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ECONOMIC COMMITTEE

PROGRESS OF ECONOMIC INTEGRATION WITHIN CMEA AND TRADE WITH THE WEST

Note by the United Kingdom Delegation

This report is concerned with the continuing movement towards integration within the Council for Mutual Economic Assistance (CMEA) and the implications of this for East-West trade (paragraphs 1-2).

2. The most significant recent development within CMEA remains the adoption of "The Comprehensive Programme" approved in 1971. This lengthy document presented the goals, principles, and methods for achieving economic integration over a period of 15-20 years. The basic method of achieving these goals continues to be the co-ordination of member countries' economic plans (paragraphs 3-6).

3. East European investment in Soviet raw material resources has increased considerably in the last five years but as yet there are few major multilateral CMEA projects in other member countries. Specialisation (which involves concentrating the output of a given product or component in one or more member countries) and co-production (where different countries produce the components or intermediate manufactures for one finished item) are also used as means of furthering integration but neither has made much impact up to now (paragraphs 7-14).

4. One of the main obstacles to progress towards integration within CMEA is the absence of an efficient mechanism for domestic price formation and the lack of a common pricing system. Nevertheless in 1975 some 56 per cent of CMEA trade was conducted with other member countries. The pattern of this trade continues to be commodity exchanges of Soviet raw materials for East European industrial and consumer goods, although Soviet supply constraints are forcing CMEA members to turn to non-Communist countries for some commodities (paragraphs 15-21).

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5. It is difficult to assess how successful integration within CMEA has been in the past five years, but in general progress appears to have been slow. Problems remain of price determination, restrictions on free movement of labour and capital, an inadequately developed technological base, legal complications, and the continuing strong influence of national interests. However, Eastern Europe's trading problems are forcing these countries towards greater co-operation within CMEA and greater dependence on the USSR. The need for Soviet raw materials will continue to strengthen these ties. (Paragraphs 22-27).

6. Although as a group CMEA is still to a large extent self-sufficient in fuels and raw materials, both the USSR and Eastern Europe rely in varying degrees on Western industrial technology and finance to expand and improve their industrial bases in certain important sectors. Trade with the developed West has expanded at an annual average rate of just under 30 per cent since 1970 and over this period the CMEA visible trade deficit with the developed West grew from \$1 billion to over \$12 billion (paragraphs 28-36).

7. For a long time the CMEA has refused to recognise the existence of the EEC and hence its authority to negotiate agreements on behalf of its members. However, an important step towards East European recognition of the Community was the recent opening of fisheries negotiations between the Community, the USSR, Poland, and East Germany. The EEC's share of CMEA trade has increased rapidly in recent years but the CMEA share of EEC trade remains small. In 1975 no CMEA country achieved an overall visible trade surplus with the EEC (paragraphs 37-39).

8. Soviet imports of Western industrial plant and machinery are expected to expand steadily up to 1980. The countries of Eastern Europe however are likely to find financing Western imports increasingly difficult and will not be able to go on expanding such imports at the rate of the last plan period. (paragraphs 40-43).

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PROGRESS OF ECONOMIC INTEGRATION WITHIN CMEA
AND TRADE WITH THE WEST

PART II: MAIN REPORT

Introduction

1. Multilateral economic co-operation between the Soviet Union and the six¹ countries of Eastern Europe takes place mainly within the framework of the Council for Mutual Economic Assistance (CMEA), the membership of which also includes Cuba and Mongolia. Yugoslavia participates in some of its activities and there are recently concluded economic, scientific and technical agreements with Mexico and Iraq. The Council is the supreme body of the CMEA and it works through its Executive Committee, a number of other committees, standing commissions and specialist international economic organisations which are listed in Appendices A and B.

2. This report is concerned with the continuing movement towards integration within CMEA and the implications of this for East-West trade.

PROGRESS ON INTEGRATION

General Approach

3. The most significant recent development within CMEA remains the adoption of "The Comprehensive Programme for Further Intensification and Improvement of Collaboration and the Development of Socialist Economic Integration of CMEA Countries" approved by the July 1971 Bucharest CMEA Council Session. This lengthy document presented the goals, principles and methods for achieving economic integration over a period of 15-20 years. It was partly a reaction to developments taking place outside CMEA; the EEC was considering the admission of four new members and there were signs that a common commercial policy would replace the bilateral trading arrangements existing between the member countries of both groups.

¹ Bulgaria, Czechoslovakia, GDR, Hungary, Poland and Romania.

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4. Integration has been described by one Hungarian source as a process that entails "the international Socialist division of labour, the unification of CMEA economies and the formulation of a modern highly effective structure of the national economies; the gradual merging and equalising of the levels of their economic development; formation of deep and lasting ties in the major branches of the economy, science and technology; the expansion and strengthening of the international market of these countries and the improvement of commodity - monetary relations". From this wide-ranging definition it is apparent that virtually any economic contacts between members can be (and usually are) defined as furthering integration.

5. A basic tool in furthering co-operation between CMEA member countries has always been the co-ordination of economic plans on the basis of so-called material balances which are prepared by each State Planning Organisation (Gosplan) for selected commodities (both raw materials and finished products). These plans are first collated with the aim of using surpluses of a particular commodity in one member country to offset shortages elsewhere. In the second stage of plan co-ordination all the various national proposals from member countries are considered by each national Gosplan, and in the third stage the process moves on to a multilateral CMEA basis.

6. For the 1976-80 Plan agreements this third stage began in 1974 and aimed to produce a set of bilateral documents which were both compatible with national plans and conducive to economic development in CMEA. For the first time member states included a section on multilateral measures in their national plans to assist the allocation of funds and goods for joint projects. In this respect planning appears to be aiding integration, especially where the East European countries are setting aside funds for Soviet raw material resource development projects.

Joint investment projects

7. East European investment in Soviet raw material resources is not new, but in the last five years there has been a considerable increase in the number and size of projects. In 1971 such arrangements were endorsed in the Comprehensive Programme and since then there have been sizeable East European long term low interest credits (to cover exports of machinery and other goods) to the USSR.

