eastern economies. US experts rate the deterioration in terms of trade vis-à-vis the USSR as follows over the next Plan period (1976-1980) on an annual basis: Hungary: 11%; Czechoslovakia: 20%; Poland: 16%; Bulgaria: 7%; Romania: 2%. Naturally the net effect for each country will depend on the import and export product mix.

10. To maintain a given volume of trade with the USSR, Eastern Europe will probably be forced to divert exports from the West in the medium-term to the USSR and thus sacrifice much-needed imports from the West. Calculating the medium-term deterioration of the East European terms of trade vis-à-vis the USSR at ± 12% and total Soviet exports towards its Eastern partners in 1974 at some $15 billion, all things being equal, the 1975 deterioration for Eastern Europe could be of the order of $1.8 billion. As a result, technological progress will be curtailed and economic growth is likely to be decelerated, while living standards will also be adversely affected.

IMPACT BY COUNTRIES

11. The impact of the above-mentioned deterioration annually over the period 1976-1980 can also be expressed quantitatively by relating the changes to the GNP size in the countries involved.

(a) Hungary: trade with the USSR is about one-third of Hungary's total trade which equals around one-fourth of its GNP. Here the impact of the terms of trade downturn would be equal to almost 1% of GNP. Although not sufficient to point to an absolute decline in economic activity, the result could affect considerably Hungary's growth and development. A Financial Times report dated 11th September reported a Soviet-Hungarian protocol on co-ordination of the next Five-Year Plans of the two countries which provides for a 40% increase of two-way trade with Hungarian imports of oil and other fuels rising by 60% compared with the current Plan period.

(b) Czechoslovakia: again, the impact would seem to be far from negligible with a 1% decline in GNP, slightly higher than for Hungary and the most serious in the bloc, due to the fact that oil accounts for a relatively high proportion of the country's imports from the USSR - 17% in 1974 - the largest share for any Eastern country.

(c) Poland: experts assess the Polish drop in GNP at 0.5% largely a reflection of the fact that this country's trade with the USSR equals only around 8% of GNP. Additionally, Poland's ample coal resources could feasibly permit a reduction in the currently substantial amounts of oil which Poland imports from the USSR. The country also has considerable copper and sulphur deposits for export which, along with the coal, could attenuate the impact of balance-of-payments problems. The indication is that it will be increasingly difficult for Poland to balance its trade with the USSR during 1976-1980 especially in view of that country's ambitious growth programme(1).

(d) GDR: this country's trade with the USSR as a percentage of GNP is a little more than 5%. However, because the deterioration in East Germany's terms of trade with the Soviet Union will probably be relatively large - about the same as for Hungary, the future deterioration ratio to the size of GNP is assessed at about 0.7%(2).

(1) As regards the next Plan period, on a number of occasions this year the Polish leaders have clearly told the nation that the national income will grow by 40-42% (i.e. an average of 7% a year) as against 62% during the preceding Five-Year Plan (i.e. 10% a year). Salaries, which reflect the standard of living, will reportedly increase by 16-18%, that is about 3% a year or half the average rate of growth of the last five years

(2) Vestnik of 7th October, 1975 reports an agreement whereby the GDR will supply the USSR with chemical/metallurgical complexes over 1976-1980 in return for improvements in GDR fuel/energy supplies. The GDR will also install plant on Soviet territory as payment for additional energy supplies

(e) Bulgaria: apart from Romania (see below) the impact of the price increases will possibly be felt least in Bulgaria, the most "integrated" of the USSR's partners. One reason is that manufactured goods, for which the Soviets are boosting their prices very little, account for a relatively large share of Bulgaria's imports from the USSR. Further, farm produce, for which it is reported the Soviet Union has agreed in principle to pay higher prices (to Hungary also) represents a large share of Bulgaria's exports to the USSR. Still trade constitutes a sizeable percentage of this country's GNP - over 20% - and commerce with the USSR totals around 50% of Bulgaria's total trade. Consequently even the slight decline in the terms of trade anticipated for Bulgaria could well turn out to be a significant fraction of its GNP, probably around 0.2%-0.4%.

(f) Romania: the effect of the new price increase in relation to GNP is considered as minimal in the shorter-term, primarily because the country is more self-sufficient in energy than the other Eastern countries, it imports no oil from the USSR and it may now benefit from its new MFN status granted recently by the US.

