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PREPARATION OF A CSCE: ECONOMIC CO-OPERATION

Note by the Chairman of the Council

The attached report, reflecting the outcome of intensive studies pursued by the Economic Committee, was discussed on 24th October by the Senior Political Committee which agreed that it should be transmitted to the Council in Permanent Session.

2. The Senior Political Committee also agreed that, while the report was a most useful contribution to the preparations for a CSCE, further work was required in order to focus more precisely on the practical problem of how the contents of the report might be put to use in a CSCE context, including the multilateral preparatory talks.

3. In remitting the study of questions designed to clarify this latter problem to the Economic Committee, the Senior Political Committee recognized that it would be necessary to ensure that the Economic Committee would receive political guidance regarding the possible organization of a CSCE. It was agreed, however, that the Economic Committee should proceed on the assumption that some form of working body charged with considering economic co-operation possibly together with other subjects, would be established in a CSCE context. With this in mind, the Economic Committee was asked specifically to examine how the proposed agenda paper on economic co-operation might be drawn upon in order to help formulate draft terms of reference for such a body.

4. The Economic Committee was also asked to remain attentive to any specific ideas on economic co-operation which might be advanced by the Soviet Union or other Eastern European countries and to be ready to consider possible responses, where these were not already provided for in the present report.

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5. The Council noted the attached report on 22nd November and agreed that it would be forwarded to Ministers. The Council also noted that the Economic Committee will continue its studies on economic co-operation in the context of preparation for a CSCE, giving particular attention to practical questions concerning the potential uses to which the material assembled in the present report might be put.

(Signed) Joseph M.A.H. LUNS

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PREPARATION OF A CSCE: ECONOMIC CO-OPERATION

PART I

GUIDELINES AND AGENDA PAPER

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GUIDELINES PAPER

In recent years the Warsaw Pact countries have expressed a desire on several occasions, and notably in their declarations at Prague in October 1969 and at Budapest in June 1970, to see an expansion of economic co-operation with the West. For their part, the members of the Atlantic Alliance have favoured the promotion of economic relations with the East, and on the occasion of the Ministerial Meeting in Rome in May 1970 declared their willingness to see the development of economic co-operation included in the subjects to be dealt with at a Conference on Security and Co-operation in Europe.

I. GENERAL DISCUSSION

A. Eastern Position

2. The economic situation and interests of the Warsaw Pact countries differ in various ways. In the first place, a clear distinction has to be drawn between the Soviet Union on the one hand and the East European countries on the other; among the latter a differentiation should be made between the industrialised nations such as the GDR and Czechoslovakia, and the less industrialised. A distinction should be made, too, between countries according to the importance foreign trade occupies in their economies and also between those which have introduced economic reforms, especially in the field of foreign trade (e.g. Hungary), and those which have not.

3. In spite of these differences, the Soviets might see discussion of East/West economic co-operation in a multilateral context as a useful device to ensure Warsaw Pact co-ordination on these matters; indeed the revision of Western strategic controls, the lifting of tariff and non-tariff barriers to East/West trade, etc. are issues on which Warsaw Pact countries can form a common front.

4. It should be noted that the Warsaw Pact declarations are expressed only in general terms and do not make specific proposals on ways to improve economic and trade relations. In fact, the aims and tactics of the Warsaw Pact countries are not known to the West and may not yet have been defined. It is possible that these countries, with their traditional predilection for bilateral economic dealings, envisage no specific negotiations on trade and related matters, but intend to use the Conference primarily to bring public pressure to bear on Western governments to improve the conditions of their access to the technological and financial resources of the West.

5. The dominant theme of the Warsaw Pact countries could be that the discriminatory policies maintained by the West in trade with communist countries pose the major impediment to the further development of East/West economic co-operation and it may press for a declaration on principles of economic co-operation which commits the West to their amelioration or elimination. Neither Moscow nor its allies, however, appear likely to acknowledge that the policies and practices peculiar to state trading régimes, e.g. the rigidities of state planning, foreign trade monopolies, capricious pricing policies, etc., burden East/West economic co-operation with any special difficulties or that such subjects - being internal affairs - are legitimate matters for Western complaint.

6. In addition, the East may make proposals on the organization of intercontinental transportation, the building of large power transmission lines and the establishment of a single European power grid to help solve the problem of the fuel and power balance. It may also press for the expansion of Western purchases from the East, particularly in manufactured goods.

B. Western Position

7. A CSCE is not the place for detailed negotiations. However, discussion of the economic agenda of a Conference on Security and Co-operation in Europe can provide an important opportunity to identify existing obstacles to East/West economic co-operation and to provide the impetus for practical negotiations, in bilateral or other multilateral fora, for their elimination or relaxation. It is hoped, moreover, that a careful subject-by-subject examination of the economic issues would open up new prospects for East/West trade, which in the recent past has made great advances.

8. Care should be taken that existing Western ties are not challenged at a CSCE. Hence, in any further discussions account should be taken of the national interests of all the parties involved, of already existing trade links, of international agreements already concluded, as well as of trade relations between participants to the Conference and non-participating countries. Although the positions of the Western countries on trade and economic co-operation with the Eastern countries differ in some respects, the problems they face in this regard are, by and large, identical. Consequently, it is in their interest to harmonise through flexible and pragmatic consultation their respective positions.

9. Generally speaking, the Allied countries do not envisage asking the Eastern countries to make any substantial changes in their economic and social systems (see paragraph 18). They will, on the other hand, propose measures to improve or modify Eastern commercial methods and practices which in their view do not suggest any such fundamental alterations.

10. The efforts already made in favour of the Eastern countries and the liberal and non-discriminatory character of Western economies, leave the Allies little or no room to make important new changes or concessions to the East as regards methods, mechanisms or institutions of international trade. In this respect a number of specific questions of interest to international organizations which might be raised at a CSCE should be referred to the existing competent bodies (ECE, GATT, IMF, etc.).

II. EXAMINATION BY SECTOR

A. Industrial Co-operation

11. During the last five years industrial co-operation has aroused growing interest as a means of promoting the expansion of East/West trade. Industrial co-operation covers a whole range of medium or long term arrangements including sub-contracting and co-production. It would be to the advantage of the West to promote at a CSCE thorough discussion of the problems involved in this subject. In addition to the industrial projects which would be of particular interest to the smaller countries of Eastern Europe, which are relatively poor in mineral and power resources, the exploitation of natural resources, particularly those of the Soviet Union, could become an important aspect of industrial co-operation. In this context petroleum and natural gas appear to have great potential.

12. The expansion of industrial co-operation is primarily a matter for individual Western firms. However, its full development will call for the solution to a number of administrative and legal problems as well as the acceptance by the East of certain conditions and, in certain cases, for the availability of large-scale financial and technical resources.

B. Commercial Co-operation

(i) Commercial policies

13. Eastern countries will probably attempt to characterise as discriminatory the commercial policies of the Western countries, particularly as regards COCOM regulations, quantitative restrictions and tariffs. In fact, they maintain implicitly strategic controls of their own, give priority to intra-COMECON trade and make great use of more effective methods - such as price manipulation - to control and limit their purchases in the West.

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14. The Alliance feels COCOM restrictions are not a suitable subject for discussion at a CSCE. If the question is raised by the Warsaw Pact countries, Western countries might respond that the lists have been much reduced in recent years and that such controls are under continual review in COCOM, the results of which could be influenced, among other factors, by the improvement of East/West relations.

15. In response to complaints from the East, the countries maintaining quantitative restrictions could point to concessions already granted to the Communist countries in recent years, and the need to preserve some means of protection against commercial practices resulting from Eastern planning and pricing systems. Nevertheless, Western countries could adopt an open attitude on the question of quantitative restrictions. In particular, account will have to be taken of commitments already entered into at the bilateral level of vis-à-vis certain Eastern countries in a multilateral framework (GATT)(1).

16. ~~Eastern~~ countries benefit from the most-favoured-nation clause in most of the Alliance countries. The possibility of further tariff concessions appears limited, in view of the fact that in this sector no real reciprocity by Eastern countries can be expected. However, Western countries could, if the question should be raised, and in accordance with the GATT rules, i.e. on a strict MFN basis, indicate their willingness to negotiate tariff concessions in respect of certain clearly defined products in return particularly for various non-tariff concessions which Eastern countries might grant.

(ii) Improvement of the institutional framework and trade structures

17. Several Eastern countries have joined GATT after a detailed study of each case and on certain conditions. As regards GATT membership the West should not take the initiative in raising the subject. If the Eastern countries do so, the Western countries should respond with assurances that they are prepared to examine carefully and on their merits in the GATT - the appropriate forum to consider the subject - any additional applications to accede.

18. Requests for modification of price mechanisms utilised in the East and the removal by Eastern countries of structural hindrances to trade would not be acceptable to these countries

(1) It should be noted that some countries consider that the application of discriminatory QRs is not an appropriate instrument to counter market disruption due to administrative pricing practices of East European countries and that such disruption can be adequately dealt with by non-discriminatory anti-dumping and appropriate valuation for duty procedures.

(see also paragraph 9). Nevertheless, the West could mention these hindrances and use them as an argument should criticisms be raised by the other side over quantitative restrictions and tariffs. In this connection it would be useful for the West to have more readily available information on price techniques and policies applied by Eastern countries.

19. However, improvements could be proposed in a number of specific areas such as: facilities for Western businessmen, non profit-making organizations and commercial enterprises - as well as joint ventures - in Eastern countries; business contacts; exchange of trade and technical data; information on the foreign tradeplans for the various countries concerned; arbitration procedures in case of trade disputes; copyright protection; quality and marketing of Eastern products intended for Western markets. The Alliance countries could make precise proposals on all these issues, the implementation of which should be referred to the competent bilateral or multilateral bodies.

C. Financial Co-operation

20. The Alliance countries do not wish to take any initiative as regards additional facilities in the credit field, but it seems inevitable that the East will raise this question. The general feeling as regards export credits is that it would be difficult to go beyond conditions which have already been granted. The West could emphasise the open and non-discriminatory nature of Western policy and the excellent record of Western credits in facilitating the expansion of East/West trade.

21. A generally very reserved attitude of Alliance countries should be noted as regards possible institutional changes, whether these relate to the establishment of new purely Western or joint financial institutions or new forms of multilateral settlement machinery. The Alliance countries feel that existing machinery is largely adequate and that available Western financial and banking institutions have shown themselves fully capable of adapting to conditions prevailing in East/West trade, of mastering the technical aspects involved, and of providing the necessary funds.

22. With respect to the question of possible membership by Eastern countries of the International Monetary Fund, it is agreed that the West should not take the initiative in raising this issue at a CSCE. Should the Eastern countries do so, Allied countries entertain differing opinions on the best way to handle the matter. One point of view is that the West should encourage the Eastern countries to put themselves in a position to be able to accept the relevant obligations and then to seek membership of the IMF. The other point of view is that a CSCE is not an appropriate forum to discuss the matter; if Eastern countries should raise the matter, they should be advised to

address themselves directly to the IMF. In any case, the general feeling is one of caution and it is agreed that the problem should be handled by the governments concerned and by the competent international organizations.

D. Co-operation in Other Fields

23. Possibilities for the organization of large-scale exchanges of electric energy between Eastern and Western Europe would appear to be rather limited, particularly because of the remoteness of main potential sources of supply and the very heavy cost of transmitting electricity over great distances. Co-operation in the transport field could be achieved in terms of standardising administrative and technical regulations, especially as regards road, rail and air safety.

24. The Alliance countries support measures to promote tourism. Nevertheless, they are aware that expansion in this field will relate primarily to Western travellers visiting the countries of Eastern Europe. Travel in the other direction depends on regulations operative in Eastern countries, that is on the restrictions which are imposed on the free movement of persons. This aspect of the problem is political in nature.

25. The Alliance countries are divided on whether to raise at a CSCE the question of aid to developing countries. Should, however, this question be raised, the Western nations could suggest that the Joint Declaration in the Communiqué should mention in general terms the determination of both the Eastern and the Western countries not to overlook the needs of the Third World.

III. CATEGORISATION OF SPECIFIC MEASURES

26. The measures dealt with above have been divided into three categories according to Western interest in seeing them included or not on the Agenda of a CSCE.

Category A: Measures which could be suggested by the Allies for inclusion on a CSCE agenda. These are discussed in Notes 1, 2, 4 (Part I), 5, 7, 11, 12, 14, 19 and 20.

Category B: Issues on which the Allies would take no initiative at a CSCE but which might be raised by the Warsaw Pact countries. Possible Western responses are dealt with in Notes 3, 10, 15, 16, 17, 18 and 23.

Category C: Items which are included for background purposes but not intended for substantive discussions at a CSCE. These are dealt with in Notes 4 (Part II), 6, 9, 13, 24, 25, 26 and 27.

AGENDA PAPER

I. RATIONALE FOR INCLUSION ON AGENDA

1. The development of economic relations not only contributes to the prosperity of all peoples concerned but also to the improvement in the climate in which international relations take place. Improved economic co-operation between East and West could represent an important factor in lessening political tensions and promoting international stability.

2. Although differences in the economic, institutional and legal systems of East and West pose difficult problems, they need not be insurmountable obstacles to the further development of East/West co-operation in industrial, commercial, financial and other fields. Considerable progress has been made in recent years to reduce barriers to East/West trade. Nevertheless, we believe that the volume of East/West trade is smaller than the trade potential of the two areas and there is scope for expansion.