8. Since 1971 there have been several large projects involving East European participation in the development of Soviet resources. For these projects the East Europeans have provided a wide variety of resources including plant and equipment, some construction labour, infrastructure materials and consumer goods. Most of the projects under construction in the Soviet Union are in the energy sector with repayment in energy, and others are concerned with pulp, asbestos, phosphate-fertilizer, and iron/ore and ferro-alloys. Soviet repayment is nearly always expressed in volume terms, usually the total repayment and sometimes the number of years over which repayment will fall. All the agreements concluded so far are for commodities for which Eastern Europe is already heavily dependent on the USSR.

9. As yet there are few major multilateral CMEA projects operating in other member countries mainly because they lack the raw materials. However, coal, copper, and zinc production is to be developed in Poland; nickel and cobalt in Cuba; and coal and copper in Mongolia. All these appear to be long-term projects. The Soviet Union participates in a large number of bilateral projects with its CMEA partners to improve their industrial base and to assist development of their limited raw material resources. Appendix C sets out figures of the numbers of such projects by country.

The International Investment Bank

10. The CMEA International Investment Bank (IIB) was set up with effect from the beginning of 1971 to provide long-term financing for joint projects and its efforts have been concentrated on financing industrial and infrastructure projects in Eastern Europe. The Bank began operations with an authorised capital of over 1 billion transferable roubles² of which 30 per cent was due in convertible currency. So far 369.3 million transferable roubles are paid up.

² Non-convertible units of account which have the same notional gold content as the Soviet rouble, ie 0.987412 grammes.

11. IIB has so far authorised credits amounting to nearly \$4 billion for 44 projects, 23 of which were brought into service in the 1971-75 period. The vast majority of these are for projects in the USSR and Eastern Europe but a 5.5 million transferable rouble loan has been raised for a wool-washing plant in Mongolia and another (of unknown size) for a citrus fruit combine in Cuba. In 1974 a massive credit (about \$2.5 billion) was authorised for the development of natural gas deposits at Orenburg in the USSR and for the construction of a gas pipeline to Eastern Europe. Funds have also been authorised for the construction of a 750 kilovolt power transmission link between the Soviet Union and Hungary. Together IIB and CMEA's other bank, the International Bank for Economic Co-operation (IBEC) have raised nearly \$1.6 billion in medium/long term syndicated loans from the West.

Specialisation and co-production

12. Specialisation involves concentrating the output of a given product or component in one or more of the member countries, who will in theory meet the requirements of the whole CMEA area. This is intended to bring about greater efficiency in production and to accelerate technological progress. In co-production, different countries produce the components or intermediate manufactures required for one finished item. Both ideas were emphasised in Eastern Europe in the mid 1960s but the USSR itself has only recently shown any interest. To date some degree of specialisation has been achieved only in the petro-chemical, motor vehicle and agricultural machinery sectors. Co-production and specialisation probably accounted for less than 10 per cent of the increase in total trade between the USSR and Eastern Europe in the 1971-75 period.

13. Progress has been slow principally because the participating countries have been reluctant to implement the ideas fully. Each country wants to concentrate on whatever is most profitable to its own economy and is reluctant to cease production of any item in case alternative CMEA supplies are not forthcoming. There is also the problem of high initial investment costs and the probability of slow returns on such investment. In addition, co-production has been hindered because the standardisation of parts is backward.

14. The reluctance of one or more partners has resulted in many specialisation and co-production agreements being delayed or cancelled in the past. However, efforts have been increased in the last 2-3 years and 30 new co-production agreements have been signed relating to electrical equipment, electronic items, measuring instruments, numerically-controlled machine tools, textiles, and construction equipment.

CMEA: financial system and prices

15. One of the main obstacles to progress towards integration within CMEA is the absence of an efficient mechanism for domestic price formation and the lack of a common pricing system although the gradual approach to using world market prices for intra-CMEA trade may eventually eliminate the latter problem to some extent. The Comprehensive Programme of 1971 sought to facilitate intra-CMEA financial relations but achieved little apart from easier clearing of non-commercial payments.

16. In late 1976 new "regulations" for using the transferable rouble (the accounting unit within CMEA) in settlement with non-Communist countries were proposed by CMEA's International Bank for Economic Co-operation (IBEC). Actual convertibility of transferable roubles does not seem practical at present as this would require sufficient reserves of hard currency or "hard" goods, neither of which are currently available to CMEA members under their present economic systems. These regulations are unlikely to have any perceptible effect on East-West trade, at least in the near future. One or two developing countries may later be persuaded to accept the arrangements in principle, but it is difficult to envisage any major settlements being made in transferable roubles.

17. Since 1976, intra-CMEA prices have been based on the average world price for the preceding five years. Thus 1976 prices, based on 1971-75 world prices, showed only a small increase over 1975 for most commodities (the oil price increase was 9-10 per cent). However, first indications of the 1977 position (from Hungarian sources) suggest sharper price rises particularly for raw materials (22.5 per cent for oil), with the result that East European terms of trade vis-a-vis

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the USSR will continue to deteriorate. CMEA prices are now more realistic and closer to world prices than they used to be, but CMEA importers still have the advantage that they are in general below world prices.

Intra-CMEA trade

18. The growth of Intra-CMEA trade is one of the main measures of the degree of economic inter-dependence of member countries. In 1975 some 56 per cent of CMEA trade³ was conducted with other member countries, a percentage which has varied over recent years from 59 per cent in 1970 down to 53 per cent in 1974, the latter reflecting Western inflation and the rise in the West's share in CMEA trade that year. As CMEA trade is planned to grow by 300 billion roubles in the 1976-80 period - an increase of nearly 150 per cent in price terms, but probably only 60 per cent to 80 per cent in volume terms, the share of intra-CMEA trade is expected to increase slightly. Trade flows continue to be largely bilateral with the Soviet Union the major trading partner of each of the other members. The USSR accounts for 40 per cent of total CMEA trade and is followed by Poland with 13.6 per cent and the GDR with 12.7 per cent (see Appendices D, E, F for detailed statistical information on intra-CMEA trade).

