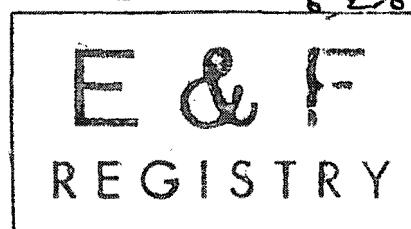


CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

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NATO CONFIDENTIAL
WORKING PAPER
AC/89-WP/107/3

SUB-COMMITTEE ON SOVIET ECONOMIC POLICYTHE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (COMECON)Note by the Acting Secretary

At the last meeting of the Sub-Committee held on 6th June, 1963, it was agreed that discussion would be resumed on the recent developments of the Council for Mutual Economic Assistance (COMECON)(1). Since then, two notes on this subject have been circulated, the first by the United States Delegation (AC/89-WP/107/1) and the second by the German Delegation (AC/89-WP/107/2).

2. The attached paper has been prepared by the Economics Directorate as a synthesis on the basis of the notes by the French, German and United States Delegations, and material provided by the United Kingdom Delegation. Its purpose is to bring up to date document C-M(62)88, which covered COMECON's activities from its inception to its XVIth Council meeting, held in June, 1962.

3. The attached note includes all information so far available to the Economics Directorate on the XVIIIth COMECON Council meeting, held in Moscow on 25th and 26th July, 1963. It would be appreciated if delegations were in a position to provide further comments on this recent Council conference.

4. It is intended that the attached note should provide a basis for the further discussion in the Sub-Committee at its next meeting, the aim being to transmit an agreed document on this subject to the Committee of Economic Advisers.

(Signed) M. J. JORDAN

OTAN/NATO,
Paris, XVIe.

(1) AC/89-R/51, Item V(3).

SUB-COMMITTEE ON SOVIET ECONOMIC POLICYCOUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (COMECON)
ACTIVITIES FROM JUNE 1962 TO JULY 1963Note by the Economics Directorate

1. The Council for Mutual Economic Assistance (COMECON) has seen a further increase in its activities since the important conference of Party and Government chiefs which was held simultaneously with the XVIth Council Plenum in Moscow in June, 1962⁽¹⁾, where a long-range programme had been worked out to solve the critical transport problem, to enlarge the raw material basis, to promote specialisation and co-operation in industrial production, and to co-ordinate trade and aid. The following report aims at describing the measures taken, the progress achieved and the setbacks suffered by COMECON between the XVIth Plenum in June, 1962 and the recent conference of Communist leaders in Moscow from 24th to 26th June, 1963, on the occasion of the XVIIIth COMECON Plenum.

A. ORGANIZATIONAL MEASURES⁽²⁾

2. The Executive Committee, created at the June conference in 1962 and composed of Deputy Prime Ministers from the member countries, has evolved a pattern of holding meetings of several days' duration at two-monthly intervals. It has taken over the functions of the Council of Deputies and a share of the work of the Secretariat; it has emerged as the most important of COMECON's organs, though it has not yet developed into an effective supranational body.

3. A "Bureau of Planning Questions," charged with the study of the five and twenty-year plans of member countries, and with making recommendations for co-ordinating the countries' plans, has been attached to the Executive Committee.

4. New permanent commissions were established for research co-ordination, standardisation and statistics (in June 1962), for foreign exchange and finance (in December 1962) for radio technique and electronics, and for geology (July 1963). It was also decided at the July meeting 1963 to divide the permanent commission for light and food industries into two separate bodies.

5. The permanent commission for the Co-ordination of Scientific and Technical Research aims above all at initiating programmes of common interest and distributing new research work among the member countries.

(1) See C-M(62)38 covering the period from the creation of COMECON in 1949 until the XVIth Council Plenum in 1962.

(2) See Annexes I and II. - Organization and Functions of COMECON agencies.

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6. The Standardisation Commission is concerned with unifying national industrial standards, and will direct research work of a newly-created Standardisation Institute. It aims at a complete interchangeability of component parts of manufactured goods.

