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THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (CMEA) -
HISTORICAL AND DESCRIPTIVE BACKGROUND

Note by the United Kingdom Delegation

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COUNCIL OF MUTUAL ECONOMIC ASSISTANCE - CMEA

I. Introduction

History and objectives

1. The Council of Mutual Economic Assistance or CMEA (more colloquially COMECON) was set up in January 1949. It consists of committees, commissions and subsidiary bodies, and a central secretariat. It is the superstructure of the Soviet-led group of socialist economies. It does not, however, comprise the whole gamut of their joint economic arrangements. These also include bilateral agreements on trade, scientific-technical collaboration or otherwise, joint commissions, and certain other multilateral arrangements.

2. Various explanations of the origins of CMEA have been suggested. The following formulation by Ivan Berend (Secretary-General of the Hungarian Economic Association) includes many of the salient features as seen from an intelligent East European viewpoint:-

"The COMECON baby was delivered in a mixed family: its father was politics and its mother economics. It was primarily a political answer to the American Marshall Plan, as well as to the new Eastern European situation following developments in Yugoslavia. It declared the political unity of the Eastern European socialist countries and recognized the division of the world into two camps. It showed the unity of the socialist camp without Yugoslavia and without the previously planned customs union. But COMECON was also a product of real economic needs: there was a need to assure raw materials, goods and markets on an intracamp basis in circumstances of Western and American embargo policy, discrimination, and boycott. That is, COMECON was not an organization for industrial co-operation and economic integration in a real sense."

(Eastern Europe in the 1970s, Praeger, p. 200)

3. Thus, CMEA was in part a response to immediate political problems (the Marshall Plan, and the enforcement of the contemporary Communist blockade of Yugoslavia). But the totality of objectives and underlying circumstances was more complex. Eastern Europe had suffered immense changes. The Versailles settlement, which redrew the map of Eastern Europe, had been shaken by the irruption of Nazi Germany. In turn, Germany's collapse left a vacuum in the international relations of the area - into which the USSR moved.

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Communist régimes were installed in power in all these countries. Revised frontiers simplified access to them from the USSR, which encroached on their eastern borders. Poland's annexation of Pomerania and Silesia, and East Germany's incorporation into the Soviet bloc, formed a framework for reviving certain prewar economic ties between Germany, the USSR and Eastern Europe. Moreover, all the East European states adopted policies of industrialisation, which in due course would enable these states to become more complementary trading partners for the USSR and for each other. Ideological and political conceptions, and Western embargoes on trade in strategic goods, reinforced these tendencies. The foreign trade of the East European states began to be directed towards the Soviet Union and one another. These trends led naturally to the eventual establishment of a co-ordinating body.

4. The Soviet Union has dominated the organization, as an inevitable result of its physical, political and strategic predominance. However, the view that this particular instrument was designed as an instrument of Soviet domination is not supported by the apparently equal character of participation in CMEA or other available information on its activity and structure. CMEA must have been intended more as an instrument for holding the bloc together economically, for co-ordination and co-operation, which member governments would expect to serve also a political purpose. The Soviet political objective in establishing CMEA was the creation of a socialist system of economies.

5. Nevertheless, CMEA remained relatively inactive for several years. No plenary session of its Council was held between 1950 and 1954. Organizationally it remained a bare stem until May 1956, when it suddenly blossomed out into 12 standing commissions. There are plausible reasons for the prolonged inactivity and lack of sub-division. But this sudden activation in 1956 was probably a result of the stimulus provided by the signature of the Warsaw Pact in the previous year. Although published references to CMEA mention almost exclusively civilian activities, CMEA also purposes and provides an economic base for the military power of the Warsaw Pact, through integrating elements of the strategically significant economic potential of member countries. Consequently, the organization contributes to the military capability of the Warsaw Pact. (The fact that not all members of NATO have joined a common economic association is viewed in Eastern Europe as a deficiency in NATO's strength).

6. Today CMEA is concerned with economic affairs, but the adjective is interpreted broadly to include scientific and technical collaboration, standardization and communications -

by satellite and otherwise(1). Its primary functions are to promote the development of member economies and their science and technology.

Membership

7. CMEA is theoretically open to every state which shares its (socialist) ideals, but actually comprises the Soviet-led majority of the socialist world. Member states do not belong to any external regional economic group (not counting UN regional economic commissions), and except Cuba are geographically contiguous.

8. Founder-members were the USSR, Poland, Czechoslovakia, Hungary, Romania and Bulgaria. In May 1974, members are the USSR, Poland, Czechoslovakia, East Germany (since 1950), Hungary, Romania, Bulgaria, Mongolia (since 1962) and Cuba (since 1973). Thus several changes have taken place. Albania, which joined the month after CMEA's foundation, has not participated in its work since the end of 1961. China, which accepted observer status in 1956, has taken no part since 1963. North Korea (since 1957) and North Vietnam (since 1958) have observer status. Yugoslavia was never a member but has enjoyed observer status intermittently, and now participates in several standing commissions and other joint arrangements. Finland signed a co-operation agreement with CMEA in 1973. There has been speculation, firmly denied by the Austrian President, that his country might follow Finland's example. Iraq, Mexico, Iran, the People's Democratic Republic of Yemen, Chile (under Allende), Colombia, Bangladesh and Argentina are said to have expressed an interest in being linked with CMEA (Iraq, Mexico and the PDRY explicitly as observers). Among these, Iraq is perhaps the most likely to pursue the question.

Structure

9. According to its Charter, adopted in 1960, the supreme organ of CMEA is the Council Session, which meets at least once a year successively in the capitals of the various member states. An Executive Committee, consisting of one representative from each member state at the deputy-head-of-government level, meets at least once every two months and is the chief executive organ. A Secretariat functions continuously and is headed by the Secretary of the Council, who is the chief official of CMEA. This post has been held since June 1958 by Nikolay Faddeyev, a Russian, but his staff is international.