19. Intra-CMEA trade is based on 5 year bilateral intergovernmental agreements which set minimum physical volume levels and some value targets for the major commodities to be traded. Each year annual protocols are signed to implement the longer term agreements and additional agreements (usually of one year duration) may be signed to supplement the annual protocols. Such additional agreements have recently tended to price the goods traded in world (not CMEA) prices and sometimes to seek the settlement of outstanding balances in convertible currency.

20. The pattern of intra-CMEA trade continues to be commodity exchanges of Soviet raw materials for East European industrial and consumer goods. Table 1 shows the growth of intra-CMEA trade over a 15 year period and the continued high (although in some cases decreasing) dependence of most countries on their CMEA partners.

³ The comparable figure for the EEC was 49 per cent

TABLE 1: CMEA COUNTRIES --MUTUAL FOREIGN TRADE TURNOVER

Country	1960		1970		1975	
	\$ m	Share of total trade with CMEA	\$ m	Share of total trade with CMEA	\$ m	Share of total trade with CMEA
Bulgaria	969	80.5	2854	74.4	7689	73.8
Cuba	--	--	--	--	4253	55.4
Czechoslovakia	2389	63.8	4810	64.2	11132	66.0
GDR	2977	67.6	6343	67.3	14614	66.2
Hungary	1152	63.1	2967	62.1	7915	66.1
Mongolia	--	--	191	96.0	465	96.2
Poland	1579	56.6	4519	63.1	11754	49.7
Romania	912	66.9	1877	49.3	4186	38.0
USSR	5937	53.0	13649	55.6	36360	51.8

Source: CMEA Handbooks

21. Since the early 1970s the USSR has repeatedly told its East European partners that it would not be in a position to satisfy fully their growing needs for fuels and raw materials, and they would have to look to other suppliers. However, between 1971 and 1975 mutual exchanges enabled CMEA members to meet their import requirements in individual commodities to the extent shown in Table 2. The Soviet Union remains the main market for East European machinery, much of which is designed for Soviet use and has little saleability elsewhere: for example, half the total GDR and Czechoslovakian production of rolling mill equipment and half the Hungarian production of buses and diesel locomotives is absorbed by the USSR. In 1975, 57% of Soviet machinery imports came from CMEA supplies. These were valued at \$7.2 billion and machinery as a general category accounted for just over one third of total Soviet imports. The CMEA countries are also important suppliers of fruit and vegetables, cotton fabrics and most consumer goods, although Soviet reliance on foreign trade in general is not high.

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TABLE 2: DEGREE OF CMEA SELF-SUFFICIENCY IN INDUSTRIAL COMMODITIES

1971-1975

(Proportion of total requirements obtained from CMEA sources)

Machinery and equipment	70 per cent
Oil and Oil Products	80 per cent
Coal and electric power	100 per cent
Iron ore	75 per cent
Non-ferrous metals	70 per cent
Timber	80 per cent
Consumer goods	65 per cent

The Present Stage of Integration and Prospects to 1980

22. A great deal has been said in CMEA about integration over the past five years but it is difficult to assess how successful it has been and how far it has come. The most recent CMEA Council session held in Berlin in July 1976 did little in practice to further integration. In fact it appears that the "Comprehensive Programme" has been superseded by new and possibly less ambitious integration targets. The session recommended a "joint programme of co-operation between leading production sectors" over the next 10 to 15 years. These are limited to 5, albeit wide-ranging, principal sectors including fuel and power, engineering, foodstuffs, consumer goods and infrastructure modernisation. If these long-term programmes are implemented, together with co-ordinated Five Year Plans they will facilitate the establishment of a more precise planning mechanism if only in specific areas. They would then be going a small way towards the Soviet aim of a central planning organ for CMEA through which the USSR could assert more control over the development of its CMEA partners' economies.

23. In general progress towards integration appears to have been slow. In particular joint investments and the operation of CMEA banks has done little to alter the existing bilateralism of the economic relationship between member countries of the CMEA. Few of the projects outlined in 1971 are yet near completion and CMEA has entered another plan period with only a dozen (albeit sizeable) joint projects. The establishment of more "international" enterprises in CMEA countries will reinforce existing tendencies towards economic integration but the effectiveness

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of existing ones has been reduced by difficulties of price determination methods and costing practices, lack of convertible currency, restrictions of free movements of labour and capital, an inadequately developed technological base, legal complications and the continuing strong influence of national interests.

24. Little progress has been made towards achieving realistic exchange rates or a workable system of currency convertibility within CMEA. Every CMEA member accepts the wisdom of industrial specialisation but no country is willing to undermine its own economic prospects by failing to develop any economic sector, particularly as most countries are competing in similar fields for Western export markets.

25. The principal economic objective of the Soviet Union is to increase its domestic economic potential and the economic strength of the bloc as a whole. It uses the CMEA as a means of furthering these ends through co-ordination of the economic activities of member-countries. Insofar as recent external developments have increased the East Europeans' dependence on the USSR the latter no doubt view this as a useful factor cementing the political cohesiveness of the bloc.

26. The attitude of the East European countries to the CMEA is rarely expressed openly and is probably ambiguous. Most countries gain economically from some aspects of CMEA co-ordination, but they tend to be wary of any developments encroaching on national sovereignty.

Conclusions

27. Whatever their objectives, Eastern Europe's trading problems, exacerbated by the world economic recession, are forcing these countries towards greater co-operation within CMEA and greater dependence on the USSR. The need for Soviet raw materials, in particular fuel, on preferential terms, will continue to strengthen those ties, as will the difficulty of increasing their export earnings in the West. It seems likely that East European countries' perception of their own national interest will prevent integration from going as far as the USSR might wish, but the trends which have promoted integration up to now are unlikely to be reversed before the 1980s.

ECONOMIC RELATIONS WITH THE WEST

28. Although as a group CMEA is still to a large extent self-sufficient in fuels and raw materials, both the USSR and Eastern Europe rely in varying degrees on Western industrial technology and finance to expand and improve their industrial bases in certain important sectors.