12. Obviously with their centrally planned economies, the East European authorities need not pass on all the price increases directly to the consumers. Nevertheless the greater indebtedness towards the USSR over the next Plan period means additional funds which must be found at the expense of domestic investment growth, already cut by East European contributions to Soviet projects, or deferred wage increases, or through cuts in public expenditure. In any case the differences between East European and Soviet living standards (the former in general are higher at present than the latter), will most probably be somewhat reduced in the medium-term as the Eastern countries experience slower growth, and the USSR, by virtue of its raw material base and ability to procure Western technology is able to maintain its growth rate and thus consolidate its economic and political hold on the area(1).

B. Current and future East-European development of Soviet resources

13. Joint investments for the development of natural resources or the building of plants is no new phenomenon within

(1) US estimates of per capita GNP for the USSR and the East European countries in 1974 are $2,185 and $2,572 respectively. However, these indicators may be misleading in that they do not reflect the wide regional differences in living standards in certain of the East European countries and especially in the USSR

COMECON. What is new about recent seemingly future practice is the growing magnitude of the investments provided on credit and the much more varied forms they are taking(1). In the past the East European countries co-operated with the USSR within the Integration Programme primarily by supplying investment goods. From now on their contribution will be increasingly supplemented by actual participation in the construction of a project, sometimes sending their own workers and specialists to the USSR for that purpose.

14. Ultimately, such joint investments may however be viewed as a logical economic step by the East European countries in that for most of them (possibly with the exception of Poland and Romania), such investments would be inevitable anyway to ensure reliable and stable supplies of vital raw materials, and capital inputs required for this outside COMECON could well have been far higher than will be the case inside the organization(2).

Financial aspects of East European involvement

15. With all the Eastern European countries already spending up to 30% or more of their national income on investments, the additional funds required for joint COMECON projects is a burden of some magnitude on top of that already imposed by the change in the terms of trade and their shares of investment requirements financed through the Investment Bank for Economic Co-operation (IBEC).

16. It can be anticipated that most joint projects planned or under way will in part require Western equipment, purchase of which must be shared by the Eastern countries. An unequivocal example is the Orenburg project, where much of the equipment will have to be purchased from the West which will constitute a considerable financial as well as a manpower resource burden on the Eastern countries.

17. When most long-term credits are provided by one country to another, some reduction of domestic investment capacity is usually entailed, especially when an acute shortage of capital exists as is generally the case with Eastern Europe. Re-financing of credit may help to reduce at least the apparent size of the problem, but the capital-exporting countries, i.e. the Eastern countries providing development credits to the USSR, must then find their own creditors. The resulting "arbitrage" in credit

(1) For example Appendix C to AC/127-D/514 contains a list of Czechoslovakia's participation in such projects
(2) See Annex II for information on the much publicised Orenburg gas pipeline (1,700 miles) from the southern Urals to the Soviet-Czech border

terms may well be to the disadvantage of the East European countries, since relatively low interest rates are usual in intra-COMECON dealings and the re-financing of non-convertible currency loans via the Euro-currency market is highly improbable.

18. In other words the growing diversity of East European investment in the USSR raises serious problems of commensurability: how are the values of these disparate forms of investment to be converted into or recalculated in terms of the transferable ruble? Expenditure actually made in various non-convertible national currencies, wide differences in pricing practices, different approaches to methods of determining wages and costs, the "intrusion" of market-determined elements from the West - all these factors will have to be harmonised into a consistent entity and the burden will ultimately be that of the USSR's Eastern partners. The larger this burden, the easier it becomes for Moscow to control and influence its partners.

C. COMECON multinational bodies

19. Production specialisation is a relatively recent addition to COMECON's range of methods for achieving closer integration. The problem is complicated by the differing economic and industrial levels and government objectives in the various East European countries. Romania, Bulgaria and Hungary, for example, wish primarily to strengthen their industrial base and consequently are not keen to accept any significant degree of specialisation unless it brings them relatively quick economic returns. Other impeding factors include the persistent lack of common technical standards and economic criteria which would allow individual members to evaluate the relative profitability of such projects. Nevertheless, under pressures from Moscow COMECON has developed a number of organizations to promote specialisation and R and D, and to encourage intra-bloc co-operation(1).

20. While little is known of the activities of these and other socialist "multinational" enterprises, it is clear that all may make a substantial contribution to the Soviet defence sector as well as providing R and D to key civilian branches of Soviet industry. Whilst the participating member countries will clearly derive some advantages for use at national level, as with the joint ventures described above (B), it is evident that what Moscow's partners transfer in terms of R and D, new technological processes or advanced machinery to the USSR, may be reimbursed by the USSR at a later date, frequently unspecified, once the fruits of the R and D have been applied, but this represents a very real burden in that the East European participants have no choice ultimately as to the destination of their R and D input.