(1) The too explicit allusion to economics in "COMECON" is only one of the reasons why this appellation is less than ideal

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10. Since 1956 the number of major CMEA bodies has approximately doubled. There appear to be at present 24 standing commissions, and two committees (which deal with co-ordination of plans and scientific-technical collaboration and enjoy a higher rank in the hierarchy) as well as a great number of parallel and subsidiary bodies, both permanent and temporary. The standing commissions probably include one of Defence, although this is rarely mentioned. A list of the standing commissions and committees is attached (Annex A). Their titles are reminiscent of Soviet ministries, but the abolition of most Soviet ministries in 1957 and their reconstitution in 1965 did not affect the structure of CMEA. The list of standing commissions clearly stresses industry rather than agriculture, and not surprisingly excludes branches such as aircraft production which are not widely diffused among member-countries.

11. Published information about personnel employed in CMEA - even its Secretary, Faddeyev - is limited. Chairmen of certain bodies are appointed for more than one year but of others annually - in which case the chairmanship appears to rotate among member-countries. Doubtless as a matter of policy, leading positions are occupied by citizens of the various European member-countries in about equal numbers (and consequently not in proportion to their populations), except that in joint arrangements generally Soviet citizens tend to occupy the leading financial, scientific and research positions. It is possible to combine the chairmanship of a standing commission (which meets approximately quarterly), with holding another permanent office: thus V. F. Garbuzov, the Soviet Minister of Finances, also chairs the standing commission for Currency and Finance. By contrast, the directorship of a continuously functioning body such as the transnational Intermetall (see below) is a single appointment. Each member-country sends a delegation to each meeting of a standing commission to which it belongs, led by a head or deputy-head in that specialization. Member-countries also maintain permanent national representatives to CMEA.

12. The calendar of annual events in Eastern Europe thus contains a very large number of meetings under the auspices of CMEA or of other joint arrangements, at all levels from minor specialist to deputy Prime Minister. The venues of these meetings are equally varied. While many are held in Moscow or other national capitals, a substantial number are held in a place which corresponds to the specialization of the particular commission, or if the subject is not localised, in a resort. Even Mongolia, Cuba and Yugoslavia (for commissions to which she belongs) are included among these venues. The total volume of travelling

involved by these gatherings must be very large. Meetings may be periodic or ad hoc, and may or may not result in a decision. They can engender other meetings, such as a conference in August 1969 of all chairmen of standing commissions.

II. Economic Integration

The Integration Programme

13. At present and even beyond the foreseeable future (up to 1990) the development of CMEA is guided by the "Complex Programme of Further Deepening and Refining the Co-operation and Socialist Integration of CMEA Member States", which was adopted by the 25th Session of the Council in July 1971. Because of its main emphasis this is often referred to as "the integration programme". The aims of CMEA co-operation laid down in the Complex Programme are given in Annex B. The main points are equalisation and improvement of levels of economic development between member states, higher standards of living, consolidation of CMEA's position in the world economy in order to defeat capitalism and consolidation of members' defence capability. The lengthy document explains in considerable detail how these goals are to be reached:-

- through improving co-operation in planning, by co-ordinating investment, by specialization, and by establishing the financial and other economic prerequisites for tackling current problems; by drawing up long-range plans (10-20 years), especially where the investment cycle is long or technical problems affecting the whole economy have to be solved;
- increased scientific-technical co-operation;
- developing trade through long-range and annual agreements and more flexible arrangements;
- strengthening financial and credit relations, enabling the transferable rouble to function as a socialist international currency, a balanced uniform exchange rate being fixed in 1980; and
- establishing an International Investment Bank.

14. A Committee for Co-operation in Planning and a Committee for Scientific-Technical Co-operation were established, as well as organizational frameworks for co-operation in posts, telecommunications, inventions and patents. The programme provided for setting up various international institutions and co-ordination centres. A Legal Conference was instituted to deal with the legal problems arising out of the creation of multinational bodies of this kind. An International Investment Bank was set up in 1970.

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15. The two Committees just mentioned have emerged as overlord bodies within the CMEA structure and their activities are therefore of particular interest. The Committee for Co-operation in Planning seems to have one or more bureaux, whose status is similar to or higher than that of the standing commissions. The fifth session of this Committee, which was held in Moscow on 30th-31st October, 1973, is stated to have drafted principles for a co-ordinated plan of multilateral integration measures for CMEA member-countries for 1976-1980. In February 1974 Hula was reported as saying that "the next Five-Year Plan will have one common plan. The individual countries will have special parts in their plans which will realize the common plan". This is the clearest formulation so far of the goal and timetable of plan integration.

The CMEA Banks

16. Until it was reformed in 1970-1 The International Bank for Economic Co-operation (IBEC), set up in October 1963, functioned simply as the clearing bank of member-countries. Through a system of offsetting debts and short-term credit assistance for members in temporary deficit it endeavoured to multilateralize payments and thus to promote trade. While retaining its basic rôle as a clearing institution the bank has gained since 1970-1 more characteristics of a credit bank. Multilateral provisions were made more flexible by removal of the requirement that disequilibria must be cleared within a year. The credit system of the bank was extended and simplified. Short-term credit (at 2 per cent interest) may now be granted to finance temporary deficits in settlements. Longer-term loans may be given for up to three years, at 3-5 per cent interest, for such purposes as expanding trade turnover or promoting specialization and co-operation of member-countries. The bank's operations are not confined to member-countries: banks of other countries may deposit in and borrow from it. The bank has concluded a number of agreements in Western financial markets and taken part in some Western European banking consortia. In 1972-3 its transactions involving convertible currencies were showing the most rapid growth. At end-1972 the proportion of total credit granted to non-members had risen to 26.1 per cent as compared with 15.6 per cent a year earlier. Thus it appears that the bank is participating to an increasing extent in non-CMEA business.

17. The International Investment Bank (IIB), set up in July 1970, extends credit for medium (up to five years) and long (up to 15 years) periods, for projects consistent with the Complex Programme and particularly which promote specialisation, co-operative ventures, supply of raw materials

or the development of fuel and power in member states' interests. As reported in February 1974 the bank's capital consisted of 1,052 m transferable roubles, of which 30 per cent was held in gold and convertible currencies; 35 per cent of the statutory capital has been subscribed. The bank is able to call on other funds if necessary, including assets from the international capital markets.