7. The Statistics Commission is working on the establishment of a statistical methodology to aid the search for a mutually satisfactory basis for economic comparisons among member countries. Successful work in this field is essential to any eventual solution of the problem of foreign trade prices and currency exchange rates, and to rationalise decisions on specialisation and joint investment.

8. The permanent commission for Foreign Exchange and Finance is undertaking the study of the complex financial and currency obstacles to multilateralism in COMECON(1). At its meeting in March 1963, it discussed a draft agreement for multilateral clearing in "conversion roubles", and a draft charter for the COMECON "Bank of Socialist Countries", of which this commission will be the directing body. Up to now payments for foreign trade exchanges had always to be balanced bilaterally and only minor payments exceeding plans have been cleared multilaterally by the Soviet State Bank. The new bank is to handle all payments between COMECON countries on a multilateral basis. The proposals worked out by the Commission were approved by the Council at the July conference in 1963(2).

B. ACTIVITIES

(a) Transport and power

9. COMECON is currently giving much attention to co-operation in solving transport problems. The quantity of goods, mostly iron ore and other raw materials, which the Soviet Union is, or will be, exporting to the European satellites, is estimated by official Soviet sources to increase from 50 million tons in 1960 to 250 million tons in 1980; up to now, 85% of these exports have been carried by rail.

10. The most advanced project in the transport field is the "Friendship" pipeline which, when completed, will carry crude oil from the Kuibyshev oilfields in the Western Urals to Poland, the Soviet-occupied zone of Germany, Czechoslovakia and Hungary. The sections of the pipeline to Czechoslovakia and Hungary were completed in 1962. The work on the pipeline in Western Poland is proceeding and is expected to reach the Soviet zonal border by November 1963.

{1} See below paragraph 18.

{2} An agreement on multilateral clearing of noncommercial payments was signed in early February in Bucharest at the conclusion of a conference of finance ministers of all Communist bloc countries, including Albania, Communist China and the Asian satellites. The conference was not held under COMECON auspices and no details of the agreement have been announced.

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11. A draft agreement on a joint pool of freight cars, embracing Czechoslovakia, Poland, the Soviet Zone, Hungary and Roumania, was approved by the Executive Committee in December, 1962, and is expected to come into effect on 1st January, 1964, when 20% to 25% of all national freight cars will be pooled. A group of experts met in Prague early in April, 1963 and decided to set up a railway despatch centre for the pool in this city. It is not yet clear whether the Soviet Union - because of the difference in railway gauge - and Bulgaria will participate.

12. It was also agreed to create a bureau for co-ordinating ocean freight, which would attempt to protect the interests of member countries on the international freight market by extracting better terms from non-Communist shippers, and by holding to a minimum the use of non-Communist ships.

13. The work to link the electric power grids of the Soviet Union and the European COMECON members is progressing. In July, 1962, power was reportedly transmitted for the first time over a new line from the Soviet Ukraine to Hungary, thus joining the Soviet Union with a unified network already existing in Hungary, Czechoslovakia, Poland and the Soviet Zone. As yet, however, the volume seems to be of little importance. New lines are scheduled to link Roumania with Slovakia and Bulgaria. A central electric power control organization has been established in Prague.

(b) Raw materials

14. COMECON has for some time been working on the problem of finding means to encourage member countries possessing raw material reserves to exploit them in order to supply the raw materials to other member countries. As countries which have such reserves complained that the amount of capital to be tied up in developing them was out of proportion to the return from such investments, the solution found was the introduction of joint investment projects. Under these arrangements, one or more countries provide equipment for the working of raw materials in another country, and are repaid in kind from the output of the new installation.

15. The Soviet Union recently made an arrangement with Poland whereby the latter agreed to provide over a five-year period machinery and equipment for the production of potassium fertilisers valued at 70 million roubles under an interest-bearing credit; repayment will be made by Soviet deliveries, beginning in 1970. A USSR/Hungarian agreement, concluded in November, 1962, provides for Hungarian alumina to be processed in the Soviet Union and shipped back as aluminium to Hungary. In February, 1963, the Executive Committee was reportedly working on a multilateral agreement on the joint exploitation of apatite deposits in the Kola Peninsula.