29. The Comprehensive Programme did not go into the question of external economic relations, or CMEA's prospective role in such relations in any great depth or clarity. It was simply stated that economic relations with non-Communist states would continue to develop. The most interesting statement was "that for certain purposes the members of the CMEA will co-ordinate their foreign policy in the interests of normalising international trade and economic relations". While the circumstances under which this could occur appear to have been left deliberately ambiguous, the basis appears to have been established for a more unified CMEA position on some aspects of international relations with the West, for example as regards discussions with the European Economic Community.

30. However, the CMEA member countries are, on the whole, probably hoping to continue conducting trade with the non-CMEA countries on a bilateral basis. As usual all the recent Five Year Plans emphasised the importance of intra-CMEA trade with the implication that this would be at the expense of trade with the West, but in practice this is unlikely to be the case to any marked degree. In the 1971-75 period, trade with the West grew considerably faster than trade with Communist countries (see Table 3) and all CMEA countries wish to increase their exports to the West in order to finance their growing indebtedness.

TABLE 3: CMEA TRADE IN 1971-75

<u>All countries</u>	<u>Communist Countries</u>	<u>Developed West</u>	<u>Developing countries</u>
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Percentage
increases in trade
turnover over
previous 5 years

120	100	200	130
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31. The lack of a common CMEA policy has led to considerable variations in the approach of member countries to economic relations with the West. While the greater part of these are based on straightforward trade flows, a number of countries have entered into various types of industrial co-operation agreements with Western firms as a means of gaining access to Western technology and circumventing to some limited extent the chronic problem of scarce convertible currency. These agreements include compensation (or commodity-pay-back) agreements (mostly used by the USSR, and to a lesser degree, Poland), scientific and technical co-operation agreements and joint equity investments. Under compensation agreements equipment and industrial technical services are purchased on credit for the construction of industrial facilities and the loans repaid by the delivery of products from the new facilities. The technical co-operation agreements are designed to facilitate the exchange of information and possibly some co-ordination of research, although in this respect the CMEA partner appears to be the main beneficiary. Western firms often view these agreements as an entree to Eastern markets with the expectation that contracts may result later. The USSR alone has concluded more than 25 compensation agreements and over 175 scientific and technical agreements with Western firms.

32. Joint equity investment is more limited in scope and is so far allowed only in Romania, Hungary and now, in a more restrictive form, in Poland. Western companies can establish a joint company in those countries by supplying up to 49 per cent of the capital where the venture is in Eastern Europe, and 52 per cent if it is elsewhere. So far less than a dozen small scale agreements have been concluded.

Direction of CMEA Trade with the Developed West

33. Table 4 gives figures of CMEA trade turnover with the West for each year from 1970 to 1975 (fuller details are given in Appendices G, H, and K). Turnover in value terms grew rapidly over this period, the rate of annual increase rising each year until 1975 when it fell sharply. Much of the increase however was a reflection of Western inflation and, measured as a proportion of total CMEA trade, Western trade grew from 23 per cent at the beginning of the period to 30 per cent at the end. Over the period the CMEA deficit with the developed West grew from \$1 billion to over \$12 billion in 1975.

TABLE 4: CMEA TRADE WITH DEVELOPED WEST 1970-75

(US \$ MILLION)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Trade turnover with West	14480	15660	19870	28470	44730	52360
% increase over previous year	-	8	27	44	57	17
Deficit with West	-1085	- 905	-2305	- 3684	- 4785	-12275
West as % of total trade	23	23	24	26	33	30

Source: CMEA handbook

34. Poland with over 40 per cent of its trade with the developed West in 1975 and Romania with nearly 37 per cent had the highest dependence on Western trade. All CMEA countries were in deficit with the West, the largest absolute deficits being incurred by USSR, Poland and GDR. CMEA exports to the West in 1975 rose marginally in value terms but only Hungary and Romania were able to reduce their imports. The imports of the other East European countries increased relatively slowly in that year but Soviet imports jumped by 65 per cent largely because of grain purchases at \$2.3 billion and capital equipment at \$4.6 billion. The net result of these movements was that the share of developed Western trade in total CMEA trade fell slightly in 1975.

35. For Western countries as a whole trade with the CMEA is only a small part of their total trade (4 per cent of OECD trade in 1975), but CMEA markets have become quite important for certain countries and for certain economic sectors.

Commodity composition of trade

36. Table 5 shows the commodity composition of CMEA trade with the West in 1975 (fuller details are given in Appendix J). In general CMEA imports Western capital equipment in exchange for fuels, raw materials and relatively low quality manufactures. These East/West exchanges are essentially complementary, in contrast to the reciprocal exchange of similar goods that characterises intra-OECD trade.

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TABLE 5: COMMODITY COMPOSITION OF CMEA TRADE WITH THE DEVELOPED WEST, 1975

(Percentage)

<u>Commodity Group</u>	<u>Import</u>	<u>Export</u>
Food, beverages and tobacco	11.6	9.4
Crude materials, except fuel and food	4.1	15.3
Mineral fuels, lubricants and related materials	0.8	34.8
Animal and vegetable oils and fats	0.4	1.5
Chemicals	11.5	5.3
Machinery and transport equipment	36.1	9.4
Manufactured goods	30.2	16.7
Other	5.3	7.6
	<u>100.0</u>	<u>100.0</u>

Source: Economic Bulletin for Europe Vol. 28

Relations between CMEA and EEC

37. Much of the institutional progress and development of CMEA has been a response to the evolution and success of the EEC and recent Soviet policy has been largely directed towards raising the international status of CMEA to some equivalence with that of the EEC. However, the CMEA for a long time refused to recognise the existence of the EEC and hence its authority to negotiate agreements on behalf of its members because it did not wish to do anything to strengthen the cohesion of the EEC.⁽⁴⁾ This attitude has been modified somewhat in recent years but little progress has been made in developing relations between the two organisations. CMEA claims that the EEC discriminates against its exports, and in particular, criticises the impact of the Common Agricultural Policy on the exports of agricultural produce from Eastern Europe. An important step towards East European recognition of, and willingness to do business with, the Community was the recent opening of fisheries negotiations between the Community, the USSR, Poland, and East Germany. Formally the East Europeans are negotiating with the United Kingdom as the Presidency but they have accepted in practice that the Commission representative presents the Community's position in the negotiations.