(1) See Annex III

II. ADDITIONAL PRESSURE FACTORS

21. In addition to the three elements outlined above, other factors both very recent in origin or long-standing may also become of crucial importance in Moscow's efforts to achieve a greater degree of hegemony. These include:

(a) US grain for Soviet oil: in recent weeks the feasibility has been discussed of the USSR agreeing to import between 5 and 15 million tons of US grain over a number of years (a minimum of five years is suggested). It has been reported that the US has suggested Soviet oil sales to the United States as part of any new deal. Should this goal be realised, even with the small amounts of oil probably called for by the US, the USSR could well be obliged to accelerate its demand to its East European partners to intensify their investment in Siberia's oilfields, in order to meet both commitments to the US and, concurrently satisfy the oil needs of its allies throughout COMECON(1). Some of the US grain purchased for Soviet account could well be re-exported to the Eastern countries, which especially in 1975 are reporting poor harvests (e.g. GDR and Poland).

(b) COMECON currencies: during the period 1976-1980, it is a COMECON intention to establish the pre-requisites for a single exchange rate for each COMECON country's national currency; the date for the actual introduction of this single rate is to be determined soon afterwards. It should be recalled that currently the "transferable" ruble is merely an accounting unit devised to enable COMECON members to balance their trade multilaterally, and whose parity in relation to national currencies has not been defined. Each COMECON member has an account in transferable rubles with IBEC in Moscow, utilising it to balance commercial exchanges with other members. In other words, the IBEC acts like a clearing house, centralising all operations, and enabling multilateral settlements in transferable rubles.

(1) In addition to Hungary's increased oil and other fuel needs over the next Plan period (see (a) page 3), Poland has reported that it will receive over a million tons more oil from the USSR in 1976 and Czechoslovakia has announced a 43% increase in oil and power deliveries from the USSR over the present Plan period during 1976-1980

This system which is theoretically adapted to the needs of an economically sealed and fully centralised complex has, in fact, turned out to be clumsy and disadvantageous. The transferable ruble as an accounting unit merely reflects the exchange of goods and is neither convertible in any COMECON national currency nor in that of any third nation. Not only does bilateralism tend to isolate in practice intra-COMECON trade from the remainder of the member nations' economies, it also hinders external COMECON trade.

(c) COMECON pricing: prices in transferable rubles are set by mutual agreement on the basis of "world prices from which the noxious influence of cyclical factors characteristic of the capitalist market" have been eliminated(1). In fact this principle has not been adhered to: prices are based on world levels of an earlier period (primarily 1964 price levels) and so have little to do with current world rates - a difference which became especially marked in the case of raw material prices in the period 1973-1974 and which partially explains the upward revision in 1975. In other words, the current imperviousness of the system isolates COMECON national prices arrangements which bear no relation to those operative on world markets.

24. Clearly until COMECON goods are allowed to be exchanged freely from one country to another it is hard to see how the ruble can become truly transferable. Unfortunately for the Eastern countries, the USSR is so much less concerned with external trade than its COMECON partners (Soviet foreign trade: 5% of GNP, compared with around 30% of GNP for the East European countries) that for Moscow commerce and exchange matters have a relatively low priority, apart from the marginal although important need for Western advanced technology.

*

* *

III. COMECON INTEGRATION: CONSEQUENCES AND FORECAST

(1) Overall trends: in the shorter term, it would seem that most developments within COMECON, i.e. specialisation, finance or trade, will continue to be worked out bilaterally between the USSR and its partners. On the other hand, the problems raised by the new pricing

(1) Section 4, Article 28 of the Complex Programme
(2) Presumably more detailed information on the impact of the new pricing system will become available at the start of the next Plan period (1976-1980)

system, the pressures on the East European countries to invest more actively in the USSR, the problem of internal currency prices, and of course national frictions will all contribute to impeding the attainment of Moscow's goal of economic integration in the foreseeable future.

(2) Living standards: confronted with the greatly increased import costs from both the West and the USSR, there will be a need for far tighter efficiency in planning if living standards are not to fall to those of the Soviet Union. This need is already being felt and reflected in a higher degree of central control in such areas as imports and investments - all to Moscow's satisfaction. Indeed, there may be an inevitable longer-term rapprochement of Soviet-East European living standards due to the slowdown in East European growth and the concurrent slow but steady upturn in Soviet standards, despite the obviously wide regional differentials in the USSR both in terms of social conditions and in income - for example, indices established for earned income in 1973 (USSR = 100) varied from 65 for Azerbaidzhan to 128 for Lithuania(1).