3. Detailed discussion of the economic Agenda of a Conference on Security and Co-operation in Europe can provide an important opportunity to identify existing obstacles to East/West economic co-operation and to provide the impetus for practical negotiations, in bilateral or other multilateral fora, for their elimination or relaxation. Such progress can be achieved, however, only on the basis of mutual advantage and on the assumption that all parties concerned are prepared to grant reciprocal and balanced concessions where necessary.

II. DESCRIPTION OF SPECIFIC MEASURES

4. The following list contains the measures which we would at the present time like to see included in the Agenda of a CSCE:

(1) In the field of industrial co-operation

5. Considerable progress has already been made in the field of industrial co-operation which covers a wide range of activities from manufacturing to the development of natural resources. Further development could be achieved if it were possible to reduce or remove certain difficulties. A fresh impetus to promote such co-operation could be provided by encouraging a realistic approach to the questions involved.

6. While governments can play a useful rôle in improving the conditions for industrial co-operation, it should be noted that in market economies, in the final analysis, implementation of such projects depends on the initiative and scope for action of individual enterprises.

7. Practical measures should be taken aiming at facilitating operating conditions such as exchange of information, fair competition between Western firms and Eastern enterprises, direct contact between firms, adequate protection to all firms engaged in joint ventures, etc.

(ii) In the field of trade

(a) Improved access to markets

8. Practical steps should be taken to facilitate the exchange of trade and technical information and data on foreign trade plans, to improve contacts between producers and end-users, to provide adequate communications, banking and office facilities, to encourage trade promotional activities and, in general, to improve the climate and conditions for businessmen in foreign countries. Similarly, business contacts through such channels as joint chambers of commerce, trade missions, commercial attachés and consulates should be facilitated.

(b) Better adaption of exports to market conditions

9. Difficulties encountered in the export sector could be lessened by co-operative efforts through, for example, joint seminars to discuss marketing and marketing research procedures, sales promotion, classification, packaging and labelling of goods, harmonization of norms and standards, etc. Additional information could be exchanged about pricing mechanisms in order to overcome fears of dumping practises. Reciprocal arrangements for training officials responsible for foreign trade in business and commercial practice should be more extensively used and its operation should be improved.

(iii) Co-operation in other fields

10. The conditions affecting co-operation in specific areas, such as transport, exchange of electric energy and tourism, might be the subject of separate studies.

PART II

SPECIFIC MEASURES

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CATEGORY A

MEASURES WHICH COULD BE SUGGESTED BY THE ALLIES FOR
INCLUSION ON A CSCE AGENDA

- Development of industrial co-operation (Note No. 1)
- Co-operation with the Soviet Union to develop its natural gas and oil resources (Note No. 2)
- Signature by all parties to a CSCE of the Universal Copyright Convention and the Berne Convention (Note No. 4, Part I)
- Development of co-operation in the transport field (Note No. 5)
- Improvement of business contacts in Eastern countries (Note No. 7)
- Improvements in available information on trade opportunities with Eastern Europe (Note No. 11)
- Practical measures to improve the quality and marketing of Eastern export products (Note No. 12)
- Improved arbitration procedures in European Communist countries for settlement of commercial disputes with nationals of other countries (Note No. 14)
- Fostering of East/West travel (Note No. 19)
- Western participation in the exploitation of Soviet raw materials (Note No. 20)

DEVELOPMENT OF INDUSTRIAL CO-OPERATION

I. THE PROBLEM

1. During the last five years, industrial co-operation has aroused growing interest as a means of promoting the dynamic expansion of East/West trade. The possibilities offered by such co-operation have proved interesting in their own right, and its development offers the prospect of overcoming or mitigating some of the obstacles which have hitherto slowed down the growth of East/West commercial relations. Such a development would have a beneficial effect also on other aspects of East/West economic relations. Certain problems remain to be solved, however, a number of which could usefully be discussed at a CSCE.

(a) Description

2. The term "industrial co-operation" is open to interpretations, some broader than others. Generally speaking, however, it connotes various types of contract concluded between individual East and West European enterprises which extend beyond strictly commercial activities. Such agreements provide for a whole complex of mutually-linked operations and comprise reciprocal commitments spread over a number of years.

3. Generally, these commitments cover various types of sub-contracting, co-production or specialist manufacturing such as:

- Manufacture in each of the contracted enterprises of the complementary parts of a given product;
- assembly in an East European country of components supplied by a Western enterprise;
- manufacture by an East European enterprise of components which are then incorporated in the finished Western product;
- joint development of Eastern mineral resources and other raw materials.

4. Such agreements may be paralleled by contracts covering:

- joint sales promotion on the Western markets, in the Eastern countries and in third countries;
- exchange of technical data on production and marketing;
- joint research in given areas.

Finally, these agreements normally provide for financing and payment arrangements which thereby avoid certain difficulties restricting East/West trade(1).

(b) Institutional framework

5. In a number of cases the institutional framework of this co-operation is provided by bilateral agreements on industrial, scientific and technical collaboration which have been concluded during the past five years by most Western countries with almost all East European nations. Normally these governmental agreements provide for the establishment of official joint commissions. Although the absence of such agreements does not exclude industrial co-operation (any more than their existence guarantees it), they are regarded as important by Eastern and Western countries. They represent a public and formal acknowledgement on the part of East European Governments of the desirability of co-operation with the West and, by implication, with Western firms.

(c) Present limitations, and areas where improvements might be sought

6. Considerable progress has already been made in the field of industrial co-operation. Its further development would be enhanced (within the area left open in the economic plans of the COMECON countries) if it were possible to reduce or remove certain difficulties, which are already under discussion in the EEC. A Western objective at the CSCE should be to give fresh impetus to this work by encouraging a realistic approach to the questions involved.

7. The juridical framework for industrial co-operation also needs to be determined. Consideration could likewise be given to different means of marketing the jointly-produced goods.

8. East European countries should, in particular, concentrate on practical steps designed to make the idea of such co-operation attractive to Western firms, and they could be asked to:

- (a) improve facilities for the exchange of relevant information between potential and actual participants in industrial co-operation;
- (b) give notice of their requirements, and conduct their contract policy, in such a way as to give Western firms the possibility to compete on equal terms with other countries;

(1) For example, the model often described by the East as a typical example of co-operation, where the supply of a plant is paid for with goods produced by that plant, cannot be regarded as genuine co-operation unless the supplier of the plant has a special interest, over and above his normal interest as the supplier, in receiving these goods.

- (c) take steps to encourage the multiplication of direct contacts between enterprises in East and West;
- (d) avoid insisting on forms of payment which would face Western firms with the difficult disposal of goods in which they do not normally trade.

9. Moreover, Eastern countries should as asked prudently, to consider the following measures which could be introduced without fundamental changes in their economic system:

- (a) permit Western firms to enjoy the equity stake or ownership rights necessary to give them the management and administrative authority to ensure successful contract implementation;
- (b) take steps to encourage the participation of Western firms in mixed companies and joint investments in Eastern Europe;
- (c) provide adequate protection for the legitimate interests of Western investors and agree to uniform rules governing debt service and repayments.

II. PROPOSAL

10. It would be to the advantage of the West to promote discussion of the subject at a CSCE and to consider with the East Europeans the points listed above. While detailed negotiation on specific topics cannot appropriately be undertaken at the CSCE, a thorough discussion of the problem at the Conference could give a useful impetus to further work.

A. Advantages for the Eastern Countries

11. To a large extent, the main beneficiaries of "industrial co-operation" are the countries of Eastern Europe. In addition to the considerable input which this co-operation represents in general for the industrial and economic development of the East European countries, inter-enterprise contracts facilitate access to Western technology and to the management and marketing know-how of the Western industrialised countries; at the same time, they help to avoid certain disadvantages of traditional commercial practice.

12. This form of co-operation helps to fill the gap in the export capabilities of East European countries which limits their convertible currency resources and constitutes a major obstacle to the expansion of East/West trade in general. Moreover, these agreements which are normally long-term, facilitate planning for the East European countries by guaranteeing, under a joint agreement, the supply of goods they want when they are needed.

13. For the Soviet Union, such arrangements on a wide scale could be of special interest as supplementary means of developing oil reserves and other natural resources (e.g. copper, nickel, wood, etc., in Siberia), for expanding its exports to the West.

B. Advantages for the Western countries

14. The industrial co-operation agreements enable large-scale profitable transactions to be carried through and they create new outlets for Western firms; in addition, they have frequently led to stable trading relations which have then extended to other areas.

15. Such agreements also help Western firms to penetrate East European markets and facilitate understanding of how the Communist systems operate. Sometimes, they can show the East European countries the on-the-spot advantages of diversifying their supply sources of highly sophisticated products.

16. They improve the medium-term foreign currency solvency of East European countries which can accordingly boost the volume of their other orders to the West.

17. By and large, industrial co-operation contracts promote the inter-penetration of applied technologies and make East European countries more familiar with Western technological know-how which is usually more sophisticated. This division of labour may also help the East European countries to integrate more effectively into the Western economic pattern.

18. Industrial co-operation could be one way of more effectively safeguarding and diversifying the West's supplies of raw materials (e.g. oil, natural gas, minerals, metals, wood).

C. General Considerations

19. Contracts for industrial co-operation will be entered into by individual Western firms or consortia, and it is primarily up to them to ensure that the terms of the contract are such as to enable them to do business on a profitable basis, both in the short and longer term.

20. From the point of view of the Western countries, it will be important to keep in mind:

- (a) that a division of labour, the exploitation of which may be profitable to the individual firm, may produce effects unfavourable from the point of view of the economy as a whole, e.g. in conditions where there is unemployment in the Western countries;

- (b) governmental measures to encourage industrial co-operation could lead to harmful competition between Western countries;
- (c) the development of such co-operation should be pursued in such a way as to avoid disturbing trade between the Western countries and the developing countries, particularly those which are members of NATO, both in raw materials and in manufactured goods;
- (d) lastly, industrial co-operation on a larger scale through the increase in inter-enterprise and inter-industry agreements should develop in such a way as to avoid the creation of a state of dependence which might entail political risks.

III. RECOMMENDATION

21. It is recommended that the proposal in paragraph 10. be accepted and that Western countries consider between now and the Conference what measures they might be able to take to encourage the further development of industrial co-operation.

CO-OPERATION WITH THE SOVIET UNION TO DEVELOP ITS NATURAL
GAS AND OIL RESOURCES(1)

I. PROBLEM

In 1970, Soviet oil sales to the industrial non-Communist countries amounted to about 41 million tons, as against some 7 million tons to Yugoslavia and the less developed countries and about 48 million tons to the Communist countries. These exports represented 27% of Soviet oil production for that year (353 million tons)(2). Natural gas exports are much more modest. In 1970, 3.3 billion cubic metres (total production 200 billion cubic metres) were exported, of which 0.96 billion cubic metres to Austria and the balance to Poland and Czechoslovakia. Oil is the major export commodity in Soviet trade with the West; it provided in 1970 some 24% of total export earnings in hard currencies.

2. The USSR has abundant potential resources of natural gas and petroleum which, in the long term, could make it the world's leading producer(3). However, some 30% to 40% of these reserves are located in permafrost regions where their exploitation will be difficult and costly, and dependent, to a considerable degree, on imports from the West of modern technology and equipment. The problems of expanding the gas industry and exports are even more serious, for the same reasons.

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- (1) Within the COMECON, the Soviet Union alone is a major producer of oil and gas. Romania's oil production is relatively small (about 13.8 million metric tons), its proved reserves very modest and its rôle as an exporter of oil very limited.
 - (2) According to Soviet sources (Foreign Trade journal) in 1971 oil sales were about 10% higher than in 1970 and reached 105million tons: 45.5 million tons to the West, 45.1 million to COMECON countries, 10.4 million to other Communist countries and Yugoslavia, 4.1 million to developing countries. These exports constituted about 28% of Soviet petroleum output (372 million tons).
 - (3) See Annex for background data.

3. Among potentially available Soviet raw materials, prime Western interest tends to centre around procurement of Soviet oil and natural gas. In this connection, Soviet sources have indicated that if the Western nations require Soviet raw materials on a large scale they must agree to develop them in partnership with the USSR on mutually advantageous terms. As regards the development of oil and gas resources, such terms would certainly have to comprise huge loans⁽¹⁾, possibly accompanied by a complex finance structure (e.g. joint ventures), to cover imports from the West of equipment and technology. Precise data on the finance involved are not available, although it is clear that in view of the remote and relatively inaccessible location of those resources, annual hard currency outlays from the West would certainly be in the hundreds of millions of dollars. Such large requirements could involve some shifting in the allocation of Western financial resources destined for exploration and exploitation of oil and natural gas. It is, however, particularly important that there should be no diversion of funds earmarked for development of areas in the non-Communist world which are considered to be "safe" from an investment and production point of view.

4. To ease the pressure on Soviet investment resources, the East European countries (excluding Romania) have been induced to allocate some of their own scarce investment resources to the development of Soviet oil and gas production and delivery facilities. Largely for political reasons, the USSR has chosen to be the main supplier of oil and gas to the COMECON countries (excluding Romania). There is moreover an economic factor which obliges these countries to procure oil and gas from the USSR, i.e. the foreign exchange shortage prevalent in Eastern Europe. Although in the Seventies East European countries will be buying a certain amount of Middle East and North African oil, the USSR will continue to be the main supplier. In this connection, the Friendship Pipeline is being expanded to take 50 million tons per annum.