(4) Some individual East European countries were much keener to have links with the Community, particularly the Romanians who, in November 1976, went as far as initialling an accord with the EEC regulating the inflow of Romanian textiles into the Community.

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38. Under the Common Commercial Policy, individual EEC members have no right to conclude bilateral trade agreements. Accordingly existing bilateral trade agreements were terminated but in practice as they were officially ended they have been replaced by long term agreements on economic, scientific and technological co-operation which remain the responsibility of individual member countries. In November 1974 the EEC proposed draft trade agreements with each CMEA country but this was rejected by CMEA who put forward counter-proposals for a framework agreement between EEC and its member states and CMEA and its member states. EEC has in turn rejected these proposals for formal ties between the two groups but has suggested the establishment of working relations in areas in which it considers the CMEA has authority such as trade relations, statistics and the environment. It is now for the CMEA to reply.

EEC/CMEA trade

39. The EEC's share of CMEA trade has increased rapidly in recent years from 10 per cent in 1973 to 16 per cent in 1975. By comparison the CMEA share of EEC trade is still under 5 per cent. Appendix K gives details of the trade between individual countries in both groups in 1975. In the EEC the dominant country is the FRG with 44 per cent of EEC/CMEA trade turnover, while among CMEA countries the main partners are the Soviet Union with 38 per cent and Poland with 19 per cent. The total EEC visible trade surplus with CMEA was about \$4.8 billion in 1975, but almost all of this was accounted for by two countries - FRG with a surplus of about \$3.6 billion and France with just under \$1 billion. In 1975 no CMEA country achieved an overall visible trade surplus with the EEC.

Prospects for CMEA Trade with the West

40. Soviet imports of Western industrial plant and machinery are expected to expand steadily up to 1980 in line with the trend of the recent past, but they will probably grow more slowly than in 1971-75. In the current plan period the projected growth rates for most industrial sectors are more conservative than for the 1971-75 period, including the most import-dependent branches. However, the aims of increased factor productivity and improved quality in production are probably dependent to a considerable extent on the continued acquisition of new technology from the West. Soviet deficiencies in grain and other foodstuffs and the needs of the various large-scale Siberian raw material exploitation projects will probably lead to further import requirements.

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41. The greatest market potential appears to be in the capital goods sector. In the energy field there is a continuing requirement for large-diameter gas pipes and compressor station equipment, for offshore oil exploitation technology, and possibly for liquified natural gas technology. In the chemical processing sector the growth areas for imported equipment are probably petrochemicals, synthetic fibres, complex fertilisers and thermo plastics. In metallurgy weaknesses still exist in the rolling and finishing stages of production. Specialised areas such as machine tools, specialised construction and agricultural machinery also present opportunities to Western manufacturers.

42. The accumulated Soviet commercial debt with the West will not decrease substantially in the long term unless trade with the West can be brought more into balance. If this is not to involve a severe reduction in imports or an increase in invisible earnings and higher gold sales, export receipts will have to rise rapidly. Such a rise will depend in the short term on the strength of economic recovery in the West and the relative movement of world prices for raw materials and manufactured goods. Preliminary figures for 1976 indicate a deficit of around \$5.0 billion with the convertible currency area for the year, which although somewhat less than that for 1975, does not indicate a rapid return to balance in visible trade, although 1977 is likely to see a further reduction in the deficit, to perhaps \$3.5-\$4.0 billion, as grain imports are likely to be reduced from their 1975-76 levels.

43. The dependence of the East European countries on foreign trade is greater than for the Soviet Union and they are more vulnerable to adverse developments in their foreign markets. Most countries see improvement of their engineering industries (through co-operation and specialisation with East and West) as important. This is in part to improve their currently slow penetration of western markets in this sector where they are already in competition with each other and with the hope of being able to afford continued access to western equipment to raise industrial growth. Their general lack of domestic resources of raw materials, coupled with Soviet supply constraints, is likely to continue and greater

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reliance on Western imports will be inhibited by their already heavy indebtedness. Preliminary figures for 1976 indicate a visible trade deficit of some \$5.5 billion, marginally lower than 1975. These countries should be able to reduce the deficit still further this year.

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ORGANISATION OF CMEA

Session of Council
Executive Committee
Council Committees:

1. For Collaboration in Planning
2. For Scientific and Technical Collaboration
3. For Material and Technical Supply

Secretariat

Standing Commissions:

1. Statistics
2. International Trade
3. Currency and Finance
4. Electric Power
5. Peaceful Use of Atomic Energy
6. Geology
7. Coal Industry
8. Oil and Gas Industry
9. Chemical Industry
10. Nonferrous Metallurgy
11. Ferrous Metallurgy
12. Machine-building Industry
13. Radio-engineering and Electronics Industry
14. Light Industry
15. Food Industry
16. Agriculture
17. Construction
18. Transport
19. Posts and Telecommunications
20. Standardisation
21. Civil Aviation
22. Health Protection
23. Defence

Conferences:

1. Heads of Water Management Agencies
2. Representatives for Legal Matters
3. Heads of Patent Offices
4. Representatives of Freightage and Shipping Organizations
5. Departmental heads for prices
6. Ministers of internal (home) trade

Scientific Institutions:

1. Institutes for Standardisation
2. International Institutes for Economic Problems of the World Socialist System
3. Joint Nuclear Research Institute
4. Institute (as yet unnamed) to deal with Managerial Problems

International Organisations:

See Appendix B

SPECIALISED ORGANISATIONS IN CEEA

INTERMETALL	Iron and Steel products	All European countries participate plus Yugoslavia	1964
INTERPODSZYNIK	Ball Bearings	European members, Yugoslavia observer status	1964
JOINT RAILROAD FREIGHT CAR POOL		European members	1964
INTERKOSMOS	Use of space	All members	1965
AGROMASH	Machinery for fruit, vegetable and vine cultivation	Bulgaria, Hungary, GDR, USSR	1965
INTRANSMASH	Loading and unloading machinery in industry	Bulgaria, Hungary	1965
INTERMEDION	Medical equipment	Hungary, USSR, Poland, GDR, Czechoslovakia	1967
INTERCHEM	Small Tonnage chemicals	European members and Yugoslavia	1970
INTERSPUTNIK	Space communications	All members	1971
INTERKOMMASH	Mining Equipment	European members	1971
INTERATOMINSTRUMENT	Nuclear Instruments	European members	1972
INTERMETALOMPREDOR	Precision Measurement	European members except Hungary, but including Mongolia	1972
INTERMABEL	Communications	N/A	1972
INTERSEDEKSENTR	Agricultural needs	N/A	1972