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(c) Specialisation and co-operation in industry

16. The lack of reliable cost information would make it impossible to arrive at rational decisions as to where a given industrial product can be produced most efficiently. While still lacking an overall agreement to solve this problem, agreements seem to have been reached on several items, such as the machine tool industry. Under such an agreement, Czech factories will eventually be dismantled and transferred to other countries. Engineering as a whole continued to be the branch where specialisation appears to have advanced comparatively well. According to COMECON plans, specialisation in engineering is to increase 50% during the next three years, resulting in a 20% increase in productivity in this sector. Co-ordination in the chemical industry also appears to be advancing, involving mainly the production and importation from the West of the necessary equipment to exploit the resources.

17. The light and food industries have been picked for joint investment projects: according to press reports, eleven factories for food processing, textiles and footwear will be built jointly, and the production of ballbearings has also been indicated for a joint project. There seem, however, to be differences of opinion as to where these factories should be located.

(d) The price problem

18. The general price problem can only be solved after a system of domestic wholesale prices has been introduced within the region which would more closely correspond to costs, but there can obviously be no real progress in this field unless the Soviet Union solves her domestic price problems. As a first step, the December session of the Council Plenum decided to reconsider the foreign trade price base now being used as a guideline for trade among COMECON members. Those countries importing raw materials in great quantities are apt to lose under the present interbloc trade arrangements because the raw material prices fixed for mutual exchange transactions - i.e., the world market prices of 1957 - are higher than today's rates, whereas the world market prices for finished products have on the whole increased. The USSR as a raw material exporter of considerable importance is profiting from this situation. The present price structure is to be replaced as of January, 1964 by a new system based on average world market prices over the five-year period 1957/61.

(e) Agriculture

19. The decisions so far taken in non-priority sectors, such as agriculture, do not give the impression of being backed by a really energetic will to overcome difficulties. Except for some specialisation in the production of agricultural machines and an agreement on the exchange of seeds, nothing much seems

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to have been achieved. The Poles have recently propagated the idea of extending the principle of joint investment to agriculture as a solution to the problem of periodic fluctuations in grain production, suggesting that the Soviet Union might designate a section of the "new lands" in which interested COMECON countries might make joint investments. The crops thus produced would then go into a common grain reserve.

(f) Co-ordination of economic plans

20. Common planning appears to have remained the crucial problem of COMECON activities in 1962/63. The new "Bureau of Planning Questions" (see paragraph 3) seems to have been busy working out "provisional" common targets for the combined economies of the member countries for the period 1961/80, which, according to an official announcement, provide for industrial production to increase sixfold, agricultural production threefold and national income - net material product - fivefold.

21. More detailed plans seem to have been agreed upon for the period 1966/70, especially for the production of fuels and electric power, and the electronics industry. All this, however, is very far from genuine unified planning, which would imply supranational control, and thus impinge on the principle that COMECON decisions are not binding on individual countries, except when enacted as national law.

C. ATTITUDE OF MEMBER AND ASSOCIATED COUNTRIES TOWARDS COMECON

(a) Member countries

22. Poland has recently turned out to be the USSR's junior partner in promoting COMECON integration. On the other hand, this country has been particularly assiduous in cultivating arrangements with its neighbours Czechoslovakia and the Soviet-occupied Zone of Germany. Poland's motives for seeking these trilateral ties are obvious, Poland being the least industrialised of the three and probably hoping to receive capital injections from the other two. All three might see an advantage in placing greater reliance on each other in order to reduce their individual dependence on the Soviet Union. There is, however, little opportunity for them to replace the Soviet Union in their trade with each other, and the economic ties between the Soviet Zone and the Soviet Union have grown to a point where the arrangement is referred to as "an economic community." Being the most industrialised economic units of the region, the Soviet Zone and Czechoslovakia appear also to favour COMECON's division of labour policies, as production of a smaller variety of goods, but on a larger scale, would increase rentability.