5. As far as the West is concerned, there is a short-medium term problem linked to the rapidly changing pattern of relations between the oil producing LDCs and the traditional foreign companies exploiting their oil resources. Therefore, there is sound justification for the West to try to diversify its energy sources and to reduce its dependence on imports by developing its own potential resources (e.g. North Sea, Alaska).

6. On purely economic grounds, certain Western countries and Japan might find it to their advantage to procure additional oil and gas from the USSR. According to current information regarding Soviet output target figures, the volume of oil which the Soviet Union could export to the non-Communist countries

(1) USSR annual investment in the oil and gas industries amounts to over 3 milliard roubles. See also Annex.

starting in the period 1975-1980 has been assessed at some 75 million tons annually. The USSR appears currently in a position to offer annually 30 to 50 million tons of Tyumen oil to Japan, for delivery possibly as early as 1975. However, if the Soviet Union intends to develop on a much larger scale its sales to Japan, Western Europe, and perhaps to the United States, increased exploitation of its reserves over the next decade will have to be undertaken at a much faster rate than is currently planned with substantial Western financial and technical assistance.

7. In the natural gas sector, agreements already concluded indicate that by 1976 the Soviet Union would be supplying an estimated 16 billion cubic metres to Austria, the Federal Republic of Germany, Finland, France and Italy. Sweden, Denmark and Japan are potential buyers of Soviet gas, and the United States has already examined the feasibility of large-scale natural gas imports from the Soviet Union in the medium term. Such projects would also entail substantial Western co-operation.

8. In conclusion, it is likely that in view of anticipated long-term price upturns in the world market, together with the development of Soviet reserves, exports of oil and natural gas will constitute a prime mover in the expansion of East/West trade(1). As already mentioned, this development can only be realised rapidly with the aid of large inputs of Western finance and technology. In this connection concerted action by Western countries might prove more successful than bilateral negotiations.

II. PROPOSAL

9. At a CSCE, the West might test the extent of Soviet willingness to become a large oil and natural gas exporter to Western markets by exploring, on the one hand, the degree of Soviet interest in procuring specialised equipment and technology from the West, and, on the other hand, the extent to which the Soviets might seek Western financial co-operation in expanding these two sources of energy.

A. Advantages for the West

10. Increased imports of Soviet oil and gas would diminish excessive Western dependence on the Middle East and North Africa for these products. Even if the new source were equally inclined to exploit the situation

(1) According to a United States study of prospects for East/West trade in the 1970s (AC/127-WP/390 - Annex V), even if the volume of Soviet oil exports to the West increases at a slower rate than in the 1960s, the value of oil and gas sales to the industrial West may represent as much as 25% of Soviet exports to that area in 1980.

commercially or politically there could still be more security in dealing with two suppliers whose interests diverge somewhat, than with a single supplier.

B. Disadvantages for the West

11. From a political point of view, it is impossible to state with any certainty that an extension of Western resource commitments to the USSR oil and gas industry would be any less hazardous than expanded investments in the Middle East.

12. The degree of dependence on the Soviet Union which might result from this development would clearly be a matter of political concern, irrespective of the commercial advantages or disadvantages.

- (a) Judging by present trends there is little prospect of undue dependence for West European countries as a whole. For instance, should Soviet exports of oil to these countries rise to 75 million tons by 1975/1980 this would still represent only about 6% of likely requirements by OECD Europe at the end of this decade, though it should be remembered that the dependence of particular countries might be considerably greater.
- (b) If on the other hand there was a big expansion of Soviet oil capacity on the basis of Western co-operation, this overall dependence could well double. It would be for the political experts to judge whether such a development is desirable(1).
- (c) As regards natural gas, Western Europe, which has substantial reserves, would not depend unduly on any outside supplier. For certain regions, however, which would in fact be dependent on Soviet gas, the problem of substitution in case of need would have to be considered.

III. RECOMMENDATION

13. That the Proposal in Item II be adopted.

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- (1) It has been suggested that for security reasons NATO countries as a whole should not import from Eastern countries more than 10% of their oil and natural gas consumption. In this connection it may be recalled that the Council on 4th April, 1962 (C-R(62)14) recommended to the NATO member countries "on their own responsibility, to exercise caution and restraint in determining the level of their imports of Soviet bloc oil, the general aim being to keep the future total exports of Soviet oil to the Alliance well below the level which they threaten to reach in order not to exceed the limits compatible with the security of the Alliance".

IV. TALKING POINTS

14. If the proposal were adopted it would be useful to consider the following points:

- (a) the USSR could be asked to give more information about the state of the reserves likely to be exploited and about its plans. If Western participation were to be invited, Western experts should have proper opportunity to examine the terrain and discuss with their Soviet counterparts the various technical problems involved;
- (b) the USSR could also be asked about the guarantees it intends to give regarding:
 - the deliveries over a specified period of agreed quantities of oil and natural gas;
 - the price structure for these exports;
 - the reimbursement of loans;
 - in the case of joint ventures, the rights of the Western partners, in particular the right to participate in the management and to take advantage of the normal returns on the outlays;
- (c) the Soviets could be reminded that a salient factor in the successful implementation of plans to develop their oil and gas resources, remains a general agreement on the basic principles of industrial and financial co-operation.

C-M(72)68(Revised)

ANNEX

STATISTICAL DATA

A. SOVIET RESERVES

(i) According to the Oil and Gas Journal, at the end of 1970 these were equal to:

natural gas: 12,452 milliard cubic metres
(just under 30% of world reserves)

crude oil: about 11.4 milliard tons
(13.5% of world reserves)

(ii) According to official United States data:

proved reserves of natural gas: a minimum of
2,500 milliard cubic metres

proved reserves of crude oil: 3.5 milliard tons

B. WORLD, UNITED STATES AND USSR PRODUCTION OF OIL AND NATURAL GAS

<u>OIL</u> (in million metric tons)	1960	1970	1971	1975 forecast	1980 possible
World	1,054	2,334	2,467	3,200*	4,400*
USA	348	534	532	555	590
USSR	148	353	372	496	600/625
<u>NATURAL GAS</u> (milliard m ³)					
Estimated world	465	1,050	n.a.	n.a.	n.a.
USA	362	618	637	560	494
USSR	45	200	212	320	620**

* International Staff estimate.

** Target mentioned by Mr. Chachine, Minister of Petroleum Industry, but unlikely to be reached without considerable Western inputs of equipment.

Sources: Comité Professionnel du Pétrole, France
UN Statistical Yearbooks
Pravda 25.11.71 and other Soviet sources
UN Monthly Bulletin of Statistics (May 1972)
US Energy Outlook (1971-1985)
C-M(71)5

ANNEX

C. ESTIMATED PETROLEUM AND NATURAL GAS REQUIREMENTS IN 1980

<u>Petroleum</u>	
Western Europe	1,250 million tons
USA	1,135 million tons
USSR	460 million tons
Japan	450 million tons
<u>Natural Gas</u>	
Western Europe	300 milliard cubic metres
USA*	616 milliard cubic metres
USSR*	590 milliard cubic metres
Japan	10/20 milliard cubic metres

* Including a small amount of LPG and synthetic P/L gas. Potential demand, assuming no gas supply limitation or changes in present energy price structures, has been put at 983 milliard cubic metres in 1980.

** Assuming Mr. Chachine's (Minister of Petroleum Industry) objective is reached, which is very unlikely.

Source: International Staff estimates and US Energy Outlook (1971-1985)

D. ESTIMATED COSTS (IN FOREIGN CURRENCY) OF PROJECTS TO DEVELOP SOVIET SALES OF NATURAL GAS TO THE UNITED STATES AND OIL TO JAPAN

- (i) Plan to sell 30-50 million tons a year of Tyumen crude oil to Japan. This country is expected to contribute between \$1,000 and \$1,500 million to finance equipment (including pipes) and technical costs towards the project.
- (ii) Deliveries of natural gas to the United States. The cost of laying pipelines to Baltic Sea or, possible, Black Sea terminals, of gas liquefaction plants, of equipment and other facilities has been estimated at \$7,000 million according to American sources.

E. Estimated international oil industry's capital requirements in the decade 1970-1979 inclusive range from a low \$285,000 million to a high \$500,000 million and above. According to expert opinion requirements might fall between \$400,000 and \$430,000 million, but could be higher if world inflation continues at current rates.

SIGNATURE BY ALL PARTIES TO A CSCE OF THE UNIVERSAL
COPYRIGHT CONVENTION AND THE BERNE CONVENTION(1)

I. PROBLEM

1. The copyright issue falls into the intermediate area of important but hardly critical topics for possible discussion at a CSCE. The continued unwillingness of the Soviet Union to protect foreign authors and compensate them in a convertible currency is a source of considerable irritation to Western writers, scientists and academicians. This fact alone is a minor irritant in East-West relations, and a resolution of the problem, through whatever channels, including a CSCE, would be useful. In addition, this topic has obvious implications for the free flow of commerce and ideas. Finally, the failure of the Soviet Union to adhere to one of the major copyright conventions or work out other bilateral or multilateral agreements is one of a series of examples of the continuing failure of the Soviet Union to abide by generally accepted standards of international behaviour.

2. GDR Problem: Another aspect of this problem is the question of the GDR and the international copyright conventions. The GDR has signed the Berne Convention, but Western countries refuse to recognize its adherence, and therefore East German claims to adherence to the Berne Convention have no legal effect in the West. If the question of GDR participation in the Berne Convention will no longer be an issue by the time of the convening of the CSCE itself, there should be no problem in raising the copyright issue since the GDR has already taken such steps as it can to adhere to one of the copyright conventions.

3. However, if the GDR participation problem has not been resolved, pressing the copyright issue in a CSCE context could run contrary to the Allies' desire to defer enhancement of the international status of the GDR. Although it would take an affirmative act on the part of Western countries to

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- (1) There is a German reservation against the presentation of this problem at a CSCE by the West in order to avoid discussions on the international position of the GDR (see paragraph 2) before the intra German relations have been satisfactorily settled.

give GDR adherence to the Berne Convention any legal character in the West, it might prove embarrassing for the West to press for a formulation which in effect calls on the Soviet Union to become a party to a copyright convention by another party to a CSCE. In that event, it would be preferable to have the copyright item dropped.

A. The Problem of Paying Royalties and Fees in Convertible Currency

4. As noted above, the Soviet Union and to a lesser extent some of the other Warsaw Pact states, when they do provide compensation to foreign authors and publishers, often pay in inconvertible currencies. A solution of the copyright issue would almost entirely eliminate this problem, since authors and publishers under both UCC and Berne have the right to withhold authorization to publish unless it is agreed in advance that they will be paid in convertible currency.

5. For these reasons, a declaration which expresses the intent of all parties to a CSCE to pay foreign authors, scientists, artists and lecturers in convertible currencies such as the language contained in paragraph 48 of C-M(71)69 is at best an item of marginal interest, and little harm would be done if it were dropped from the discussion. On the other hand, mention of the need for payment in convertible currencies would serve to emphasize the misbehaviour of the Soviet Union in the past, and would serve to eliminate any ambiguities about the need in all cases for payment of royalties and fees in convertible currencies.

B. Background Data

6. Nearly all European nations, and most other countries, are parties to the Berne Convention of 1886 (as revised) or the Universal Copyright Convention (UCC) of 1952 (as revised) or both. The United States is a party only to the UCC. All other NATO Allies are parties to both conventions with the exception of Turkey, which is party only to Berne. The European neutral and non-aligned states are all parties to both conventions. Czechoslovakia and Hungary are parties to both, while Poland, Romania and Bulgaria are parties only to Berne. The Soviet Union and Albania are the only states in Europe which have refused to adhere to either of the conventions.

7. The failure of the Soviet Union to adhere to either of the conventions or otherwise protect foreign authors is increasingly becoming a sore point for Western artists, scientists, publishers and authors. The Soviet Union regularly "pirates" a large quantity of materials, especially scientific and technical works, without authorization and without providing just compensation. As a consequence of the lack of copyright relations, Soviet works are similarly unprotected in the West.

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

On a few occasions, the Soviets have entered into licensing agreements with Western firms whose works they wish to publish, such as Doubleday and Company, in the US, and MacDonald and Company, in the UK, and through these arrangements have paid individual authors a royalty. However, these royalties are unusually small by international standards, and are almost invariably made in inconvertible rubles.

8. Various Allies have made representations requesting that the Soviet Union adhere to a copyright agreement. The Soviets fear that becoming party to one of the conventions will result in substantial net outflows for royalty payments. However, the Allies could point out that the Soviet Union has a large and growing quantity of scientific and technical material, and to a lesser extent literary and artistic works which are being reproduced in the West without compensation to the Soviet Union (the works of Soviet novelists alone would bring in handsome royalties). It could also be mentioned that Soviet failure to abide by international standards and to uphold copyright protection for foreign authors is undermining the image of the Soviet Union in the West, especially in the scientific community.

9. Because of the growing sophistication of their inventions, and in part in response to international pressure, the Soviets agreed in 1965 to adhere to the "Paris Union" Industrial Property Convention (on patents and trademarks) but to date they have shown no indication of a willingness to change their position on copyrights.

II. PROPOSAL

10. An unambiguously worded formulation, expressing the intent of all parties to become party to one of the two major international copyright conventions, should be included in an agreed CSCE text.