18. Up to end-1972, all members (consisting of the entire membership of CMEA) except the USSR and Mongolia had submitted requests. By mid-1973 29 projects were receiving credit, with a total of 317 m transferable roubles committed. The usual practice of the bank is to supply only part of the total investment outlay on a project. It is usually granted in the appropriate currency for purchasing the designated imports. Interest rates vary between 4 and 6 per cent per annum. Up to end-1972, 40.5 per cent of credit granted had been in convertible currencies. As yet a relatively small enterprise, the IIB appears to have good prospects for future growth.

Transnational Associations

19. Transnational associations antedate the Complex Programme, but the tempo of their formation has been speeded up. Since 1969 twelve have been formed (none at all had been formed during the previous four years), and others are contemplated. The first associations were co-ordinating bodies, not production enterprises. Those formed most recently have tended to concentrate on fostering scientific and technical progress in the industries they cover, and to be concerned with determining production rather than arranging distribution of products ordained by supervising national ministries. The participants are normally CMEA member-countries (in most cases all the European members), but in three cases (Intermetall, Interchim, Interatomenergo) Yugoslavia has joined in. A full list of existing associations and of their membership is provided as Annex C.

Bilateral Arrangements

20. Apart from the CMEA structure and the transnational associations there is a complicated network of bilateral arrangements, both economic and scientific-technological, between the member-states. These are viewed with favour in the integration programme, although not esteemed as highly as multilateral links.

Participation and Decision-Making

21. The Complex Programme settled the question of member-states' participation in CMEA arrangements or in transnational associations by providing that members should decide individually whether or not

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to participate, but that non-participation by one or more member-states should not prevent implementation of that provision by others. A country which decides not to join in some particular activity may later reverse its decision, and in the meantime may ask to be informed about its activities and to be invited to meetings. As CMEA is not supranational, decisions have to be unanimous to be binding on individual member-countries. The attitudes of member-countries differ quite widely but without fluctuating capriciously, so that although it is difficult to reach agreement on a programme of development, if an agreement is reached it is put into effect.

III. Differences of Attitude among Member-States

22. Differences in member-states' attitudes have not been expressed stridently during the past few years, having perhaps been somewhat muted by the Complex Programme. They remain nevertheless clearly marked. Although the major gap is between Romania and the rest, the viewpoint of each member-state is recognizably individual.

23. The Soviet Union appears on the whole satisfied. Although instinctively predisposed towards authoritarian centralised solutions the Russians have relaxed (apparently without too much regret) Khrushchev's premature pressure in 1962 to set up a supranational planning authority. They seem to have selected the new transnational agencies as a main channel of current development in joint arrangements. Most associations formed during the present wave (1969 onwards) have their headquarters in Moscow, as compared with only one out of six formed before 1965. (The CMEA Secretariat was there already). The Russians see CMEA as a suitable body to enter into direct contact with the EEC. (See below).

24. The Soviet Union's economic preponderance has been reinforced by physical infrastructure (pipelines, power lines, railways) linking East Europe to the Soviet Union, and must be further strengthened by world shortages of those commodities of which the USSR is a principal supplier. The USSR lays great stress on co-ordination of plans and a rational division of labour, involving standardization and probably specialisation of production in CMEA; she herself, however, is not likely to renounce many areas of activity for the sake of specialisation although it is now admitted that in principle it may take place. Although the USSR is the chief trading partner of all the CMEA states the proportion of her own trade represented by intra-CMEA trade is a shade smaller than for most of the other member states. A big proportion of Soviet exports to all of them is taken up by fuel and raw materials. The Soviet Union supplies about 60 per cent of the raw materials of the CMEA countries.

25. Poland, one of the founder members of CMEA, has consistently been one of the most active in its support. She wishes, however, to make the organization more flexible, for example, by widening the application of the existing common currency or by adopting a new one. Polish experts have advocated a thorough reform of prices and the determination of rates of exchange on the basis of the real purchasing power of each country. Poland has seen advantage in adopting specialization schemes which enable her to concentrate her technological efforts. The Poles have tended to favour joint enterprises where others supplied the technical expertise. Athwart some of the main transport routes between the Soviet Union and the West, Poland is necessarily involved in joint transport arrangements (the Polish railways being second in size in Eastern Europe to the Soviet). Her almost complete dependence on the USSR for oil is partially offset by growing opportunities to export coal. This and certain other indigenous raw materials are helping Poland to diversify her foreign trade (at present rather small in relation to the size of the economy) through enlarging the proportion conducted with the West (a trend being energetically promoted under Gierek). Polish trade with non-CMEA countries has reached at least 45 per cent. But Poland's economic and political orbits must be centred within Eastern Europe and she can be expected to participate in all the main trends of CMEA's development. Warsaw has secured the headquarters of the new scientific/economic transnational association, Interatominstrument.

26. East Germany's attitude towards CMEA is somewhat idiosyncratic. The GDR joined the CMEA a year after it was set up, but now probably belongs to as many standing commissions, committees and other links in the structure as any other member state except the USSR. East Germany's commitment to CMEA is probably greater than Poland's because of the large volume of East Germany's trade with the USSR (one-third larger than Poland's trade with the USSR), and the need to counter the attractions of the FRG and the West. But it is modified by the GDR's high technical level, which she has not relished sharing with other member states, and her lack of spare manpower. The East Germans are consequently not interested in manufacturing components, and understand by "co-operation" an agreement not to compete directly in comparable products, or the purchase of licences to be paid for in cash rather than in eventual products. East Germany nevertheless gives strong support to the integration programme despite the belief of some of her experts that it is premature. The proportion of her trade that East Germany conducts with CMEA is higher than that of any other European member except Bulgaria. East Germany has a special economic and technical relationship with the USSR, a legacy from previous German-Russian trade relations which is maintained by continued Soviet respect for German technology. The GDR may hope that this relationship will save her from the baleful consequences of higher oil prices. This remains to be seen.