23. Roumania displayed unusually explicit signs of disagreement following the Executive Committee's session in

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Moscow in February, 1963. A special Plenum of the Central Committee of the Roumanian Workers' Party exclusively devoted to COMECON problems announced that COMECON co-operation should be based on complete equality and sovereignty of the member countries - two principles especially mentioned in the communique of the Party Leader's conferences of 26th July, 1963 - that the individual plans of the member countries should be given preference over a common plan, and that COMECON should restrict itself to co-ordinating national plans, and not give directives. Roumania is apparently not prepared to be cast mainly as a supplier of food and raw materials for the bloc and to abandon major projected industrialisation plans, including steel, plastics and petrochemicals.

24. Prior to the July conference, the Roumanian Prime Minister was reported to have sent Khrushchev a letter of protest, containing threats to withdraw Roumania from COMECON rather than acquiesce in the cutting down of Roumania's independent economic development. He is said to have emphasised, however, that Roumania's stand did not imply disloyalty to the Soviet Union on political and ideological questions. Nevertheless, the recent conclusion of a trade agreement with China providing for a 10% increase of exchanges and the delivery of Roumanian oil, the return of the Roumanian Ambassador to Tirana following the renewal of a trade agreement with Albania, the placing of huge orders for industrial equipment in Western countries, and the planned construction of a common Roumanian/Yugoslav Danube power plant are clear signs that Roumania has embarked on a road to a more independent economic policy, and that the Soviet Union and the other COMECON countries see no other possibility at present than to let her have her own way.

25. More recently, Bulgaria seems to have joined Roumanian opposition to Khrushchev's plans, though her dependence on the Soviet Union is much greater than that of Roumania.

26. Outer Mongolia, a COMECON member since June, 1962, apparently restricts her attendance to the sessions of those commissions whose work has come relevance to her domestic problems. Since the end of 1961, Albania has taken no active part in COMECON functions, and ceased to pay contributions, although no formal decision revoking her membership has been announced.

(b) Associated and other countries

27. Communist Chinese observers have continued to attend sessions of COMECON's various commissions, as for instance, the meeting of the non-ferrous metallurgy commission, the economic commission, the foreign trade commission, and the agricultural commission. In Article 21 of the "Twenty-Five Points" of 14th June, 1963, however, the Chinese Communists heavily criticised COMECON integration, calling it "big-power chauvinism."

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North Korea has rarely sent observers in recent months, but North Vietnam has been more regular.

28. Cuba has sent observers to two sessions of the new Commission on Standardisation, apparently taking advantage of the provision adopted by this Commission that any "Socialist" country can participate fully in its proceedings, whether a member of COMECON or not. Cuba also participated in a recent session of the foreign trade commission, where sharp criticism of her economic policies seems to have been voiced by several delegates. COMECON aid to Cuba is, however, going to be continued on a large scale, and it is not unlikely that Cuba will one day become a full member.

29. Yugoslavia, despite the thaw in her relations with the Soviet Union, has not thus far resumed the practice followed from 1956 to 1958 of sending observers to COMECON meetings. However, bilateral commissions for economic and technical co-operation continue to exist between Yugoslavia and most satellite countries. Yugoslavia's trade with COMECON countries has increased during the last few years, now accounting for approximately 30% of her foreign trade volume. In these circumstances, Yugoslavia might again be interested in obtaining an observer status with COMECON, provided that this would not impair her associate status with GATT and the OECD.

D. CONCLUSIONS

30. During the last year, COMECON has made some progress, above all in the field of common investment projects; the first steps undertaken in the direction of a common monetary policy should also eventually yield positive results. Trade within the area, which increased by 14% in 1962, will further expand, while the share of intersatellite trade will increase faster than that with the Soviet Union, without endangering the dominant position held by the latter.