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INTERMORGO	Equipment for seabed prospecting	All members except Mongolia	1972
INTERATOMENERGO	Atomic, energy equipment	European members and Yugoslavia	1973
INTERTEKSTILMASH	Textile and Knitting Machinery	European Members	1973
INTERELEKTEO	Electrical Machinery	European Members	1973
INTERKOMPONENT	Electronic components and spare parts	Poland Hungary	1973
ASSOFOTO	Information Storage	USSR, GDR	1973
INTERGAZKHEMISTKA	Air purification	N/A	1973
INTERELEKTROTEST	High voltage equipment	European members and Yugoslavia	1973
INTERKHEMIZOLOKHO	Chemical fibres	European members and Yugoslavia	1974
INTERPORT	Port rationalisation	GDR, Poland	1974
INTERFOS	Phosphorus fertilisers	N/A	1974
INTERPAPA	Packaging	N/A	1974 (planned)
INTERPOLODTRANS	Refrigerated road and rail transport	N/A	1974
INTERKHEMIZOSHENIKA	Marketing Refrigerated equipment	N/A	1974
INTERGEOOTECHENKA	Geological Research	N/A	1974
INTERVODOKHEMISTKA	Water purification	N/A	1974
AGROINFORM	Agriculture and Forestry	All members	1974
UNIPROMGAS	Gas exploration, exploitation and transport	N/A	1974
DOMKHIM	Household chemicals	USSR/GDR	1974
INTERKHEMIZEFASER	Synthetic fibres	European members and Yugoslavia	1974
NEFROBALT	Oil and Gas Exploration in Baltic territorial waters and onshore	Poland, GDR, USSR	1975

INDUSTRIAL ENTERPRISES BUILT OR BEING BUILT IN CMEA COUNTRIES WITH SOVIET ASSISTANCE

(as of 1st January 1976)

	Total under Contract	In Operation	For completion
Total CMEA	1003	696	307
Bulgaria	268	135	133
Czechoslovakia	26	15	11
Cuba	164	129	35
GDR	18	8	10
Hungary	83	63	20
Mongolia	124	109	15
Poland	166	102	64
Romania	112	93	19

Source: Ekonomicheskaya Gazeta - July 1976

AVERAGE ANNUAL GROWTH RATES OF CMEA COUNTRIES MUTUAL TRADE
(per cent)

	1956-60	1961-65	1966-70	1971-75
Total	11.3	9.1	8.2	14.4
Bulgaria	18.0	12.1	10.7	16.0
Cuba	-	-	9.6	17.8
Czechoslovakia	10.9	8.8	5.7	12.8
GDR	13.4	6.5	9.3	12.7
Hungary	13.1	11.2	8.7	16.3
Mongolia	7.4	3.5	2.6	14.3
Poland	7.8	11.6	10.3	15.7
Romania	5.4	7.7	7.3	12.0
USSR	11.4	9.2	7.8	14.8

Source: USSR Foreign Trade No 7 1976.

RELATIVE SHARE OF MACHINERY IN MUTUAL EXPORTS OF EUROPEAN CMEA COUNTRIES

(per cent)

	1965	1970	1974-5
Bulgaria	30.0	32.7	48
Czechoslovakia	56.0	69.5	59
GDR	58.6	58.6	61
Hungary	42.8	45.1	44
Poland	48.7	52.5	57
Romania	24.5	28.2	38
Soviet Union	18.0	21.9	28

Source: USSR Foreign Trade No 7 1976.

USSR TRADE WITH CMEA IN 1975
SOVIET IMPORTS

(in million US \$)

	Bulgaria	Czech- slovakia	GDR	Hungary	Poland	Romania
Total Imports	2675	2620	3661	2239	3333	1141
of which Machinery and Equipment	1080	1366	2312	927	1246	249
of which, machine tools	2	61	179	2	22	8
Equipment for power industry	-	33	37	-	25	1
Electro-technical equipment	88	17	62	-	105	39
Cranes and lifting equipment	252	27	156	56	4	-
Equipment for food Industry	6	57	84	31	20	-
Equipment for textile and light Industry	15	112	39	-	27	-
Chemical equipment	-	122	146	24	67	14
Medical and laboratory Equipment	14	41	73	77	25	-
Agricultural machinery	108	51	180	28	38	17
Railway rolling stock	-	167	193	19	184	71
Ships and ships' equipment	57	54	408	6	424	27
Vehicles and garage equipment	27	137	5	355	42	11
Cars and motorcycles	21	53	-	35	1	-
Pumps and Compressors	37	10	17	-	8	-
Rolled ferrous metals	11	(289)	N/A	27	44	29
Non ferrous metals	11	-	-	-	38	-
Hard coal	-	-	-	-	437	-
Coking coal	-	-	-	-	62	-
Chemicals	66	32	78	-	34	36
Paints and varnishes	-	34	53	11	66	13
Tobacco	127	-	-	-	-	-
Meat and meat products	35	-	-	93	-	7
Fruit and vegetables	228	-	-	82	5	12
Grain	-	-	-	160	-	70
Beverages: Alcoholic and Non-alcoholic	214	10	-	65	4	57
Tobacco products	273	-	-	-	-	-
Clothing and Fabrics	142	120	173	137	286	127
Haberdashery goods	21	49	42	27	21	12
Footwear	15	182	23	97	105	31
Furniture	40	50	103	20	60	114
Medicine, hygiene products, cosmetics	98	21	69	135	142	13
Household goods	8	33	98	11	65	15
Other goods*	307	500	690	447	619	326

*In the commodity breakdown of Soviet trade statistics unidentified commodities in total Soviet imports are as follows: Bulgaria \$286 million, \$223 million Czechoslovakia, GDR \$475 million, Hungary \$367 million, Poland \$367 million and Romania \$68 million. Source: USSR Foreign Trade 1975.