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27. Czechoslovakia's attitude towards CMEA has varied; here cited is the view taken by the Husak government. Geographically in the centre of Eastern Europe, the Czechoslovaks are and feel themselves to be involved in practically all aspects of CMEA's work. Czechoslovakia stands at an opposite end to Romania as regards the relationship between actual and potential development. Whereas Romania is under-developed relative to her resources, Czechoslovakia is in a sense over-developed: she has diversified too widely in industry but is alarmingly short of energy (other than the inferior and noxious brown coal), and of raw materials. Czechoslovakia therefore gives strong support to the programme of East European economic integration. She has benefited in the past from some measures of specialization, such as those favouring her armaments industry. And having reached a level of industrial development second only to the GDR in Eastern Europe she can expect to draw some future advantage from these measures. The Czechoslovaks see a need for more flexible adaptation of production to the needs of foreign markets, and consider that there should be closer co-operation and increased specialization. They place special stress on shaping an up-to-date structure in engineering production. They favour development of the transnational associations from the angles of specialization and co-operation, and envisage unavoidable concomitant changes in the position and activities of CMEA's Council and structure. Czechoslovakia is interested also in scientific and technical collaboration and in the solution of environmental problems. The difficult and complex problems of Czechoslovak future economic growth induce Czechoslovak representatives to lay some emphasis on long-range studies and forecasts. Prague houses the headquarters of the intra-CMEA electricity and oil distributive networks.

28. Hungary is one of the keenest members of CMEA. Short of fuel (although producing a small amount of oil) and raw materials (except bauxite), but somewhat less industrially developed than Czechoslovakia or the GDR, Hungary strongly supports the integration programme and its prerequisites of specialization and co-operation. Hungary has expressed dissatisfaction with the pace of specialization, which she considers too slow. Even more dependent on foreign trade than Czechoslovakia, she is very interested in measures to facilitate trade such as harmonizing price and foreign exchange systems and perfecting multiple clearing of accounts by means of a common currency. Hungary (with Romania) is the main advocate of joint business ventures with non-socialist firms. (She has signed about 240 such agreements, mainly involving engineering, out of a CMEA total of about 650). Like Romania, Hungary has paid some attention to the conflict between

national sovereignty and integration, but has come down in favour of the latter. Very conscious that theirs is a small country, the Hungarians favour integration as making the international division of labour more effective, which in turn aids Hungary's national production.

29. Hungary's economy has adopted a market mechanism, and the Hungarian view of integration within CMEA has correspondingly favoured something like a customs union, which with Hungary's large dependence on trade explains her interest in genuine multilateralism. However, since December 1972 Hungarian statements have laid more stress on plan co-ordination, either in recognition of the problems of monetary integration or as a result of tacit agreement with the Soviet Union, the protagonist of this approach.

30. Bulgaria has the most parasitic attitude towards CMEA of the European members. Belonging to everything that is going, she clings especially to the USSR to which her trade is directed overwhelmingly. Bulgaria's main contributions to the group (particularly beneficial to the USSR) are her agricultural surpluses and touristic attractions. Her industry being small and recently developed, Bulgaria is happy to profit from specialization arrangements, and has focussed her own industrialization in a few well-chosen sectors, such as factory material handling and electric transporters. Sofia does not yet house any headquarters of a transnational association except the bilateral Intransmash. The Bulgarians are however canvassing the creation of another (Interphos), and have already named Sofia as its prospective seat.

31. Romania's approach to CMEA differs appreciably from that of all other members. While the Romanians express support for the organization they lay overriding emphasis on preserving Romanian national sovereignty. The Romanians take every opportunity to point out that CMEA is a group of sovereign states and neither is, nor ought to become, a supranational body. They have shown themselves able both to defend their view from an ideological standpoint and to resist pressures at one time exerted from the Soviet Union to convert CMEA into a supranational organization. Thus, in the question of CMEA relations with the EEC the Romanians emphasize that they prefer a national approach rather than a bloc-to-bloc relationship, and already have substantial bilateral dealings with the Community.

32. The Romanian attitude is based on the fact that among all the East European states her present stage of economic development is farthest from its potential. Alone in East Europe Romania produces a substantial amount of oil, although it is not quite sufficient to meet all her needs. But Romanian living standards are among the lowest of the East European members. Romania is campaigning to be classified as a developing country (only

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Yugoslavia at present qualifying as such by the UN classification), with the object of bringing her level of development nearer to those of the more prosperous members of CMEA.

33. Romania's attitude to specialization is conservative, being influenced by the conviction that some previous proposals would have resulted in freezing Romania in the posture of a primarily agricultural and petrochemical appendage to the more developed members. Romanian participation in transnational associations also tends to be more selective than that of other member states. The Romanians have complained that none of the special economic organizations has its headquarters in Romania (see Annex C). While clearly expressing their reservations about CMEA they participate in about as many organizations and activities as any other European member.

34. About 45 per cent of Romania's foreign trade is with other CMEA countries, as compared with 59-66 per cent of the trade of the non-Balkan member states and Bulgaria's more than 75 per cent. Romania has tried and is trying to enlarge the proportion of her trade with non-CMEA countries. As she does not import oil from the USSR (although she has wished and does wish to do so), a potential irritant in her relations with that country arising from higher Soviet oil prices is fortuitously absent. (Possibly therefore relatively less will be heard in the near future about friction on economic matters between the USSR and Romania, but relatively more about friction between the USSR and other members).

35. Yugoslavia's attitude towards CMEA is pragmatic. Their formal status is that of observer. The Yugoslavs are selective about the standing commissions and associations in which they take part, and Yugoslav participation in the CMEA structure is far less than that of any of the European member states. This pragmatism is tempered by political concern to avoid undue dependence on CMEA. (Western investment in Yugoslavia is much larger than in any CMEA member country). Yugoslav trade is divided into three almost equal parts: with CMEA, the EEC (the Six) and the rest. Yugoslav total trade is, however, seriously unbalanced on visible items, the deficit being made up by remittances from Yugoslavs working abroad, by tourism and other invisibles; these are potential vulnerabilities in her economic situation.