11. It is essential, no matter what formulation is agreed upon, that it express the intent of all parties to a CSCE to become parties to either UCC or Berne without necessarily requiring adherence to both. (The US is not in a position to adhere to the Berne Convention at this time.) An "and/or" formulation, in addition to resolving the problems noted above, has the additional political and tactical advantage of differentiating between the Soviets, who are the miscreants on this question, and the other Eastern European states who, by and large, have met their international obligations.

III. RECOMMENDATION

12. All parties who have not already done so should adhere to the Universal Copyright Convention of 1952 (as revised) and/or the Berne Copyright Convention (as revised).

DEVELOPMENT OF CO-OPERATION IN THE TRANSPORT FIELD

I. PROBLEM

1. The Soviet Government has intimated that a CSCE could contribute to resolving "the question of pre-conditions for seeking solutions to problems such as... the organization of inter-continental transport"(1). In this context, the following aspects could be examined:

- (a) in the field of administrative and technical regulations:
- the administrative and statutory restrictions, currently in force in the transport field, which hinder East/West trade;
 - standardisation of technical and safety regulations;
 - standardisation of equipment (including containers);
- (b) in the field of equipment and Infrastructure:
- establishment of links between existing transport networks (rail, road, waterway, sea and air);
 - development of transport infrastructure, mainly in the Soviet Union.

2. The examination of East/West land transport problems has been entrusted to the ECE's "Committee on Inland Transport" (Geneva). This Committee has made considerable progress during the last few years in its endeavours to remove the obstacles hindering transport development. This is shown by the increasing number of East/West technical agreements. Useful co-operation concerning sea and air transport is taking place in IMCO and ICAO especially as regards questions of security (2). In other respects the scope for global treatment of these forms of transport is limited. Commercial shipping is no doubt best served by the free choice of transport, and air transport is likely to be developed by means of bilateral agreements.

3. Under the present circumstances, it seems unlikely that the evolutionary dynamism of East/West trade is suffering because of transport difficulties. Most forms of transport are

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- (1) Kosygin at the Communist Party Congress, Moscow, April 1971
(2) IMCO : Intergovernmental Maritime Consultative Organization
ICAO : International Civil Aviation Organization

already dealt with by international organizations. No doubt improvements could be envisaged and it is desirable that countries like Sweden, Austria and Switzerland should also be associated with Western proposals at an early stage.

(a) Rail Transport

4. Several East European countries have already acceded to the International Conventions on the Transport of Goods and Passengers (CIM and CIV). By contrast, the Soviet Union has not yet signed these conventions although it is showing greater interest; for example, it has sent observers to international conferences concerned with a possible revision of the Conventions.

5. Agreements in principle have been concluded in a number of technical areas between the International Union of Railways (grouping Western railway systems) and the Organization for Railway Co-operation (which includes the countries of Eastern Europe and the Soviet Union). Some projects will be implemented before the end of this decade, including:

a unified system of automatic coupling for international goods wagons;

standardised braking systems, automation, etc.

6. A separate problem is raised by the possibilities of Western participation in developing the Soviet Union's infrastructure (e.g. Kosygin's proposal for the building of a second Trans-Siberian railway; standardisation of container transport linking Siberia with Western Europe; Western participation in the manufacture of containers and the production of handling equipment) which is not currently under examination by existing international bodies.

(b) Road Transport

7. Various East/West bilateral agreements have been signed, regulating freight transport by road which still operates, however, on a quota basis. Turkey has signed various agreements with Hungary, Bulgaria and Romania covering the movement by road of passengers and freight, and these arrangements have proved highly satisfactory. In 1971, the Netherlands signed a freight and passenger agreement with the Soviet Union. Finally, the USSR has signed agreements on international road transport, covering freight and passenger transport, with Denmark, Austria, Sweden and more recently the Netherlands.

8. As regards passenger transport, the operation of non-scheduled bus services is regulated by the International Geneva Agreement (1949) which allows non-stop journeys, but neither the acceptance of passengers en route nor the return trip by the empty vehicles. These international provisions, recognised by the East European countries, have been supplemented by bilateral agreements, but once again, as in the case of freight transport, the USSR and the GDR are the most hesitant. In addition, a start has been made on a European network of regular bus routes; several East European countries are participating, but the USSR has hitherto been reluctant to co-operate in extending it. The establishment of a scheduled London-Moscow service has been under discussion for more than two years without any concrete results so far.

9. Currently, a large number of partial and/or bilateral agreements are being concluded on such subjects as road safety, highway codes, road signs, and regulation of technical requirements (e.g. vehicle weight and size). But the lack of standardisation reduces the effectiveness of any solutions adopted.

10. As regards infrastructure, transport could certainly be facilitated by improved road and motorway network links between the two parts of Europe. This presupposes an East/West exchange of information on development planning of the road networks which have been worked out in both parts of Europe.

(c) Waterway Transport

11. The establishment of links between the large European river networks, particularly the Rhine and Danube, deserves study. The East European countries are very interested in inland water navigation and such link-ups could facilitate the transport of heavy freight between certain countries in Europe and Asia. However, the problems involved here are so complex that any solutions could have only a very remote effect on the volume of trade.

(d) Sea Transport

12. Several Western countries (Belgium, Luxembourg, France, Netherlands and UK) have signed navigation treaties with the Soviet Union. Negotiations on such treaties are going on at various stages between the Soviet Union and a number of other Western countries (Canada, Denmark, Italy, Norway and the United States). The Eastern European countries, especially Poland and the Soviet Union, have shown a growing interest in participation in liner conferences. Previously the Soviet Union opposed the liner conference system using, as at the UNCTAD Committee of Shipping, the argument that it was a device to exploit the developing countries. However,

with the rapid development of its own merchant fleet, the USSR is apparently becoming more aware of the problems of profitability. For example, at the beginning of 1969 the Baltic Shipping Corporation of Leningrad entered the liner conferences covering the trades between Western Europe and Australia.

13. Inside the UNCTAD Committee of Shipping the Eastern European group has during the last years often voiced views close to those of the Western group. In actual voting the Eastern European group has, however, almost invariably chosen to support the developing countries. In the discussion of technical shipping matters inside IMCO the Eastern European countries have played a constructive role.

(e) Air Transport

14. It was not until 1970 that the USSR became a full member of the International Civil Aviation Organization, on which the other East European countries except the GDR were already represented. Certain East European countries - Bulgaria, Poland and Czechoslovakia - have subscribed to the International Air Services Transit Agreement of 7th December, 1944. In view of the importance of air transport in the Soviet Union and the other East European countries, it is likely that, in the future, these countries will show a greater desire to participate in the work of the various competent international bodies. However, their co-operation in European bodies (including the European Civil Aviation Conference) has run into serious difficulties because of the incompatibilities of the two economic systems involved.

15. Nevertheless, consideration could be given to a number of problems which are at present bedevilling air transport (e.g. passenger safety standards, reciprocal recognition of certificates of airworthiness, etc.). No Eastern country has as yet subscribed to the ICAO 1960 Agreement relating to certificates of airworthiness for imported aircraft.

(f) Linking of other transport networks

16. The feasibility of linking up East/West oil and gas pipeline networks could only be examined on the assumption that Western countries become involved on a large scale in the development of the Soviet Union's oil and natural gas resources(1). Moreover, the evolution of the USSR's domestic network does not have any bearing on intra-European transport co-ordination, but is one aspect of the development of East/West trade.

(1) Note No. 2

17. The linking up of electricity networks is also a matter to be dealt with in the framework of general economic co-operation(1).

II. PROPOSALS

18. Before agreeing to give further consideration to ambitious, long-term projects for linking up existing transport networks and to the scope for Western participation in the development of transport infrastructure(2) - two questions which would first require more detailed information from the East European countries - the Western nations should give priority to seeking ways of removing the present obstacles, for which the East European countries are essentially responsible, to the development of passenger(3) and freight transport.

19. East European countries could therefore be invited to state their intentions with regard to the adoption of measures:

- (i) to accede, if they have not already done so, to the various international conventions governing road, rail, sea and air transport;
- (ii) to modify their administrative practices which at present hinder the development of transport: increased road freight transport quotas, freedom of transit, return journey loading, regulations governing privately operated transport, procedures for granting authorisations, creation of regular bus services linking the various European capitals;
- (iii) to standardise the administrative and technical regulations governing:
 - (a) road safety (signals, highway code, vehicle weight, size and technical requirements);
 - (b) railway safety (braking system, automation, signals, length and safety of goods trains);
 - (c) air traffic safety.
- (iv) to eliminate or to reduce impediments to the development of passenger transport (less rigid enforcement of compulsory routes; better services in repair shops, in the distribution of fuel, etc.).

(1) Note No. 3

(2) This could be included under the heading of industrial co-operation (see Note No. 1).

(3) This measure does not consider the wider political aspects of the freer movement of persons.

A. Advantages for the West

- (i) Freedom of movement for goods and persons is generally regarded as one of the conditions for the normalisation of East/West relations. Progress in this direction is beneficial to the extent that it promotes the development of trade and tourism.
- (ii) For obvious geographic reasons, the East European border countries will be the first to benefit, and this could facilitate their relations with the West.

B. Disadvantages for the West

None in economic terms. From the security angle, however, the linking up of existing transport networks and the development of the related infrastructure could give rise to problems requiring further consideration.

III. RECOMMENDATION

The proposals set out in paragraph 19 could be submitted to a CSCE either on the initiative of the Western nations, or in response to a proposal from the East European countries on longer-term projects.

IV. TALKING POINTS

- (a) If sufficiently practical proposals were made by the East European countries on these various issues, a more detailed examination of these technical questions could, depending on the case, be entrusted to:
 - the Committee on Inland Transport of the ECE (Geneva);
 - the Intergovernmental Maritime Consultative Organization (IMCO) and other international maritime organizations;
 - the International Civil Aviation Organization (ICAO); and to their appropriate technical committees.
- (b) The liberalization of transport will contribute to a better use of transport services on a European, and even wider, scale, not only in technical, but also in economic terms. One result will be to clarify the problem of inter-transport competitiveness.

- (c) The West might prefer not to commit itself on projects dealing with infrastructure and the linking of transport networks, before these have been specified and examined in greater depth.
- (d) If these proposals are taken up by the East European countries at a CSCE, Allied Governments could refer them for study to their national research bodies, the ECE(Geneva) and its specialised auxiliary agencies, or to other appropriate bodies.

IMPROVEMENT OF BUSINESS CONTACTS IN EASTERN COUNTRIESI. PROBLEM

1. State trading, central planning and the closed character of the Eastern societies create obstacles to an expansion of the sales of Western goods on Eastern markets. It would, however, appear possible, within the existing system in the East, to alleviate some of these difficulties. Among the practical problems are:

A. Access to Communist countries for representatives of Western firms

2. The practice of the Communist countries as regards granting visas to Western businessmen for temporary visits with the specific purpose of arranging commercial transactions seems fairly liberal. Nevertheless, there have been complaints about slowness or difficulties in particular cases where no specific prior invitation from the potential Eastern buyer was at hand(1).

3. The possibilities for foreign companies of setting up permanent sales offices in Communist countries are severely restricted or non-existent. This is so in Bulgaria, Czechoslovakia and probably in Hungary too(2). In the GDR it is in principle possible to obtain authorisation to set up a sales office, but the criteria for granting such authorisation have not been published. Polish officials have indicated that they will readily consider applications for technical representation but applications for sales offices are apparently subject to stricter criteria. The Romanian Government, in a decree issued in January 1971, authorised foreign commercial

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- (1) For instance, as regards visits of United States businessmen to Poland (United States reply to an ECE questionnaire. ECE document Trade/249, Addendum 1). Unlike most other Eastern states, Romania requires alien firms to obtain authorisation from the Ministry of Foreign Trade as a prerequisite to negotiation. However, in practice the willingness of a local entity to pursue contacts seems to be regarded as evidence of the Government's implicit approval. It may be noted that some trade agreements such as the one between Canada and the Soviet Union contain provisions to the effect that the competent authorities of the two Governments will facilitate visits for business purposes between the two countries.
- (2) In any case, no foreign firm had been allowed to establish an agency or market research office in Hungary as of 1st September, 1970.

firms to establish offices in Romania. However, as of 1st January, 1972 this legislation was still untested. In all these countries state agencies undertake the commercial representation of foreign firms on a commission basis. In the USSR this last possibility does not exist, but foreign firms are permitted to register an agent with the Ministry of Foreign Trade. Authorisation to do so has, however, only been granted to some 35 firms. The authorities have refused to reveal what criteria they follow in deciding whether or not a firm should be allowed to set up an office in Moscow. When pressed, they have mentioned trade turnover figures ranging from \$10 million to \$50 million. A number of factors, not all of them economic or related to trade, seem to influence the decision to allow or refuse a foreign firm accreditation.

4. In practice, even where it is legally possible to set up offices, Western firms have found it difficult to obtain suitable office space under the prevailing conditions of extreme shortage, and to hire suitably qualified local staff. Advertising for staff is not authorised, and state agencies do not always provide personnel of the required calibre. Difficulties of this kind, and the high cost of maintaining representatives in East European countries, have discouraged many Western firms, which prefer to rely on frequent visits by Western-based employees. Nevertheless, a number of firms continue to be desirous of opening offices in the East.

5. At the November 1971 session of the Committee on the Development of Trade of the United Nations Economic Commission for Europe, many delegations considered that the proposal for an examination of the possibility of guidelines on business representation merited further study(1).