USSR TRADE WITH CMEA IN 1975

(in million US \$)

	BULGARIA	CZECH- OSLOVAKIA	GDR	HUNGARY	POLAND	ROMANIA	MONGOLIA	CUBA
SOVIET EXPORTS TOTAL	2853	2797	4128	2296	3390	973	492	1581
of which Machinery and Equipment	899	451	783	456	702	275	307	387
of which:								
Equipment for power Industry	75	-	69	6	11	25	16	45
Electrotechnical equipment	20	3	7	5	15	15	2	7
Mining equipment	16	12	4	3	41	4	70	-
Lifting and Hoisting equipment	21	5	11	10	19	22	3	18
Plants for food and Light Industry	16	13	15	11	19	11	6	34
Chemical industry equipment	50	2	3	5	12	19	-	4
Medical and laboratory equipment	17	6	17	5	21	5	4	4
Tractors and spare parts	56	31	60	40	47	2	5	43
Agricultural machinery	63	47	11	39	29	4	14	25
Railway equipment	5	9	104	5	59	-	1	3
Vehicles and garage plant	77	-	65	75	68	14	17	53
Ships and Ships equipment	29	-	9	1	15	8	-	4
Aircraft and parts	31	20	47	57	15	33	14	8
Cars and Motorcycles	113	111	107	73	27	1	3	11
Hard coal and Anthracite	207	109	170	17	52	30	-	2
Oil and Oil Products	548	682	584	428	726	-	18	344
Natural Gas	48	130	69	25	97	-	-	-
Iron Ore	25	218	-	63	171	110	-	-
Pig Iron	32	93	40	23	135	36	-	7
Rolled ferrous metals	168	64	674	169	193	129	5	39
Copper	-	64	-	55	1	9	-	2
Aluminium	17	65	80	74	25	-	-	-
Rolled non-ferrous metals	25	12	19	21	24	3	-	13
Chemical products	28	43	48	46	24	6	2	23
Wood, pulp and paper products	73	66	318	228	98	9	3	65
Cotton	52	85	104	56	133	37	-	26
Medicaments	12	7	4	9	23	1	4	5
Household goods	6	36	56	42	130	19	7	52
Grain	-	88	107	-	144	-	2	87
Other goods								

Source: USSR Foreign Trade 1975

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CMEA TRADE WITH THE DEVELOPED WEST, 1970-1975

(US \$ million)

	1970	1971	1972	1973	1974	1975
Total Trade Turnover	63,581	68,857	83,146	109,424	136,550	174,362
of which West	14,482	15,657	19,837	28,467	44,726	52,358
Percentage of total turnover	22.8	22.7	23.9	26.0	32.8	30
Percentage increase on previous year		+8	+26.7	+43.5	+57.1	+17
Total CMEA Exports	32,021	34,680	41,168	54,145	67,247	82,212
of which to West	6,698	7,377	8,765	12,978	19,971	20,040
Percentage of total Exports	20.9	21.3	21.3	24.0	29.7	24.4
Percentage increase on previous year		+10	+18.8	+48	+53.9	+34
Total CMEA Imports	31,560	34,177	41,978	55,278	69,305	92,151
of which from West	7,783	8,280	11,072	15,483	24,755	32,317
Percentage of total Imports	24.7	24.2	26.4	28.0	35.7	35.0
Percentage increase on previous year		+6.4	+33.7	+39.9	+59.8	+39.5

Source: CMEA Statistical Handbooks

DISTRIBUTION OF FOREIGN TRADE OF CMEA MEMBERS, 1975

(Percentage)

	USSR	POLAND	GDR	CZECH- OSLOVAKIA	HUNGARY	ROMANIA	BULGARIA	CUBA	MONGOLIA
Trade with:									
COMMUNIST COUNTRIES									
Turnover	56.3	52.2	69.7	70.6	69.0	44.8	75.8	58.9	98.9
Export	60.7	59.9	73.2	71.6	72.2	46.0	80.0	67.9	99.3
Import	52.4	45.8	66.6	69.8	66.2	43.5	72.3	50.6	98.5
OF WHICH CMEA									
Turnover	51.8	49.7	66.2	66.0	66.1	38.0	73.8	55.4	96.2
Export	55.6	56.9	69.3	66.5	68.5	38.8	77.4	64.2	96.4
Import	48.3	43.8	63.5	65.6	64.0	37.1	70.7	47.3	95.0
DEVELOPED WEST									
Turnover	31.3	41.3	25.9	22.4	24.4	36.7	17.0	21.5	1.1
Export	25.6	31.5	22.4	19.8	21.4	31.5	9.3	23.5	0.7
Import	36.4	49.3	29.0	24.6	27.0	41.9	23.6	38.9	1.5
LESS DEVELOPED COUNTRIES									
Turnover	12.4	6.5	4.4	7.0	6.6	18.5	7.2	9.6	-
Export	13.7	8.6	4.4	8.6	6.4	22.5	10.7	8.6	-
Import	11.2	4.9	4.4	5.6	6.8	14.6	4.1	10.5	-