36. The attitude of Finland towards CMEA (like that of Yugoslavia) is strongly affected by considerations of balance between the EEC and CMEA. Her co-operation agreement with CMEA was probably more politically motivated than was Yugoslavia's decision to participate. The Finns do not seem to have envisaged definite economic objectives from co-operation, but a joint commission has identified several allegedly promising areas.

37. Mongolia and Cuba are alike in being small under-developed countries remote from the industrial parts of CMEA Europe. Given Mongolia's propinquity to China, and Cuba's tendency to make enemies of her nearer neighbours, the support of CMEA for both countries is a necessity; thus no complicated reasons for their inclination to participate need be sought. More interesting is the attitude to them of the other members. The Complex Programme makes it clear that one of the duties of other members is to aid Mongolia. Both countries have been economic liabilities to the rest: thus in 1972 Soviet visible exports to Mongolia exceeded her imports from that country by 2.73 times, and to Cuba by 3.00 times. Yet in the long run the Soviet attitudes towards Cuba appear scarcely altruistic: by an agreement announced in January 1973 repayment of Cuba's enormous debts to the Soviet Union will be postponed, but their amount not abated. In return for the postponement, Cuba undertakes obligations running well into the twenty-first century. Another long-term tie, helping to bind Cuba to the socialist bloc, is standardization. CMEA standards are to be extended to Cuba, where the 34th meeting of the Standing Committee for Standardization was to take place in May 1974.

38. The remoteness of both countries from other member states imposes a heavy transport burden, but may have scientific compensations, especially in the case of Cuba; both countries belong to the satellite communications scheme, Intersputnik. The main contributions of Mongolia and Cuba to the Soviet socialist world are presumably geopolitical, strategic, and in the case of Cuba, naval.

IV. Some Problems Facing CMEA

39. Member countries, and CMEA itself, face several problems. The older and more familiar problem may be summarized as: how to achieve the most effective integration of the economies of member countries without obviously violating their sovereignty or departing from basically "socialist" systems. Under this heading we can include both the "Romanian question" and general questions of how far and how fast to proceed with economic integration. In a broad sense, solutions to these problems are embodied in the Complex Programme, although its practical implementation must encounter difficulties and take a long time to accomplish.

40. The new problem arises from the very unequal endowment of member countries with raw materials and especially energy sources. Its root causes are the extreme discrepancy in size between the Soviet Union and the rest, and the doctrine of national sovereignty over natural resources found within national frontiers. Although the doctrine is shared by all countries, solution of the problem to which it gives rise must be different in socialist economies than in capitalist, and in the former may be especially difficult.

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41. Although the problems are stated here as if distinct from each other, this is not necessarily so, as the Romanian question demonstrates. Romanian opposition to integration had as its economic basis a comparatively good resource endowment. Generally speaking: badly endowed countries want to integrate, well-endowed ones do not. If well-endowed countries do want to integrate it is because they see other advantages compensating for the disadvantages of having to share their resources with others. The compensating advantage might be of making the receiving country dependent on oneself. Hitherto, the Soviet Union has on the whole found it advantageous to integrate with the other East European countries. If the comparative value of the Soviet resource endowment is increased, its economic interest in integration might be diminished.

Convertibility

42. A problem of convertibility arises if country A wants to spend some parts of its receipts from exporting to country B in order to pay for imports from country C, but is unable to do so. It can in principle be solved in either of two ways: by removing the desire to spend this money, or by making it possible to do so.

43. The first solution is also in principle attainable in two ways: by country A's reducing the amount of its trade with country B to the point where it has no surplus, or by B's providing more goods of the type that A wants. An adjustment of this sort can be effected in two ways: via a market mechanism, or by plan co-ordination to which CMEA members have been paying considerable attention in recent years (as Mr. Hula's remark, quoted in paragraph 15 above, indicates). Failure to make this adjustment is the origin of the convertibility problem in Eastern Europe. National plans, rather than international market opportunities, have prescribed the variety and quantity of goods for export. In the absence of CMEA-wide co-ordination of national plans, discrepancies have necessarily resulted.

44. Alternatively, one might seek to solve such balance of payments problems by making it possible to spend surpluses. This means adopting a common money which is acceptable as payment for imports. This is not in itself a problem: historically gold and its substitutes have fulfilled this function in world trade. CMEA has chosen to create the transferable rouble for the purpose. Its effectiveness was limited initially by inflexibilities in the supply of goods available for export. Credit arrangements and connections with international monetary organizations would supplement the transferable rouble if more CMEA countries chose to follow Romania's lead in joining the IMF and the World Bank. The large increase in the volume of clearing payments effected by the International Co-operation Bank (Annex D) has also helped.

45. The convertibility question cannot therefore be viewed in isolation from other aspects of the way Eastern European countries conduct their economic arrangements. Progress towards solving it can be no faster than progress in the general conduct of these arrangements.

46. What progress has been made towards convertibility in Eastern Europe has been due to a recognition of this point. Whereas currency questions had previously been tackled separately from the goods side of international and internal economic processes, the Complex Programme aimed to tackle both together. It foresaw measures to consolidate the collective currency of member states (the transferable rouble), so that this would in effect become the group's external as well as its internal unit of account. Changes in exchange rates and in the gold content of the transferable rouble were contemplated to bring them more into line with comparative costs. It was hoped that by 1980 a single exchange rate for the national currencies of member states would be established. The existing system of a separate schedule of exchange rates applying to non-commercial transactions would meanwhile continue, but the Parties agreed to adjust the coefficient of conversion to reflect any especially large variations in domestic prices. Some later activity has been visible, particularly in further differentiating exchange rates in intra-CMEA transactions. However, it appears improbable that the 1980 deadline can be met, especially as the higher energy prices must complicate these countries' balances of payments.

Specialization and Co-operation

47. These are among the goals of the Complex Programme. A tendency towards specialization is one of the results of international division of labour under a market system. By contrast command economies have no automatic tendency to specialize, so that if specialization is seen as a desirable objective it has to be achieved through deliberate policy.