B. Access to end-users

6. Traditionally, Communist countries carry out trade through specialised export/import corporations which act in accordance with the Foreign Trade Plan. This is still largely the case in the USSR, whereas in East European countries a varying number of larger enterprises have been authorised to conduct their purchases and sales abroad themselves. It is generally considered that the possibilities of trade would be enhanced if Western businessmen had better access to the people who actually use their products.

(1) ECE document Trade/114, paragraph 19

7. Western traders meet considerable difficulties in obtaining access to end-users, but these vary from country to country and from case to case. They are particularly great in the USSR(1).

C. Chambers of Commerce

8. All of the Communist countries have a national chamber of international commerce. In addition, joint chambers of commerce have been created.

9. The establishment of more joint chambers of commerce with offices with mixed staffs in Eastern countries might augment the possibilities of Western businessmen obtaining relevant information and contacts in the East.

D. Commercial attachés, consular relations, activities of trade missions and trade fairs

10. An increase in the number of Western commercial attachés in the Eastern countries and expanded consular services might be conducive to more trade. This is, however, a matter which could be better dealt with in a bilateral rather than a multilateral context.

11. The exchange of trade missions and Western participation in trade fairs in the Communist countries(2) has played a considerable rôle in East/West trade and is likely to continue to do so. There does not seem to be any particular problem in connection with these aspects of East/West trade.

(1) In that country, access is described as "virtually an impossibility" in the United Kingdom reply to an ECE questionnaire (ECE document Trade/249). In the United States reply Poland is, besides the USSR, singled out as a country where central authorities often refuse businessmen access to end-users. In the negotiations on their accession to GATT, the Hungarians declared that contacts between traders from non-Communist countries and Hungarian end-users were restricted by no regulation, but that the end-user was allowed to pursue only "the activities that belong to their sphere of operation, consequently they may pursue foreign trade activity only if they are authorised to do so".

(2) Regular international fairs are held in all the East European countries (Leipzig, GDR; Brno, Czechoslovakia; Budapest, Hungary; Poznan, Poland; Plovdiv, Bulgaria; Bucharest, Romania). Moreover, several countries and in particular the USSR organize specialised exhibitions from time to time.

II. PROPOSAL

12. The West might seek to obtain:

- (i) acknowledgement of the need to improve conditions for establishing a business and to grant more extensive facilities to Western businessmen in Communist countries, e.g. the right of Western firms to open offices and to have contacts with the producers and the end-users in the East; the creation of joint chambers of commerce having in each of the two countries concerned offices with a staff drawn from the two countries concerned;
- (ii) that any declaration on East/West economic co-operation that might be issued by the Conference includes a reference to the matters in (i) above;
- (iii) that the participating governments decide to seek agreement, in the framework of the ECE, on guidelines on business representation.

A. Advantages for the West

13. The closer contacts between Western firms and those responsible for preparing foreign trade plans in the Eastern countries, as well as the end-users, might lead to an improvement in the flow of information on market requirements and trading opportunities. Such contacts may also increase the possibilities of influencing the final foreign trade plans by calling the attention of the Eastern authorities to the advantages of specific products at the time the plan is being worked out. Possible results, however, should not be over-estimated. The level of trade with non-Communist countries is determined by planners, taking into account foreign currency availabilities and political considerations.

B. Disadvantages for the West

14. In accepting an undertaking in this field, Communist countries might be inclined to ask for further concessions in the same area. In view of the fact that Eastern commercial enterprises already have so much greater representation and vastly more liberal access to Western markets than their counterparts have in Eastern Europe, this is a case where asymmetrical concessions might be appropriate. Western countries may not wish to accept any increase in the existing disparity to their own detriment, and some Western countries are apprehensive about a commitment which could compel them to accept creation or expansion of organizations controlled by Eastern states in their countries.

III. RECOMMENDATION

15. That the proposal in Item II above be adopted subject to the concerns expressed in paragraph 14.

IV. TALKING POINTS

16. The following points might be brought up in discussions with the East:

- (i) In the USSR and perhaps in the East European countries Western firms which have tried to establish sales agencies have met with difficulties. In this respect, COMECON countries enjoy far greater freedom of activity in the West. Therefore, it is not felt that strict reciprocity is called for in this area, given the already great disparity noted above. Indeed, some Western countries may not be prepared to grant further facilities of this kind.
- (ii) Better facilities for Western firms are also in the interest of Communist countries, because they would enable Western countries to provide better service for Communist clients, such as maintenance, training programmes, steady supply of spare parts, etc.
- (iii) Direct contact between the seller and the end-user has advantages for both parties. The screen represented by the Communist countries' export/import firms makes it difficult for Western firms to ascertain and meet in full the needs of those who will use their products. For their part, the Eastern end-users have only an incomplete knowledge of the variety of Western goods and services which the foreign exporters are able to provide, but it must be recognised that such improvement of end-user knowledge may not be seen as in the interests of state planning.
- (iv) The extensive control system in Communist countries makes it possible for them to accept principles or legal engagements and yet make sure that they have no practical consequences; the right to permanent presence in a country is, for instance, of limited interest unless the state authorities make available the necessary office space. Therefore, Western countries must make sure that the Eastern countries take all the measures necessary to ensure that their commitments will in practice be carried out and do not remain a dead letter.

IMPROVEMENTS IN AVAILABLE INFORMATION ON TRADE
OPPORTUNITIES WITH EASTERN EUROPE

I. PROBLEM

Western efforts to substantiate both trade and industrial co-operation are considerable hindered by the serious practical gaps in information available to Western businessmen dealing with Eastern Europe.

A. Available Western Trade Sources

2. The paucity of quantified macro-economic data on trade possibilities with the East can best be assessed if a brief comparison is made with information sources available to Western exporters operating outside the Soviet bloc. Such sources include international organizations which provide, through reports and other publications, comprehensive statistical and non-statistical data on export markets, marketing information services, trade promotion, planning priorities, product specifications, long-term trends and international trading practices. Similar services are provided by national Chambers of Commerce located in the foreign countries and which also give advice on co-production facilities, planning, local labour problems, establishment of inter-company contacts, etc; foreign Trade Ministries; commercial attachés; general and specialist press reports; economic/commercial newsletters, all carrying reports on new trade developments overseas, trade regulations, analyses of market situations, company reports, etc., and finally companies themselves, most of which issue, at least, semi-annual or annual reports on output targets, raw material needs, import trends.

B. Available Western Sources on Eastern Markets

3. Trade statistical data are readily available from national governments. In addition, publications of international organizations contain special studies of trade patterns in Eastern Europe (e.g. Trade of the Eastern Trading Area in 1968). There are also business journals and newspapers including, for example, Enterprise (France), Financial Times (UK), Handelsblatt (FRG) among others which cover updated economic developments in Eastern Europe, including frequently practical on-the-spot reports in the Eastern countries by visiting businessmen. Economic bulletins and specialised commercial publications should also be stressed. These tend to be concerned more with trends in marketing practices and techniques for Eastern Europe and trade regulations.

4. The practical drawbacks of the above mentioned sources are that they seldom differentiate between the trading practices that might be found in one Eastern European country, but not in another, they are not updated with sufficient frequency to take account of the latest changes in trade regulations and are often too general to be of any real interest to a Western exporter, who requires very detailed country and sector orientated data. Market research on the Eastern countries is largely academic, and only seldom based on field research.

C. Available Communist Sources of Trade Information

5. There are five main categories of data on which the Western exporter should inform himself. These are:

- (a) Product specification;
- (b) Production and consumption targets;
- (c) Production plans;
- (d) Inter-COMECON trade;
- (e) Planners' priorities.

The ease with which the data for each category can be obtained from first hand Communist sources, and the degree of accuracy and detail, vary considerably from country to country, a factor which tends to cause undue delay in negotiations and contractualisation. Like Western sources on Eastern trade possibilities, the gaps here relate to enterprise-based data, information on the end-user, changes in market conditions, etc.

6. (a) Statistical Sources: All COMECON members publish foreign trade statistics which vary greatly in completeness and detail. Only the USSR and Poland include both value and quantity data; the export/import statistics of the other members are given either in value or quantitative terms. Sometimes, a country will use both for the same type of goods, giving the imports of certain items in value and of others in quantitative terms;
- (b) Another important source of official statistics, is the economic, industrial and Party press, which frequently carries reports on the given country's progress under its current Five-Year Plan, its annual plan and its foreign trade plan - the three basic components shaping the foreign trade plan of each East European country. It is by no means rare for an East European journal to publish a short item on the anticipated failure to meet a planned target due to a shortage of a certain material or unavailability of equipment: this may be taken as a good indication that the

unavailable goods may be imported. The Party press is the best source for statistics containing annual plan performance, while the periodicals devoted to individual industries are most likely to give statistics on import needs and current production trends.

7. (a) Non-Statistical Data: Standard compilations of foreign trade data are issued by the Chamber of Commerce on Foreign Trade in each Eastern country.
- (b) General Economic and Commercial Press: All COMECON members issue a weekly economic newspaper, a monthly review of foreign trade, and at least one commercial journal, presenting and reporting on international trade developments, trade and currency regulations. This category is the most fruitful for data on the areas given in paragraph 5. Unfortunately, such journals and press organs once again fail to provide sufficient detail to enable the exporter to ascertain current and upcoming import requirements.
- (c) Industrial and Technical Press: This category is the main source of specific data on the production plans and import needs of each COMECON member, as well as their consumption targets and planning priorities. However, a key element lacking here is the absence of information on the import requirements of specific industries as such, and, of course, of specific end-users. There are thousands of such journals published throughout the COMECON complex which makes it almost impossible for the Western exporter to know which one(s) he should monitor. Another disadvantage of this category is the fact that they appear normally only in the national language with no Western language summaries, and that they are edited basically for the technically trained reader.
- (d) Specialised Commercial Publications for Domestic Distribution: These tend to appear irregularly and frequently are issued in conjunction with a given country's trade fair. Their prime function is to publicise the products of foreign exporters, who are trying to enter the market, and are, therefore, slanted towards Foreign Trade Organization officials, enterprise managers and buyers from national distribution organizations. Unfortunately, this category also appears in the

national language, which makes it relatively non-functional for the Western exporter. Moreover, it covers new commercial opportunities in the Eastern markets in a very generalised manner.

- (e) One recent disturbing development in the COMECON bloc is the announcement by the Czechoslovak Government (reported 3rd March, 1972) that the divulging of economic data, including both Federal and national plans, budgets, import and export plans and information on raw materials is now considered a violation of the law on "State secrets". A similar injunction by the Romanian authorities was issued on 15th February, 1972. Hopefully these moves do not imply a rigidification of attitude by COMECON in the trade information sector. Certainly, they do not reflect the kind of flexibility needed in this area, if East/West trade is to develop.

II. PROPOSAL

8. The West might attempt to obtain supplementary information on the medium and long term plans, in particular, as regards the import and export plans of the Eastern countries, and notably on the import priorities.

9. In addition, the following areas could be brought up as reflecting the main information gaps:

Factual Information

- (i) Presentation by the Eastern countries on a more regular basis of more detailed and coherent statistics;
- (ii) More detailed documentation on changes in market conditions and available marketing channels through fact sheets issued by the end-users themselves;
- (iii) Attempts to simplify divergencies in East/West systems of foreign trade classifications;
- (iv) Far greater detail in sectorial breakdown on plan targets, balance of payments statistics, export price categories, bilateral clearing arrangements, licensing procedures and quantitative restrictions.

Organization and Procedures

- (i) More information on the functions of foreign trade organizations, procedures and operational guidelines, product responsibility;

- (ii) In order to have improved technical information and suitable feasibility discussions in the preparatory stage, and in terms of co-ordination during negotiations and after-sales service, direct negotiations/discussions between Western exporters and end-users on specific contracts should be authorized.

A. Advantages for the West

10. The greatest problem of the Western exporter is his difficulty in obtaining up-to-date and comprehensive trade and market data on the COMECON complex, particularly on the USSR - the largest COMECON exporter and importer to the West. Such proposals could lead to improved conditions for the Western exporter to the Eastern market, especially in terms of clarifying administrative procedures and accelerating negotiations. Moreover, implementation of such proposals, i.e. COMECON acceptance, could indicate a more flexible attitude to East/West trade.(1)

B. Disadvantages for the West

11. No great foreseeable drawback for the West, unless Moscow uses acceptance of the principle of greater access to COMECON trade in order to obtain concessions in areas outside the information sector.

III. RECOMMENDATION

From a tactical point of view, the West should present a list of all the categories of information which are missing. However, in the course of the negotiations, it might concentrate on those sectors to which it attaches prime importance. This order of priorities is indicated by the listing in paragraphs 8 and 9.

(1) For a list of publications available from Eastern countries on trade opportunities and trade statistics, see Appendices I, II and III to AC/127-WP/302, dated 23rd May, 1972.

PRACTICAL MEASURES TO IMPROVE THE QUALITY AND MARKETING
OF EASTERN EXPORT PRODUCTS

I. PROBLEM

1. It is becoming increasingly recognized that the lack of harmonised international standards, a system for international acceptance of national quality assurance standards and inadequate Eastern marketing techniques can be a serious obstacle to trade, especially as regards goods from COMECON countries. The salient problems would appear to centre around three areas:

A. Harmonisation of norms and standards

2. Although countries both in Western and Eastern Europe are members of the International Standardization Organization (ISO), there is a tendency - much stronger in Eastern Europe - for the application of standards and the problem of quality certification to be dealt with in sub-regional groupings and this results in undue compartmentalization of trade.