31. However, COMECON has made little or no progress in such fields as the common management of joint enterprises, the adaptation of supply to demand, the increase in productivity, the distribution of labour, the fixing of prices and, above all, common planning. A solution to these problems has become more urgent than ever due to the poor economic performance of the member countries, the success of the Common Market and Western economic co-operation, the Sino-Soviet dispute, and growing national ambitions. However, the COMECON conference in Moscow at the end of July, 1963 does not appear to have produced a formula for a speedier integration of the economies of the member countries, but rather to have sanctioned the Roumanian argument that COMECON activities should be subordinated to the economic development of the individual member countries.

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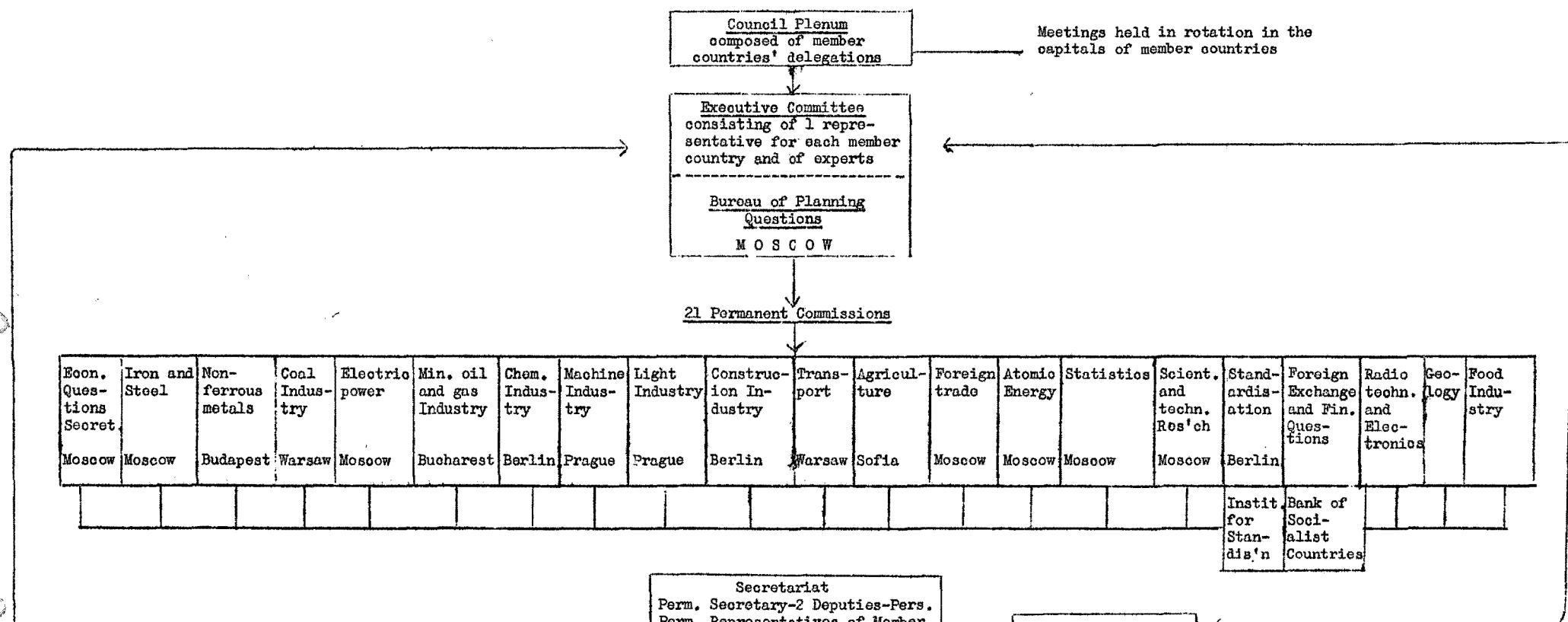
ORGANIZATION OF THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

Agencies (Organization, Location)