48. In Eastern Europe specialization is pursued both bilaterally and multilaterally. As a rule measures are designed to give a balance of advantage. Opportunities are normally assigned to match manufacturing capability. Specialization agreements might take the form of refraining from producing some item in which the other country proposes to specialize, or of reserving for oneself specialization in producing some component of a complete item of which another country enjoys the specialization. For example, Poland gave up plans for purchasing from Sweden a licence to produce a cash register, proposing instead to the USSR that she should cover Poland's needs as well as her own. In exchange, the Polish machine industry declared co-operation in the programme for

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for production, by agreeing to produce all the motors for the registers. Specializations are normally chosen to match a country's particular experience; probably in most cases specializations in effect choose themselves. Sometimes there is a hint that a particular specialization, or exclusion from it, is unwelcome. The forms of specialization and co-operation vary from country to country, as already noted in the case of East Germany. The more equal the levels of manufacturing capability, the more opportunities there are to reach specialization agreements; this aspect is consequently coming more to the fore as a result of industrialization.

49. As yet, the extent of specialization is small in relation to possibilities. For example, about 10 per cent of Poland's foreign trade consists of trade in specialized items or co-production (the latter consisting of only a few per cent). Nevertheless, the activity of CMEA bodies in promoting specialization is fairly lively. For example, in regard to 1974 the Standing Commission for Engineering has signed 12 agreements while most of the further 46 under elaboration should be signed this year.

50. Co-production (co-ordinated specialization in producing components of a given final product) is regarded as a superior form of specialization and co-operation, and (together with co-construction) is on the increase. Another superior although as yet rather uncommon form is the trans-national body, already mentioned. Further diversification of structure will doubtless occur, including co-production with a foreign firm, of which there are already a few examples. Legal obstacles to these more complex arrangements are still fairly formidable.

Standardization

51. This is unavoidably a very slow process, being continuously carried on by a standing commission, but has correspondingly long-lived effects. The eventual result must be to link the technologies of member states more closely to the USSR, although many Soviet standards are based on pre-1914 German standards.

Energy

52. Currently the CMEA states as a group are almost self-sufficient in energy supplies. To the extent that they are not, they import oil, largely from the Arab countries, which is subject to the increase in Arab oil prices.

53. One CMEA member, the USSR, is the main supplier of oil and gas to the rest. Poland, the main exporter of hard

coal, has grasped the opportunity, presented by the leap in oil prices, to charge more for her coal. Poland can in this way offset at least part of her larger bill for oil. Romania, too, is in a special position, being (apart from the USSR) the group's only substantial oil producer. Except Romania, all East European members obtain their oil predominantly from the USSR. The "Druzhba" oil pipeline links the USSR with Poland, Czechoslovakia, East Germany and Hungary.

54. This situation has been to the advantage of all parties, although perhaps especially advantageous economically to the receivers and politically to the supplier. Yet as early as in 1968 the Russians started to hint that Eastern Europe should begin to make other arrangements to meet some fraction of its mounting demand. The rising costs of exploitation of oilfields in remoter Siberia provided economic justification for this attitude. The USSR could undertake more costly investments if those were financed by the Eastern Europeans, but the latter were unwilling and, in any case, scarcely able to pay.

55. The sharp increase in the world price of oil greatly alters the situation. Until end-1975 prices and to a large degree quantities of oil deliveries by the USSR to Eastern Europe are fixed and the USSR has stated its intention of abiding by these agreements. Thereafter options are open. Given that prices in intra-CMEA trade are supposed to reflect world prices, some increase in the price of Soviet oil appears almost certain. (Such an increase is stipulated in Soviet oil deliveries to Finland in 1974). The temptation to the Soviet Union to bring the price of deliveries to Eastern Europe into line with world market prices must be high, but complicating factors, both economic and political, may restrain the temptation. The Soviet Union still trades mainly with Eastern Europe. Eastern Europe might increase certain exports in return for paying higher prices for Soviet oil, but probably not sufficiently to cover the whole increase. The resulting imbalance of payments would need to be financed by loans or perhaps by higher prices for East European exports to the USSR. (This problem is of unequal dimensions in the different countries. Czechoslovakia normally earns a surplus in trade with the USSR, and could use it to pay for some increase in Soviet energy prices. However, the increase is likely to be so big that Czechoslovakia's surplus will be turned into an even bigger deficit).

56. Unlike North America and Western Europe, Eastern Europe has little scope to reduce the proportion of oil in the overall fuel balance, and higher oil prices in the medium-term (until major changes can be made in technology,

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or new sources of energy developed) will hurt Eastern Europe as much as they benefit the USSR. Fundamental economic weakness in Eastern Europe would not serve the interests of the USSR. Other effects of higher oil prices upon intra-block relations could hardly be welcome. A notion of a "socialist market" is undermined by shifts instigated by changes in world prices. The co-ordination of plans in Eastern Europe would be disturbed. Projections of future relative growth would have to submit to an unplanned distortion. The spectacle of the USSR apparently enriching itself at the expense of a captive market would offer inconvenient openings to Radio Tirana.

57. The Soviet oil balance is rather tight, and in the short-term the Russians are apparently unable to take advantage of the price leap by increasing their total oil exports. Limitation of deliveries to Eastern Europe would release more oil for Western Europe and Japan, which must appear to the USSR to be more rewarding trade partners than Eastern Europe. The most likely prospect is that the USSR will limit its supplies of oil to Eastern Europe, but not to the point where Eastern Europe ceases to be dependent on Soviet supplies. But the East European states will be obliged to shop elsewhere for an increased part of their requirements. They have resigned themselves to doing this and have begun to take the appropriate decisions, notably to build the "Adria" pipeline for supplying Middle Eastern oil to Yugoslavia, Hungary and Czechoslovakia (expected to go into operation in 1977). This would make those countries less dependent on the USSR, but potentially more vulnerable to Arab pressure.

58. The USSR may see advantage in discriminating between East European states, giving favourable treatment to partners with whom she has especially valuable links, in particular East Germany. But this could come under envious scrutiny in many CMEA contexts, and would run counter to the aspirations to make levels of development of member-countries more even -- the GDR already enjoying the highest standard of living of the group.