3. There are serious divergences between the Eastern and Western approaches to the handling of goods which complicate the marketing of Eastern products in the West. The divergences include technical performance and standards, quality, design, model, specifications, finish, labelling, etc.

4. The need for a broader transfer of technology to Eastern Europe from the West, and, thereby, the realisation of harmonisation of Eastern standards with Western, is patent. For years now, the structure of industry in all countries in Eastern Europe has been undergoing a rapid change occasioned by the development of more sophisticated production branches - chemistry, electronics and plastics. Existing production lines from textiles to motor vehicles are in need of modern designs and up-to-date production techniques in order to measure up to Western standards.

5. Differences in the form and presentation of Eastern documentation prevent the creation of standardized East/West contracts and a uniform reference system as well as bilateral acceptance of procedures on automatic data processing and codes for use in trade documentation.

B. Improvement of marketing techniques

6. At present, marketing conditions are such that it is not possible for the Eastern countries to take advantage of the trade potential that exists in the West.

7. The marketing problems that arise in importing from the Eastern countries relate in part to unsatisfactory knowledge of the products that COMECON countries can offer the West; consequently, Western importers cannot exploit fully existing opportunities(1).

8. In addition, it is necessary for the producers in the COMECON area to collect relevant information about Western markets in order to enable them fully to adapt their products to demand in the West.

9. The Eastern countries appear to be as yet insufficiently aware that an important prerequisite for an expansion of their exports to the West is the need for more active marketing, and that, given the characteristics of modern industrial production, exports depend not only on the capacity to guarantee continuous supplies of large volumes of goods of uniform quality, but also on sustained sales efforts, backed by effective servicing facilities. To date, the Eastern countries lack adequate sales contacts and distribution networks of the sophisticated type needed for the sale of their manufactures in the West.

C. Training in Western business and commercial practice

10. This problem area is closely integrated with the above mentioned issues of harmonisation and improved marketing practices. There is an urgent need to rationalise Eastern commercial practice and procedures and equate them with the Western patterns.

11. A serious drawback to a more rapid development of exports to the West is the lack of adequate Eastern technical communications. Areas such as postal services, telephone, telegraph and telex links, and visa formalities are urgently in need of improvement.

II. PROPOSAL

12. Difficulties in the above areas could be lessened by co-operative efforts through, for example, joint seminars to discuss marketing and marketing research procedures, sales promotion, classification, packaging and labelling of goods, harmonisation of norms and standards, etc. Such activities have already been undertaken by existing international organizations, most notably the ISO and the ECE. The West could propose that these activities be encouraged and expanded.

(1) See also Note No. 11 on the gaps in information available.

A. Advantages for the West

13. It is for the Eastern countries to make the greatest efforts to improve their export capabilities, in particular at these early stages in East/West co-operation. The foregoing proposal, if accepted, will undoubtedly facilitate matters for the Western importer, especially in terms of administrative obstacles encountered hitherto in accelerating the flow of goods from Eastern Europe, and meeting deadlines. Sales potential could be increased through improved quality. However, in view of continuing politico-ideological controls over Eastern economies, as well as central planning constraints, it is unlikely that such proposals will result in any steep increase in the COMECON share of total Western imports. Nevertheless, they could contribute to a boost in short and medium term Eastern exports. It is noteworthy that the need for an upturn in quality of output for export to the West has been recognised of late by COMECON in establishing special lines of production in goods intended for Western markets.

B. Disadvantages for the West

14. No basic disadvantages are inherent in the above-mentioned pattern of co-operation. Care should be taken to avoid that any proposed Western initiative be construed by the other side as an admission that Western industry is at fault.

III. RECOMMENDATION

15. Western countries should underline the importance of the adaptation of products to the market and the adoption of improved marketing techniques. They could give assurances to the Eastern countries of their readiness to provide them with the benefit of their experience and help in these areas.

IMPROVED ARBITRATION PROCEDURES IN EUROPEAN COMMUNIST COUNTRIES FOR SETTLEMENT OF COMMERCIAL DISPUTES WITH NATIONALS OF OTHER COUNTRIES

I. PROBLEM

1. Each European Communist country has a foreign trade arbitration commission organized under its Chamber of Commerce. State Trading organizations of these countries have generally insisted, when negotiating commercial contracts, that arbitration be conducted in the respective Communist country before a board of arbitrators sitting in that country and composed exclusively of its own nationals. While Western parties who have had experiences with such arbitral boards have not always been discouraged from continuing their business relationships, such situations nevertheless are widely considered among Westerners to be unsatisfactory from the standpoint of doing business with European Communist countries.

2. Communist state trading organizations have occasionally agreed to arbitration with Western parties in third countries, usually Sweden, Switzerland, Austria and the United Kingdom. However, such practices vary with respect to the type of arbitration procedures that such organizations will accept.

3. Within the Western world, the rules of arbitration of the International Chamber of Commerce have gained wide acceptance. Except in special cases, however, Communist state trading organizations have been unwilling to agree to arbitration under the Chamber's auspices on grounds that it is headquartered in a capitalist country (Paris, France) and is intimately connected with commercial organizations in capitalist states. State trading organizations have also refused to agree to arbitration procedures of other Western arbitral organizations, such as the American Arbitration Association.

4. The European Communist countries are members of the ECE Convention on International Commercial Arbitration of 1961, which was established to facilitate settlement of East/West commercial disputes. The Convention substitutes for national rules criteria and procedures established by the Convention itself or by party stipulation. This Convention has proven to be of limited practical importance(1).

(1) The 16 members of the Convention are: Austria, Bulgaria, Bylorussia, Czechoslovakia, Denmark, Federal Republic of Germany, France, Hungary, Poland, Turkey, Rumania, Ukrania, USSR, Yugoslavia, Upper Volta and Cuba.

5. Alternative solutions to existing difficulties are now being sought by working out a model set of rules and directives which the arbitration bodies would as appropriate embody in their own regulations and operating procedures.

II. PROPOSALS

6. The West should ask the USSR and Eastern European countries to consider more widespread acceptance of private arbitration tribunals functioning on a multilateral basis and composed of representatives of both parties under a neutral chairman. This would include procedures of the International Chamber of Commerce in Paris, or those available on a third-country basis, such as the Chambers of Commerce of Zurich and Stockholm, which are considered by many Western businessmen and legal practitioners to be particularly appropriate for settlement of East/West commercial disputes. The West should also recommend that all arbitration bodies should aim at standardizing their principles and procedures. In effect, while Eastern countries normally start off by asking that arbitration should be according to their own laws and in their own tribunals, Western companies generally ask for private neutral arbitration (normally Paris, Stockholm or Geneva) and this is always accorded. In any case, cases of actual resorting to arbitration are extremely rare since both sides are unwilling to face the resulting bad publicity, loss of goodwill and expense.

(a) Advantages for the West

- (i) Availability to Western parties in East/West trade disputes of arbitration panels not subject to Soviet/Eastern European domination would probably encourage wider interest in negotiating trade and licensing relationships with state trading organizations.
- (ii) Western firms and individuals will be more confident of receiving fair treatment regarding payments due to them in commercial contracts.

(b) Disadvantages for the West

7. Insistence on arbitration procedures along the above lines might tend to discourage state trading organizations from concluding arrangements with specific Western parties. Nevertheless, the state trading organizations will tend to shop around among different Western parties playing one off against the other in order to find a firm prepared to conclude a deal on their own terms. In order to obtain Eastern acceptance of the above proposals, Western unity on this score is therefore highly desirable. However, experience has shown that where a Soviet or East European organization finds a net advantage to be gained, it generally agrees to arbitration procedures under auspices, other than those of its own government.

III. RECOMMENDATION

8. That the proposal in Item II above be adopted.

IV. TALKING POINTS

- (a) This proposal would eventually result in an advantage for the East to the extent that it would increase the confidence of Western firms and thus contribute to the expansion of East/West trade.
- (b) Western countries are always interested in improving arbitration procedures for facilitation of East/West trade and welcome any specific proposals for further in-depth consideration.
- (c) As a condition for doing business with state trading organizations, Western firms should not be required to accept arbitration procedures conducted in the Soviet Union or Eastern Europe.
- (d) Private arbitration tribunals, such as those under the International Chamber of Commerce and in third countries, seem particularly adaptable to objectivity in East/West trade disputes.

FOSTERING OF EAST/WEST TRAVEL

I. PROBLEM

1. One of the consequences of the proposals concerning the freer movement of people(1) may be the easing of arrangements governing tourism and business travel - discussed here from the financial and economic angles only.

2. At present, the economic benefits of East/West tourism are almost exclusively one-sided in favour of the East. Over 40% of the foreign visitors entering the East European countries come from countries outside the Warsaw Pact. In 1969, there were 9.4 million such visitors, out of a total of almost 23 million. These figures show that tourist traffic between the East European countries is still limited. The member countries of OECD, for example, recorded 134 million visitors in 1970 and total foreign currency earnings were about \$14.2 billion, or approximately 6% of overall exports. For each visitor, from the East European countries entering an OECD country, sixteen nationals from the latter visit the East(2).

3. No official information from the Communist countries is available, but on the basis of rough estimates it would appear that the Eastern countries' net proceeds from tourism and business travel in 1971 have been equivalent, in convertible currencies, to:

USSR	\$75 million
GDR	\$50 "
Bulgaria	\$30 "
Romania	\$21 "
Czechoslovakia	\$16 "
Poland	\$ 9 "
Hungary	\$ 3 "

4. By comparison with receipts from exports to the OECD countries, the inflow of convertible currency deriving from tourist traffic is negligible in the case of Poland, Hungary and Czechoslovakia; more significant in the case of Romania, USSR and East Germany, the latter deriving benefit from its special position. Of all the East European countries, it is Bulgaria which has made the greatest efforts to develop its tourist trade, and its convertible currency receipts from tourism represent from 15 to 20% of the value of its exports to OECD countries.

(1) See the Agenda item on this subject

(2) The ratio becomes 10 to 1 if the number of FRG nationals visiting the GDR is deducted from the totals; however, this is a special case

5. The advantages which the East European countries derive from the fact that the tourist balance of payments is tilted in their favour will no doubt continue for some considerable time. This imbalance is due not only to the number of their visitors but also to the considerable difference between the amounts spent in the West by East European visitors and those spent by Western visitors to the East. Whereas the latter are generally required under the regulations to convert the equivalent of \$10 to \$20 a day into local currency during their stay in the Eastern countries, extremely strict limits are placed on the amount of national currency which Eastern tourists can export; thus, in most cases, they have to avail themselves of the hospitality of their hosts in order to satisfy their wants abroad.

6. Financially and economically speaking, expansion of tourism in Europe will benefit the Warsaw Pact countries in the first instance. However, an increase in business contacts, and the liberalisation of travel regulations by the East European countries would greatly facilitate the development of economic relations between East and West. The East Europeans should be encouraged to learn more about the West, e.g. through the freer distribution of Western travel publicity in the East European countries, or within the framework of cultural agreements, by more talks in educational establishments on East/West travel.

7. The expansion of tourism between East and West should, in the normal course of events, lead to the development of the East European countries' hotel resources. The West could help with the establishment of tourist facilities by making available its specialized management expertise and its broad experience in developing the supply of tourist facilities. Various projects have already been tried out or are in hand in this area: negotiations between French firms and the USSR for the equipping of ski resorts in the Caucasus; the delivery, construction and fitting out by British firms of motels for the Czech motorway network; help with the building and management of hotels (Hilton, Inter-Continental) in the big cities, (Budapest, Bucharest, Prague); the equipping of seaside resorts and holiday centres in Bulgaria and Romania with the help of Western tourism organizations. Where the establishment of joint enterprises can be contemplated, these problems entail industrial co-operation. If joint operations of this kind could take place in the West, they might contribute to the freer movement of East Europeans to Western Europe. In this connection, it should be noted that a number of Allied countries have already signed bilateral agreements on tourism with Eastern countries. However, the value of these agreements may be limited if nationals of Eastern countries are unable to go abroad for tourist purposes. In other words, the availability of more funds and improvements in operating conditions for travel agencies may in themselves have only a limited impact owing to the restrictions imposed on the freedom of movement of individuals.

II. PROPOSAL

8. It is clear that the nature of any proposal for the fostering of tourism and business travel will still hinge on the solution that is found to the basic problem of the freer movement of people. Should concrete progress be made in this sphere, the West might be encouraged to sign new agreements for bilateral co-operation in the field of tourism.

9. Under these agreements, the East European countries would undertake:

- gradually to raise the amount of currency which their nationals can take with them when visiting Western countries;
- to provide Western travel agencies established on their territory with facilities and the material help they need to operate;
- to allow the West to advertise its tourist attractions more extensively in all the usual ways (press, brochures in hotels, posters, etc.);
- to supply the appropriate international bodies with more information on exchanges of tourists, and particularly their financial implications.

10. In return, the West could offer:

- to provide, should the Eastern countries so wish, technical expertise to improve the management and running of their travel agencies in the West;
- to consider the establishment of joint bodies in Western countries with a view to promoting tourist traffic from the Eastern countries;
- to help with the development of hotel facilities in the East European countries, on condition that the appropriate guarantees of investment were provided.