Source: CMEA Statistical Handbook 1976

TRADE OF CMEA MEMBER COUNTRIES WITH THE DEVELOPED WEST, 1970-75

Country	Category	1970		1973		1974		1975	
		US \$ M	Percentage Total						
USSR	Turnover	5,216	21.2	11,216	26.6	16,397	31.3	21,946	31.3
	Export	2,393	18.7	5,044	23.7	8,270	30.2	8,505	25.6
	Import	2,822	24.0	6,172	29.5	8,126	32.6	13,441	36.7
	(-) Deficit	-429		-1,128		-144		-4,936	
Poland	Turnover	1,937	27.1	3,698	41.7	8,238	44.4	9,758	41.3
	Export	1,007	26.4	2,202	38.8	2,978	36.3	3,356	31.5
	Import	930	25.8	3,496	44.8	5,258	50.8	6,401	49.3
	(-) Deficit	+77		-1,294		-2,280		-3,045	
GDR	Turnover	2,297	24.4	4,293	27.9	5,602	30.9	5,724	25.9
	Export	1,002	21.9	1,730	23.0	2,357	27.4	2,337	22.4
	Import	1,294	26.7	2,562	32.6	3,245	34.2	3,387	29.0
	Deficit	-292		-832		-888		-1,050	
Czechoslovakia	Turnover	1,677	22.4	2,822	23.6	3,644	25.9	3,766	22.4
	Export	711	20.4	1,295	21.8	1,631	24.0	1,603	19.8
	Import	904	24.5	1,527	25.4	2012	27.7	2,164	24.6
	Deficit	-193		-232		-381		-561	
Hungary	Turnover	1,358	28.4	2,289	28.2	3,003	30.5	2,926	24.4
	Export	649	28.0	1,157	26.7	1,244	26.1	1,134	21.5
	Import	709	28.8	1,132	30.0	1,759	34.6	1,741	27.0
	(-) Deficit	-60		+25		-515		-557	
Romania	Turnover	1,363	35.8	3,025	41.7	4,485	45.4	4,045	36.7
	Export	590	31.9	1,453	38.8	2,020	42.1	1,738	31.5
	Import	773	39.5	1,572	44.8	2,464	43.6	2,306	41.9
	Deficit	-183		-119		-444		-568	
Bulgaria	Turnover	636	16.6	963	14.6	1,403	17.4	1,768	17.0
	Export	285	14.2	442	13.4	442	11.7	449	9.4
	Import	350	19.1	521	15.9	961	22.5	1,319	23.6
	Deficit	-65		-79		-519		-870	
Cuba*	Turnover			829	26.9	1,947	36.8	2,420	31.5
	Export	na	na	402	28.9	1,026	38.8	866	23.5
	Import			426	25.4	921	34.8	1,554	38.9
Mongolia	Turnover			5	1.4	6	1.4	6	1.1
	Export	na	na	2	1.4	2	1.0	2	0.7
	Import			3	1.3	4	1.7	4	1.5

Source: CMEA Statistical Handbook, 1971, 1974, 1975, 1976

Statistics originally Transferable Roubles, converted to US dollars at official conversion rates \$ = TR 1971 1.11; 1972 1.21; 1973 1.34; 1974 1.32; 1975 1.39.

*Cuba became member of CMEA in 1972

(CMEA) EXPORTS TO THE NON-COMMUNIST WORLD 1974 (US \$ million)

COMMODITY GROUP	BULGARIA	CZECH-OSLOVAKIA	GDR	HUNGARY	POLAND	ROMANIA	USSR	COMMODITY TOTAL
Food, Beverages and Tobacco	155	154	322	449	577	327	238	2513
Crude materials, inedible except fuels	43	192	199	119	334	149	2429	3467
Mineral fuels, lubricants and related materials	8	161	264	35	896	403	3995	5763
Animal and vegetable oils and fats	15	5	24	22	9	88	189	352
Chemicals	89	147	268	113	296	146	438	1498
Machinery and transport equipment	24	227	178	42	152	67	257	948
Manufactured goods	220	904	971	634	787	590	1717	5824
Other	151	473	413	237	466	524	1613	3877
TOTAL	705.9	2265	2639	1652	3518	2294	10966	24041

CMEA IMPORTS FROM THE NON-COMMUNIST WORLD 1974

Food, Beverages and Tobacco	122	280	311	248	584	193	1415	3154
Crude materials, inedible except fuels	95	318	206	159	560	335	978	2653
Mineral fuels, lubricants and related materials	10	23	58	17	51	53	53	265
Animal and vegetable oils and fats	3	15	56	12	39	20	45	190
Chemicals	159	381	484	543	515	319	913	3215
Machinery and transport equipment	237	616	521	422	1599	758	2468	6822
Manufactured goods	412	565	1086	636	1034	694	3961	9258
Other	64	112	99	53	279	110	736	1453
TOTAL	1103	2312	2823	2090	5430	2483	10570	26611

Source: Non-Communist Countries Statistics as collated by
US Department of Commerce

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N A T O U N C L A S S I F I E D

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YEAR COMPARE WITH 1974, 1975

(US \$ million)

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	USSR	GERMANY*	POLAND	CZECH-OSLOVAKIA	HUNGARY	ROMANIA	BULGARIA	CUBA	TOTAL
BELGIUM/ LUXEMBOURG	Imports	81	124	50	26	28	11	6	626
	Exports	353	219	68	45	60	38	51	924
	Balance	+53	+95	+18	+19	+32	+27	+45	+213
DENMARK	Imports	170	183	40	26	32	6	10	520
	Exports	65	135	30	28	10	11	27	324
	Balance	-105	-48	-10	+2	-22	+5	+17	-195
FRANCE	Imports	769	352	105	92	175	36	24	1716
	Exports	1145	624	160	166	203	123	106	2735
	Balance	+376	+272	+55	+74	+28	+87	+82	+983
FRG*	Imports	1295	582	470	366	404	94	9	1430
	Exports	2824	1302	683	573	662	416	128	6251
	Balance	+1529	+720	+210	+207	+255	+322	+119	+3583
GDR	Imports	40	30	12	3	3	1	4	93
	Exports	23	7	7	1	1	1	4	29
	Balance	-17	-23	-11	-2	-3	+1	+4	-55
ITALY	Imports	876	306	126	214	244	65	20	1900
	Exports	1023	405	122	190	215	131	93	2266
	Balance	+147	+99	-4	-24	-29	+66	+73	+634
NETHERLANDS	Imports	301	142	86	68	109	6	6	705
	Exports	209	188	90	85	61	35	57	644
	Balance	-92	+46	+4	+18	-48	+29	+51	+49
UK	Imports	889	254	131	58	79	16	14	1324
	Exports	463	403	113	99	90	53	82	1475
	Balance	-426	+149	-18	+41	+11	+37	+68	-152

Source: Monthly Bulletin of Statistics of Foreign Trade, DECD Dec 1976

*FRG/GDR trade: BND Statistisches Jahrbuch 1976

N A T O U N C L A S S I F I E D