59. In the medium-term Eastern Europe may partially solve its problems of energy shortage and increased costs by building nuclear power stations. An enlivened interest in nuclear power was expressed in the foundation in 1973 of Interatomenergo, and in other recent assistance agreements. No other international organizational initiatives have yet appeared in the energy field. The production of coal, oil and gas are not dealt with by the transnational associations (although the CMEA structure does contain a standing commission for coal (See Annex A)). In the longer term, Eastern Europe like other areas may be able to exploit as yet untapped energy sources.

Joint Enterprises

60. Projects which are jointly managed by several member-countries are very few in number although individually large. They comprise the oil and electric power distribution networks, existing and prospective, and asbestos and cellulose factories in Siberia. A plan to build later in the 1970s a large metallurgical works using raw material from the Kursk Magnetic Anomaly (USSR) has been drafted. Bilateral projects are also few, the most frequently reported being a joint GDR-Polish spinning mill, under construction at Zawiercie (Poland). "Haldex", Polish-Hungarian coal producing enterprise, has several plants operating. The CMEA economies find multilateral projects unwieldy. Possibly for this reason, and owing to the less prominent rôle of advanced technology in these projects, this form of collaboration has been less used than the trans-national form.

Relations with Western Europe

61. The CMEA member states have always conducted their business dealings with Western European states on a bilateral basis. However, the consolidation of the EEC, and in particular its enlargement at the beginning of 1973, could not go unnoticed. In March 1972 Brezhnev pointed out that the Soviet Union did not ignore the existence of the European Common Market. In December 1972 he hinted that it would be desirable to create direct links between the EEC and CMEA; there might be "some form of businesslike relations between the interstate trade and economic organizations in Europe, the CMEA and the EEC", as long as "the states belonging to the EEC will promote development of natural bilateral links and pan-European co-operation". According to Kosygin, the Soviet Prime Minister, the 27th Council Session (held in Prague in June 1973) had decided that first contacts should be established between the EEC and the CMEA. (This must be correct, notwithstanding that the subject was not mentioned in the Session Communiqué).

62. Consequently, the Secretary of CMEA, N. Faddeyev, during a visit to Copenhagen on 27th August, 1973 proposed to the Danes (currently holding the Presidency of the EEC Council of Ministers) that the CMEA and EEC should "take up contact with the broad objective of furthering détente and co-operation", and that the two organizations should appoint delegations to "discuss the framework and content of further talks". The Community authorized the Danish Presidency to respond by inviting CMEA to get in touch with the European Commission. However, six months later Faddeyev claimed in public that he was still awaiting a substantive answer from

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the Community. This confusion seems to result partly from a genuine misunderstanding and partly from a tactical wish on the part of CMEA to show the Community as unforthcoming. The Community decided in May 1974 to repeat its invitation to CMEA to get in touch with the Commission.

63. The CMEA approach was thus extremely cautious. Faddeyev's meeting with the Danes was informal. CMEA avoided writing direct to the Commission no doubt in order to avoid official recognition of the EEC and its institutions. The USSR appeared to have reached the conclusion that, the EEC being a fact of life with which East European states would sooner or later need to do business, it was preferable to use CMEA as a channel for their contacts rather than to allow bilateral relations to develop between CMEA states and the EEC. They also probably felt that it was sensible to seek to negotiate with it on an equal footing rather than from the disadvantageous standpoints of a number of economies, all of which except itself are small or of average size. The Russians have found some support for this view from other East European states. But they are less likely to get support for their desire to secure acceptance of CMEA as an international body with a status equivalent to EEC. They may even envisage building an active political rôle for CMEA. Internally the Russians would favour this approach because it would tend to convert CMEA into something nearer to a supranational body (prolonged negotiations or day-to-day relations would necessitate delegation of substantial powers to its Secretariat). This is presumably also the attitude of the Secretariat and of most other permanent CMEA bodies, since bloc-to-bloc arrangements can hardly fail to enhance their importance.

64. Attitudes of other member states are, predictably, somewhat different. They would see the advantages of a unified bargaining position, and might feel that EEC supranationalism left them no choice but to adopt an analogous stance. On the other hand, the expectation of gains from superior bargaining power would in their eyes be offset, perhaps outweighed, by the apprehension that the better bargain might not benefit their own economy and that their economic needs might be subordinated to Soviet political objectives. Forthcoming balance of payments difficulties (likely to be accentuated by the oil crisis) can only strengthen this reluctance. The more strongly nationalist a country, and the more confident of securing advantage by its own efforts, the more likely it is to act individually: thus Romania is the strongest adherent of an independent line, though there is evidence that the Romanian view is shared in some degree by other members. The GDR may also have doubts about a co-ordinated approach for fear of jeopardizing her favourable position under the Inter Zonal Trade arrangements. Differences

in intensity of nationalism are buttressed by differences in the proportion of member states' trade with the EEC, Romania's being the largest and that of the USSR the smallest.

65. The decision to attempt a direct approach is therefore likely to have been taken on Soviet sponsorship. The political sensitivity of the issue is suggested by the lack of any reference to the subject in the Communiqué reporting the Session which allegedly took the decision. The decision to risk being snubbed by the EEC (so long a target of bloc propaganda) must have been difficult. Perhaps the fact that the United Kingdom had at last been admitted to the EEC weighed in the decision.

66. Legal questions may also have loomed quite large in CMEA's discussion of the approach. There is doubt whether CMEA is legally empowered to negotiate on its members' behalf. CMEA (in the person of Faddeyev) signed a co-operation agreement with Finland, and presumably the organization can go at least as far in reaching agreement with the EEC; however, the supranational aspect of the EEC might emphasize the legal disability of CMEA. It seems that Romania (with at least the tacit approval of some other members) insisted that Faddeyev should report back at every stage and that the development of CMEA/EEC relations should not prejudice "bilateral" contacts with the EEC.

67. Once the approach had been made all member states of CMEA must have hoped for its success, for otherwise any supplementary bilateral approaches which individual member states might have wished to make in parallel with the bloc-to-bloc approach would be stalled. Probably the Russians counted on this factor to dampen opposition, once the approach had been made.