11. A CSCE would not appear to be an appropriate forum for a detailed discussion of these questions which could be referred to the relevant Organizations(1).

(1) These might include, for instance, ECOSOC, and an ad hoc group made of countries participating in the CSCE within the IUOTO, the statutes of which have been amended, at the request of several East European countries and, in particular, Bulgaria, to make this body a governmental organization.

A. Advantages for the West

- (a) The West clearly has an interest in the expansion of East/West tourist traffic; however, in the foreseeable future, this interest will be primarily political since the outflow of convertible currency from the Western countries towards the East is out of all proportion to the outflow in the opposite direction.
- (b) The currency earnings which the East European countries derive from the tourist trade may to a certain extent, help restore the balance of payments in convertible currencies and thus promote increased imports from the West (c.f. the case of Bulgaria).

B. Disadvantages for the West

- (a) Financially and economically speaking, the East European countries will be the main beneficiaries of any expansion of tourism and business travel.
- (b) The development of holiday travel to the East European countries could adversely affect the tourist trade from which some Western countries derive valuable income for their own economic development.

III. RECOMMENDATION

It is recommended that the proposal contained in Item II above be adopted.

IV. TALKING POINTS

- (a) The Western countries afford the tourist organizations of the Eastern countries every possible facility on their territory without discrimination of any kind.
- (b) The formalities with which nationals of Western countries must comply when wishing to travel to Eastern countries are no different from those required of tourists visiting other countries.

WESTERN PARTICIPATION IN THE EXPLOITATION OF SOVIET
RAW MATERIALS

I. PROBLEM

1. It can be cogently argued that East/West trade would greatly benefit if the European Communist countries would handle more rationally the question of raw materials. This sector could provide considerable opportunities for industrial co-operation. Within the COMECON, the Soviet Union alone possesses a rich variety of such materials. The bulk of these material resources are located in remote and inaccessible areas, and a considerable amount of capital will be needed to provide for infrastructure and efficient exploitation. Among these, it would appear that the following are of more immediate commercial interest: chromium, copper, iron ore and nickel(1). Fuller information on these various minerals can be found at Annex; current data are not always available.

2. The Soviet Union would benefit from Western help in exploiting resources and from increased sales of materials on world markets. This direction of production might mean that relatively less of Soviet output would be earmarked for the East European countries, which in turn would be rather more involved in world trade. This greater dependence of all the socialist countries on world trade would probably be of economic advantage to them.

3. The Soviets are conscious of the fact that the East Europeans have insufficient capital to be of very great help in the development of resources in Siberia, and in any case the East European market is modest. They have, therefore, tried to interest Western business circles in the development of Siberian resources. The most persistent efforts in these overtures have been made to the Japanese, but efforts have also been made to interest Western European and American business in development schemes. Such co-operation would make good economic sense if the Soviet materials were rationally exploited and offered on commercial terms to the world market. Projects involving Western co-operation in exploiting Soviet raw materials for the future include:

- (i) the Siberian copper project in Udokan: the USSR has proposed that several Western countries, including France and West Germany, deliver mining and other equipment, which it will pay for in copper;
- (ii) exploitation of Siberian timber, Japan supplying the necessary equipment in return for large-scale wood deliveries. During 1971, Japan delivered some \$160 million worth of forestry machinery and equipment; in turn, the USSR is supplying Japan

(1) The exploitation of oil and natural gas has been examined in a separate paper (Note No. 2)

with about 8 million cubic metres of timber during the period 1969-1973;

- (iii) joint Soviet-Japanese development of the coalfields of the Southern Yakut region of Siberia: the area is believed to contain deposits of over 600 million tons;
- (iv) possible British-Soviet co-operation in developing a massive iron ore complex in the Kola Peninsula near Murmansk, and aid in exploiting nickel deposits in the Orenburg region;
- (v) Soviet-Finnish project to mine high-grade iron ore in the remote Kostamus area of Soviet Karelia.

4. It would seem, however, that even at this stage the Soviet authorities are undecided on what lines to go ahead with these exploitation programmes. Sometimes they seem to be hankering after the barter arrangements they have foisted on the East Europeans, that is, capital equipment now, against material later. On the other hand, they are also considering the possibility of attracting foreign capital into the COMECON investment bank, a scheme which would have considerable advantages(1). Foreign interests would simply lend money capital, the Soviets would buy their equipment in the best market and in due course sell that material on world markets. This would encourage the Soviets to pay particular attention to the economic feasibility of the projects. There is the third possibility where the need to attract foreign knowhow is particularly important. In this case, the firms interested should be permitted to have an equity interest in the project. It would be up to them to consider how good the prospects were and to take the risk accordingly. This would involve foreign participation in Soviet enterprises but it would not necessarily imply foreign control. Foreign participation could be kept to the level acceptable to the Soviets. The success of these schemes would of course depend on what attention was given to commercial considerations from the start.

5. Given that commercial principles constitute the only really satisfactory basis for Western participation, there are elements in the Soviet leadership who favour this approach and given, too, that it is very much in the interest of the East Europeans to work on these lines, it would be a pity to miss the opportunity to urge this approach on the Soviets as a valid contribution to co-operation.

(1) In some joint venture proposals, the Soviets have asked Western companies to supply not only foreign capital, but also funds for local investment.

II. PROPOSAL

6. To the extent that the Soviet Union shows an interest in attracting Western capital and securing technological assistance with a view to expanding the production and the export of raw materials, attention should be called to the advantages which would accrue to all concerned if recognised commercial principles were applied to this production and trade. In particular, Western nations should stress the need for explicit guarantees on conditions of participation, including profit returns.

Advantages for the West

7. The considerable Soviet raw material resources would become available on normal terms to the world market. They would no longer be an unknown and unpredictable factor in the background, causing uncertainty. As more and more countries engage in the process of industrialization the demand for a wide range of raw materials is certain to increase, and it is desirable that the vast resources of the Soviet Union should become available on world markets. Even in the near future, Soviet natural gas, and to a much lesser degree oil, could contribute considerably to development in other countries(1).

8. The Soviet Union would be increasingly involved in world trade both in co-operative and competitive aspects. This growing interdependence might help to reduce ideological differences.

Disadvantages for the West

9. Increased supplies of certain commodities might drive prices down in certain markets. Even though consideration would have to be given to future supply/demand relations at the time of the original investment, misjudgments frequently occur and it might be more difficult to convince the Soviets not to place increasing supplies on the world market.

10. Economic efficiency in the Soviet Union and Eastern Europe would probably rise as a result of such measures. While increased efficiency might make the Soviets more profitable trading partners, it could also make them in certain circumstances more serious competitors on the international scene and particularly with the raw materials producing countries of the developing countries, including those belonging to the Alliance.

11. The increasing dependence of Western and other countries on supplies of raw materials from the Soviet Union

(1) See Note No. 2 on the exploitation of oil and natural gas

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could present some disadvantages should the Soviet leaders choose to make political capital out of this situation.

III. RECOMMENDATION

12. It is recommended that the proposal mentioned in paragraph 6 should be adopted.

IV. TALKING POINTS

13. The East European states, Poland and Hungary at any rate, have long been in favour of putting trade, and even industrial production on a commercial basis with proper regard to costs. Because of their size, their need for specialisation and rational trade this is understandable. Support for the proposal (Item II) vis-à-vis the Soviet Union would indirectly encourage Poland and Hungary to continue in this direction.

14. In view of past examples of Soviet dumping, it would be highly appreciated if the USSR would agree to adhere to the various agreements on raw materials trade so that this practice could be avoided in the future. Such agreement becomes more significant, as the huge reserves of Soviet raw materials are exploited and traded on the world's markets.

ANNEX

STATUS OF KEY SOVIET MINERAL RESOURCES

Aluminium: Apparently, the USSR operates at least 13 primary reduction plants with a total probable capacity of 1.4 million tons. The USSR is a large producer of low-grade bauxite and other aluminous materials. There is a shortage of aluminium ore which the Soviets are attempting to overcome by developing the large nepheline deposits in Siberia. The main bauxite producing areas are the Northern Urals and Kazakhstan. Production: at least 1,050,000 metric tons of primary metal.

Beryllium: The USSR continues to be one of the world's largest producers and consumers of this mineral. The very large deposits are to be found mainly in the Asian part of the country and on the Kola Peninsula. Production: at least 1,250 metric tons.

Cobalt: Deposits in West Siberia and on the Kola Peninsula. Mine reserves are estimated at 100,000 tons of contained cobalt, chiefly in nickel ore. Production: 1,500 metric tons.

Chromium: The USSR is the world's leading producer and a large exporter. Production in 1970 was estimated at 1,750,000 metric tons; approximately one third of the output was consumed or stocked in the USSR.

Copper: The Soviets remain among the world's largest producers. Gross copper reserves are assessed at 35 million tons. Over half the reserves are situated in Kazakhstan, although new huge deposits have been located in the region of Udokan in Eastern Siberia, which should yield some 400,000 tons of copper annually.

Gold: The 1969 production figures are estimated at 195 metric tons (6,250 thousand troy ounces). Soviet sources have reported that proved gold reserves are sufficient for 16/17 years of operation at the above rate of output. Reserves of gold in underground deposits were assessed at 200 million ounces in 1969. The main gold producing areas are the Soviet Far East, East and West Siberia, the Urals and Kazakhstan.

Iron Ore: Movable iron reserves of all categories are reputed to total at least 109,700 million tons with an average iron content of 34.8%. Proved reserves are estimated at 6,000 million metric tons in about 120 deposits. Key areas for iron ore are the Ukraine, the Urals, Kazakhstan and West Siberia. Future expansion of production is to concentrate on the North West and Siberia.

Lead and Zinc: This industry is probably the second largest in the world. Ore reserves are assessed at at least 17 million tons of contained lead and 22 million tons of contained zinc. Around 70% of the reserves are located in Kazakhstan, chiefly in the Altay and Kara-Tau regions. Large reserves are also to be found in the Urals.

Manganese: The Soviet manganese industry remains the largest in the world. Estimated production levels for 1975 and 1980 are 9 million and 11 million tons respectively. Reserves of manganese ore categories - proved, probable and possible - were estimated at 2,500 million tons with an average manganese content of 26.4%. There are large high-grade reserves in the Chiatura basin in Georgia and in the Atasu region of Kazakhstan.

Molybdenum: No reserves data available, but annual output of concentrate is estimated at 8,000 tons at least. Armenia occupies first place in the production of molybdenum concentrate. Kazakhstan is reputed to contain large reserves, and production is said to be increasing at the Balkash metallurgical complex in Kazakhstan.

Nickel: After Canada, the USSR rates as the world's largest nickel producer. Proved, probable and possible reserves are estimated to contain more than 5 million tons of nickel. The key production centres are Norilsk, the Southern Urals, and the Kola Peninsula.

Platinum: Again, the Soviet Union is probably the largest platinum group metals producer. Reserves are said to be adequate for many years following the discovery of extensive new deposits of platinum-bearing copper-nickel ores in the Norilsk area in 1969.

Tin: Output appears insufficient to meet internal demand. Main tin regions are in the Soviet Far East, Yakutia, and Transbaykal.

Titanium: The second largest titanium industry in the world after that of the United States. Soviet reserves have been estimated at about 10 million tons. The Ukraine is the centre of titanium production.

Tungsten: Explored reserves may be as large as 500,000 tons of ore with 60% tungsten. The main production areas are concentrated in the North Caucasus, Transbaykal, Kazakhstan and the Soviet Far East.

CATEGORY B

ISSUES ON WHICH THE ALLIES WOULD TAKE NO INITIATIVE
AT A CSCE. POSSIBLE RESPONSES SHOULD THESE BE
RAISED BY THE WARSAW PACT COUNTRIES

- Exchange of electric power with East European countries and the USSR (Note No. 3)
- Development of East/West monetary and financial relations (Note No. 10)
- Accession to GATT of additional Communist countries (Note No. 15)
- Response to complaints by Communist countries about Western tariffs (Note No. 16)
- Response to complaints about COCOM (Note No. 17)
- Response to complaints by Communist countries on Western quantitative restrictions (QRs) (Note No. 18)
- Western response to possible Eastern complaints regarding Western credits (Note No. 23)

EXCHANGE OF ELECTRIC POWER WITH EAST EUROPEAN
COUNTRIES AND THE USSR

I. PROBLEM

1. There seems to be relatively little scope for any important exchange of electric power between Eastern and Western Europe.

2. The Soviet Union is a very great potential producer of electricity, but the main untapped sources are in Siberia and transport of electricity over long distances is still a very expensive matter.

3. The Soviet Authorities are at present concerned with the problem of transmitting electric energy from Siberia to Central Russia. They are faced with the task of building transmission lines of over 2,000-2,500 KW at unknown cost. On present showing it would therefore appear that Soviet interest in East/West co-operation in this field reflects more their need for Western technology and equipment rather than their capacity to supply substantial amounts of electric power.

4. As far as East European countries are concerned, they could do with more electric power. It is quite conceivable that in certain circumstances they might be prepared to import electricity both from the Soviet and the Western grids. Apart from this, however, there is no reason why local exchanges, taking advantage of different time zones and availability of surplus power in geographically contiguous regions, should not take place on a larger scale between Eastern European countries and the Western areas on their borders.