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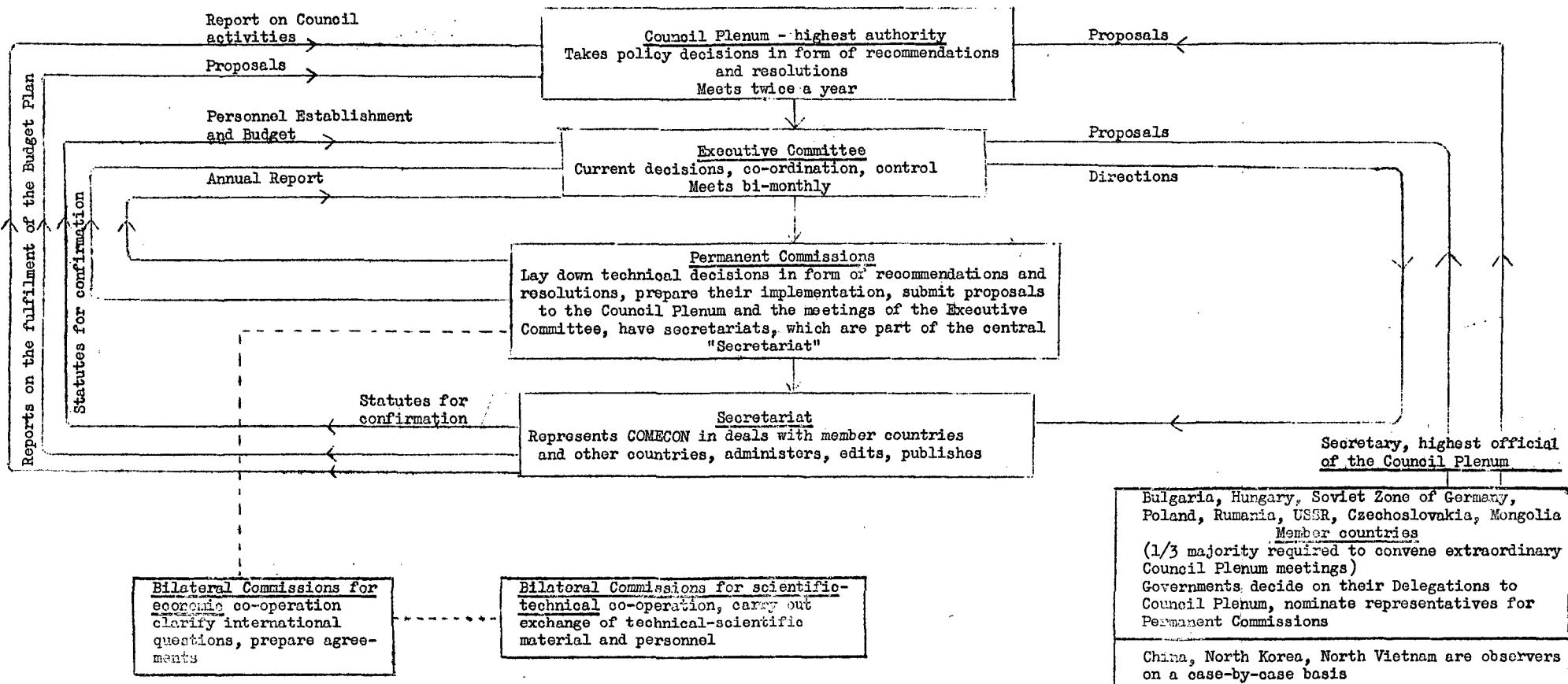
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ORGANIZATION OF THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

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Agencies (Functions)



----- indirect agencies

Bulgaria, Hungary, Soviet Zone of Germany,
Poland, Rumania, USSR, Czechoslovakia, Mongolia
Member countries

(1/3 majority required to convene extraordinary
Council Plenum meetings)
Governments decide on their Delegations to
Council Plenum, nominate representatives for
Permanent Commissions

China, North Korea, North Vietnam are observers
on a case-by-case basis