68. It is hard to see how direct CMEA/EEC relationships can achieve real as opposed to formal results. There are substantial conflicts of interest between the CMEA member states. An imbalance of desire between East and West is reinforced by the contrast between the centralizing tendencies of Brussels and the reluctance of East European countries to effect parallel transfers of their sovereignty. Soviet determination to avoid a position of inferiority or weakness must make progress still more difficult. But this need not prevent an umbrella agreement between EEC and CMEA covering pragmatic arrangements between EEC and the individual European states.

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V. Successes and Failures

69. The balance sheet is seen differently by different members, and it is difficult to envisage what might or might not have been achieved in the absence of CMEA. The outside observer may think that CMEA has achieved its best results in economic development; in acting as a transmission belt for technical blueprints and advice and in promoting a somewhat greater degree of standardization, national specialization and division of labour than would otherwise have been achieved. It has had less success in enlarging and diversifying mutual trade, which is still mainly conducted on a bilateral basis. CMEA has been slow to develop its potential (much slower than the EEC), and yet seems to have a firm future. The organization scarcely confers flexibility in the short run. But the flexible provisions governing participation in CMEA activities reduce conflicts of national interests and facilitate the adoption of new activities. Its longer-run capability to rationalize the range of goods produced and thus to accelerate or underpin economic growth is likely to be important. The integration programme will surely play a positive rôle in this sequence, but the complexity of the inter-related economies and the many problems arising in their development will militate against spectacular progress. Meanwhile, CMEA as an organization has gathered momentum; a self-supporting chain reaction of meetings and conferences has been set off. With the overcoming by compromise of the main problems arising from divergent approaches to the question of national sovereignty, the economic and scientific-technical potentialities of the organization are acquiring wider scope. With better co-ordination of national 5-year plans, and under the cohesive influence of the world crisis of energy and raw materials, CMEA seems likely to play a more important rôle in the second half of the 1970s than it did in the first, both as an element in the socialist system and as a feature of the world economic landscape.

NATO,
1110 Brussels.

CMEA STANDING COMMISSIONS OR COMMITTEES

Agriculture
Atomic Energy
Chemicals
Coal
Construction
Currency and Finance
Defence
Economic Questions
Environment Protection
Electric Power
Engineering
Ferrous Metals
Food
Foreign Trade
Geology
Light Industry
Non-Ferrous Metals
Oil and Gas
Planning Co-operation
Posts and Telecommunications
Radiotechnique and Electronics
Scientific and Technical Research
Standardisation
Statistics
Timber and Cellulose
Transport

The CMEA countries will deepen and improve economic and scientific and technical co-operation and develop socialist economic integration for the purpose of promoting:

- the more rapid development of productive forces in all the CMEA countries, the achievement of the highest possible scientific and technical level, the maximum possible increase in the economic efficiency of social production and also the maximum possible growth of social labour productivity;
- improvements in the structure and increase in the scale of production with the systematic raising of the sectors' level of technical equipment and the introduction of advanced technology in accordance with the requirements of the scientific and technical revolution;
- the satisfaction of the growing long-term requirements of the countries' national economies for fuel, power, raw material, modern equipment, agriculture and food commodities and other consumer goods primarily through the production and the rational utilisation of the resources of the CMEA countries;
- an increase in the material and cultural living standard of the CMEA countries' peoples;
- the gradual rapprochement and equalisation of the CMEA countries' economic development levels;
- an increase in the size and stability of the world socialist market;
- the consolidation of the CMEA countries' positions in the world economy and the ensuring of ultimate victory in the economic competition against capitalism;
- the consolidation of the CMEA countries' defence capability.

Date set up	Transnational Associations (Note: spelling and exact title can differ according to the language/country reporting)	MEMBERSHIP															
		Member-States of COMECON								North Korea	North Vietnam	Yugoslavia	Iraq	Iran	Mexico	PDRY	
		USSR	Poland	Czecho	GDR	Hungary	Romania	Bulgaria	Albania	Mongolia	Cuba						
1962	Unified Power System	X*	X	(X)	X	X	X	X									
1963	Joint Rail Car Pool	X	X	(X)	X	X	X	X									
1963	International Co-operation Bank	(X)	X	X	X	X	X	X		X							
1964	Intermetall	X	X	X	X	(X)	C	X						C			
1964	Ball-bearing Organization	X	(X)	X	X	X	X	X									
1964	Intransmash					X		(X)									
1964	Agromash	X			X	(X)		X									
1969	Scientific-Technical Information	(X)	X	X	X	X	X	X		X							
1969	Interchim	X	X	X	(X)	X	X	X						X ¹			
1970	International Investment Bank	(X)	X	X	X	X	X	X		X							
1971	Intersputnik	(X)	X	X	X	X	X	X		X	X						
1972	Interatominstrument	X	(X)	X	X	X		X									
1972	Interetalonpribor	(X)	X	X	X	X	X	X		X							
1973	Interatomenergo	(X)	X	X	X	X	X	X						X			
1973	Intertextilmash	(X)	X	X	X	X	X	X									
1973	Interelektro	X	X	X	X	X	X	X									
1973	Interport		(X)		X												
1973	Assofoto	(X)			X												
1973	Interkomponent		(X)			X											

(X) HQ is located in this country; invariably in the capital city, except for Interchim (Halle) and Interport (Szczecin). Major branches are generally in each of the other countries where the organization functions.

* Western Ukraine only

C Indicates participation by a specific organization of that country

1 From beginning of 1974

There is also mention of Intercosmos (to launch Vertikal rockets and Interkosmos satellites) which however is a space research programme (born in April 1967), and not (apparently) a separate organization.

DEVELOPMENT OF IBWZ's PAYMENT VOLUME BUSINESS

(in billion transferable roubles)

	<u>Extent of clearing</u> <u>(payment turnover</u> <u>volume)</u>	<u>Volume in</u> <u>convertible</u> <u>currency</u>
1964	22.9	0.9
1965	24.2	2.0
1966	23.9	3.8
1967	26.6	9.0
1968	29.4	11.1
1969	31.6	13.7
1970	35.4	21.2
1971	39.3	23.6
1972	43.3	27.2