(3) Planning: on the other hand, the COMECON drive towards closer integration of planning is also giving management broader decision-making powers aimed at greater profitability. The COMECON trade price system will almost certainly be restructured in the medium-term with the aim of stimulating production and boosting exports to the West.

The thrust towards integration nevertheless calls for considerable conformity in planning procedures and economic practice, and as Moscow's influence grows within the bloc, the chances seem diminished for the type of national economic experiment that characterised the 1960s in Eastern Europe.

(4) COMECON's external image: it is in external COMECON policy where the USSR would like to reflect the image of an internally integrated COMECON speaking to the outside world. Again the Romanians fear that this voice would inevitably not speak for the special interests and needs of the less developed COMECON members: hence the Romanian resistance to supranational contacts unless supplemented by national ones. Romania

(1) cf footnote (1), page 5

tends now to find itself isolated in its opposition to tighter Soviet control and may well be forced to accept some form of compromise.

(5) The Romanians remain the outsiders to some degree, although it is ambiguous why Moscow permits this. The Romanian fear is the realistic one that however equitable Moscow's integration plans may be in theory, the disparity of economic strength between the Soviet Union and its East European partners could and in the longer-term probably will lead to their being woven into a fabric of total economic dependence on the USSR, whereas the converse is unimaginable.

(6) Armaments: although little data are available on the armaments sector, the extensive co-operation envisaged in the next Plan period in most branches of civilian engineering is bound to include R and D in a number of fields which relate to defence needs. There is every reason to assume that the Soviets will continue to exploit the armaments output potential of their COMECON partners increasingly over the next five years, especially in an attempt to ease the burden from the Soviet Union's own military sector.

*

* *

The aggregate data presented in this brief report on COMECON's evolution unequivocally indicate that the six European COMECON partners of Moscow (i.e. including a very reluctant Romania) will continue to be forced into a tighter economic dependence on the USSR. In view of the overwhelming dependence of the Eastern countries on Soviet energy and raw materials, the USSR emerges increasingly as the main beneficiary within its bloc.

THE ORENBURG PIPELINE PROJECT

When completed the pipeline will enable the Soviets to continue to meet the greater part of East European requirements. All six Eastern countries will be involved, over 25,000 skilled and semi-skilled workers will reportedly be employed in the USSR on the construction, and each country is responsible for financing its own contribution.

The Orenburg gas pipeline project has been praised throughout COMECON as a model of international co-operation and integration within the bloc. The project presents certain characteristics which will probably typify other such joint ventures. These include:

(1) the East Europeans' need for dependable energy (raw material) source;

(2) the Soviet Union's possession of a hitherto undeveloped source;

(3) East European investment in the development of Soviet resources with repayment to be made by future deliveries from them;

(4) large-scale direct involvement of foreign nationals in work on Soviet soil.

The form in which the "integration" aspects of the Orenburg project are achieved in the COMECON context are essentially a series of bilateral co-operation agreements between the USSR and the individual Eastern countries; therefore the USSR retains complete control over the project as the common link with a Soviet organ (Soyuzintergastroy) as the supreme directorate for the project.

Other "integration" projects either planned or under way, presumably on the same structural basis and involving all or most of the Eastern countries include:

(1) the Ust Ilimsk pulp combine;

(2) the Kiyembay asbestos mining/enriching combine;

(3) the Kursk metallurgical combine;

(4) the Vinnitsa (Ukraine)-Albertirsa (Hungary) 750 kilovolt power transmission line as part of the projected COMECON unified power system.

While very little information is to hand on other joint investment projects on Soviet territory, it is known that these include plans to construct major enterprises to produce yellow phosphorus ammonium phosphate, titanium dioxide, isoprene rubber, plant for timber development and coal mining.

SOCIALIST MULTINATIONAL ORGANIZATIONS

The following were among the main organizations in existence at the end of 1974:

(i) Interatoministrument: co-ordinates applications of nuclear R and D, manufactures measuring instruments, apparatus for radioisotope measurement for nuclear medicine, and special instruments for isotope laboratories;

(ii) Interatomenergo: assures co-operation in production and exchange for all equipment used in the construction of nuclear power plants;

(iii) Intertekstilmash: co-ordinates research, fabrication and after-sales service of textile machinery, also for standardizing an industry which directly reaches the consumers and whose supply is far from meeting a growing demand;

(iv) Intertalonpribor: designs apparatus in diverse measurements fields including linear, mechanical, thermal, electronic and the frequencies sector;

(v) Interkhimvolokno: research into chemical fibres, co-ordination of supply of equipment and raw materials to this industry.