5. International linking of the electric power grids of European countries have built up since 1955. Exchanges of electric power across national frontiers have been growing at a faster rate than gross consumption. A large number of European countries, both East and West, have concluded contracts for long or short-term exchanges of power or for emergency supplies. These developments have led to the formation of three large, separate networks: one in Western Europe, one in Scandinavia and one in Eastern Europe. In the latter a central despatch office was set up in Prague to facilitate the connections between Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, Romania and the USSR. Some Western countries already have direct or indirect links with some Eastern countries (mainly through Czechoslovakia and Hungary).

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6. Between Eastern and Western Europe exchanges of electric power, which are still at a low level, have grown since 1967 faster than their total trade. However, so far, the exchanges have been limited to occasional and emergency supplies which, on a net basis, have flowed from Eastern to Western Europe.

7. The concept of an all-European grid involves among other things the solution of the problem of economic transmission of power over very long distances. The construction of large-scale nuclear plants might possibly increase the economic advantages of linking Eastern and Western electricity grids.

8. In the ECE the idea of future supply of electricity from the East to the West is a favourite theme, and the Russians have proposed two specific projects both starting in White Russia; one supplying power via Poland and the GDR to Northern Germany, including West Berlin, the other designed to supply Germany, France and Switzerland. The problem is that the new high-tension lines over long distances would require heavy investment and might not prove very economic.

II. PROPOSAL

That the West should not take any initiative in this respect but should be prepared to consider any proposal based on solid economic considerations, which the other side might wish to make in the context of a CSCE.

(a) Advantages for the West

- (i) There might be greater opportunities for selling electrical equipment.
- (ii) For Western countries bordering on Eastern Europe there might be some advantages in limited exchanges of power.

(b) Disadvantages for the West

The only disadvantage would be the theoretical dependence on Eastern supplies, but as these would be quite limited in the foreseeable future, the question does not really arise.

III. RECOMMENDATION

That the proposal in Item II be accepted.

IV. TALKING POINTS

Should the USSR and the Eastern European countries raise the question they should be asked to present their ideas supported by technical data.

DEVELOPMENT OF EAST/WEST MONETARY AND FINANCIAL RELATIONS

I. PROBLEM

1. As this paper will indicate a framework already exists which could provide a basis for the further evolution of East/West monetary and financial relations. However, except in the field of Western export credits, until recently the mechanisms available for such financial co-operation were far from fully utilised for a variety of reasons: e.g. nature and small scale of trade in the Fifties and early Sixties, inflexible East European financial procedures, absence of interest in mixed enterprises or joint ventures, etc. The situation is now different, and barring any adverse modifications to the current political climate the future trend might well reflect enhanced recourse by Eastern countries to existing financial channels together with possible forward movement of such innovations (as far as East/West relations are concerned) as joint East/West banks, Western agencies operating specifically to finance East/West joint projects, increased borrowing by COMECON countries from Western bank syndicates and flotation of Eurobonds.

2. The development of trade(1) at a faster rate than in the past, and with a greater number of business partners, and the introduction of forms of co-operation which until now have been relatively unknown in East/West relations (joint firms, Western financial involvement in Eastern companies, participation in the development of whole regions and in major public works), are factors which will doubtless encourage the Eastern countries to seek to introduce greater flexibility in their monetary and financial dealings with the industrialised Western countries by expanding them beyond the bilateral stage.

3. If the current proposals for possible East/West industrial co-operation were to be put into effect, even partially, the finance which would have to be raised would greatly outstrip the already high level of export credits granted by Western countries to the Eastern countries since 1958.

(1) OECD countries' (including Japan) trade with the European COMECON countries: imports (c.i.f. or f.o.b.) \$2,391 million in 1961 and \$6,932 million in 1971; exports (f.o.b.) \$2,326 million in 1961 and \$6,487 million in 1971 (source: OECD statistics). Intra-German trade is not included in these figures.

(a) Monetary relations

4. In the monetary sphere, the non-convertibility of Eastern currencies greatly reduces the scope for a multilateralisation of payments(1). To overcome this difficulty and to avoid recourse to clearing accounts, dealings between Western countries and their Eastern trading partners are generally made on the basis of a convertible Western currency (dollar, sterling, Deutschemark, etc.). This practice has its advantages for the Eastern countries. It broadens the range of their exchanges with the West since the surpluses deriving from their trade with a Western country can be freely used elsewhere. In this connection, it is worth pointing out that the Soviet Union, although financially indebted to the United Kingdom, devotes a large part of its surplus trade balance with that country to purchasing in other countries generally in the sterling area. In the 1960s, and especially in 1969, certain Eastern countries held on to large amounts of German currency with an eye to a revaluation of the Deutschemark. In this way they were subsequently better able to bear the increase in the cost of credits granted in that currency.

5. Soviet gold sales were an important aspect of East/West monetary relations until 1965. During most of the 1950s, Soviet deficits on trade with the West were offset by sales of gold. In the early post-war years, sales ranged up to some \$150 million annually. They increased substantially during the second half of the Fifties and especially over the five years 1961/1965 when they amounted to some \$2,000 million and were used largely to finance emergency purchases of grain. They played a significant part in the increase in official gold reserves in the West, as will be seen from the table at Annex based on statistics issued by the Bank for International Settlements (BIS). After 1965, sales of gold petered out except in 1967 when the Eastern countries sold \$15 million worth of gold(2) and in 1971 when, according to the BIS 42nd annual report, they sold an estimated \$100 million worth of that metal.

6. While it is likely that after 1965, the Russians found it necessary to discontinue official sales because accumulated reserves had been heavily drawn on, the fact that the break has lasted such a long time is best explained by the availability of Western export credit and the desire of the Soviets to accumulate

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- (1) An aspect of East/West monetary relations is that COMECON countries do not participate in current efforts to improve the international monetary system; they are not members of the IMF, although Romania has just applied to join that institution and the World Bank (September 1972).
- (2) According to the IMF. It is possible that this sale was pushed through by Romania rather than by the Soviet Union.

international financial reserves as a cushion against unforeseen payment deficits brought on by poor harvests or other causes. The current sharp rise in the price of gold on the free market, together with the unusually large grain purchases from the West, may induce the Soviet authorities to resume sales of part of their gold production and possibly of some of their accumulated gold stocks(1).

(b) Financial relations

7. In the fairly complex pattern of East/West financial relations which already exists, it is the Eastern countries' financial institutions which have taken advantage of the free enterprise system to set themselves up in the West, while at the same time, the Eastern governments withhold similar facilities on their territory from Western financial institutions. To date, only one West German bank has managed to establish representation in Moscow. It is known that a number of British and French banks, which already handle substantial business in connection with the financing of East/West trade, would welcome the opportunity of opening an office in the Soviet capital. It is difficult to make an accurate appraisal of East/West financial relations and their impact on the economies of the Communist countries since the latter do not publish detailed monetary and financial statistics, or their balance of payments position and an inventory of their foreign debts and assets.

8. In the COMECON countries foreign trading and financial operations are the responsibility both of the Central Bank (which is naturally qualified to handle financial transactions with foreign countries) and, on a more specialised level, of the Foreign Trade Bank which has one or more correspondents in the West. The Foreign Trade Banks are responsible for opening clearing accounts in connection with the trade and payments agreements which these countries enter into with their trading partners, mainly within COMECON and the Third World. They are authorised to open convertible foreign currency accounts for foreign firms and national enterprises. They undertake the financing of complex barter and switch-trading transactions, operate on the Western money and capital markets, and, in certain cases, act as intermediaries between importers and exporters. These banks also perform all the functions of Western merchant banks.

(1) The value of Soviet reserves is not known. Various estimates have been given ranging from \$2 billion to \$8 billion. The only information which is available with some degree of certainty is that given by the US Bureau of Mines on Soviet gold production which over the last few years has averaged some \$210 million annually. In 1969, gold production was estimated at 6.25 million troy oz.

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(i) Rôle of Eastern banks in the West

9. The Soviet Union is the only COMECON country which operates on a large scale in the banking and financial sectors of the Western economies. It has four wholly owned banks in Western Europe(1) and one in Iran, the stock capital of which is held by Gosbank, Vneshtorgbank (the Soviet Foreign Trade Bank) and other Soviet organizations. Soviet citizens generally occupy key posts in them thereby ensuring adherence to the guidelines set by Moscow. Otherwise, the banks are staffed by local nationals. The bank managements adhere to the laws and customs of the countries in which they are incorporated and are largely autonomous in operational matters, especially in fields where their activities are prescribed by commercial considerations or accepted Western practice.

10. These banks provide banking services and financing of Western trade for the USSR and other Communist countries, especially those in Eastern Europe. To an increasing extent they have become involved in financing trade of non-Communist countries as well. Aside from foreign trade activities, they act as agents for gold sales in the West by the USSR and, occasionally, other Communist countries. The Soviet-owned banks also offer banking services to local customers, including the maintenance of current and time deposit accounts and the provision of short-term loans to private companies.

11. These banks have enhanced the ability of the USSR to gather commercial information, enter the foreign exchange and Eurocurrency capital markets, tap outside sources of funds and ensure secrecy in some of the USSR's convertible currency dealings.

12. In addition to its banking activities, the Soviet Union engages in financial operations through its insurance companies abroad. These are the Black Sea and Baltic Insurance Company in London, the Schwarzmeer Ostsee Transportversicherungs A.G. in Hamburg and the Garant-Versicherungs A.G. in Vienna. The latter specialises in credit insurance for exports to Eastern countries.

13. Two recent developments involving East European banks deserve special mention as they may be indicative of new forms of co-operation in the financial field. In 1971, a multinational bank was set up in Vienna with Polish participation (Bank Handlowy Warszawie). In February 1972 a Franco-Romanian bank (50-50 participation) was opened in Paris for the purpose of improving trade and economic co-operation between France and Romania.

(1) Moscow Narodny Bank Ltd., in London (it has branch offices in Beirut and Singapore); Banque Commerciale pour l'Europe du Nord in Paris; Wozchod Handelsbank A.G. in Zurich; Ost-West Handelsbank in Frankfurt.

14. Lastly, a number of East European countries have remained members of the Bank for International Settlements after the Second World War. They play no part in its activities, but it cannot be excluded that in the future the BIS might provide a useful forum for exchange of information on financial and monetary matters of interest to the Western and Eastern countries which belong to it.

(ii) The COMECON countries' and banks' activities on the Western financial markets

15. The BIS annual reports reveal that, since its creation, the Eurodollar market has been used by the Eastern countries (including the Soviet Union) to place currency and, above all, to acquire comparatively large amounts of dollars. Thus, at the end of 1967, the position vis-à-vis Eastern Europe of the European banks which communicate data to the BIS(1) was as follows: liabilities \$470 million, assets \$770 million, i.e. a net credit for the group of "eight"(1) of \$300 million. At the end of 1968, the "eight" had a credit balance of \$290 million. In 1969 the dollar position was virtually balanced (\$30,000,000 in favour of the East), but the latter had a debit balance on the Eurodollar market (\$430 million), but they had a credit balance equivalent to \$120 million in Eurocurrencies.

16. Although full details of the transactions alluded to above are not available, it will be recalled that Hungarian loans on the Eurodollar market reached \$145 million between 1968 and 1971 and that Romania raised \$13 million. One of the two COMECON banks, the International Bank for Economic Co-operation (IBEC) recently raised \$140 million on West European financial markets. Although this is a relatively small amount, there are indications that it is a prelude to much larger fund raising operations not only by IBEC but also by the other COMECON bank, the International Investment Bank (IIB).

(iii) The activities of the COMECON banks

17. The International Bank for Economic Co-operation, with a capital of 300 million "transferable roubles", mainly acts as a clearing house for intra-COMECON transactions. However, it also handles an increasing volume of convertible currency deposited with it by trading companies in the COMECON countries as well as by foreign correspondents. This bank would, therefore, probably in future be in a position to centralise currency assets held by COMECON countries.

(1) Federal Republic of Germany, Belgium, France, Italy, Netherlands, United Kingdom, Sweden, Switzerland

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18. The IIB has been operating since 1971 only. It has a capital of 1,056 million roubles of which 30% is payable in convertible currency or gold. It is likely to play a notable rôle in East/West financial relations by arranging, inter alia, the financing of joint East/West enterprises or by making credit available for co-operative East/West projects in the field of technology or the development of Siberian resources. This bank is empowered to float loans on the international financial markets and participate in the financing of work undertaken by joint concerns. It is possible that in future the IIB will become the COMECON's main go-between for negotiating and obtaining lines of credit from the Western countries. This would make for a co-ordination of requests from Eastern countries and would somewhat restrict the latter's freedom of manoeuvre. The IIB is already fostering - in a modest way - the development of Western exports to the East through the credits in convertible currency it has granted to certain East European countries. In 1971, Poland and Hungary, together, received the equivalent of 11 million roubles in convertible currency and the Tatra heavy vehicle concern (Czechoslovakia) received 25.3 million roubles in convertible currency for the purchase of capital goods abroad.

(iv) Export credits

19. Over the last 10 years, financial co-operation between East and West has been mainly concerned with the provision of export credits. With the exception of long-term credits to Poland by the United States in 1946, 1957, 1958 and 1959, there are no known instances of Western government credits to Eastern governments. Credits to Eastern importers are granted mainly by Western exporters and banks. To an increasing extent Western banks have formed consortia in order to raise the large amounts required by the financing of longer-term credits granted in connection with sales of plant and equipment. As a rule, private export credits are granted with an official guarantee(1). There are some ad hoc consortia and a number of East/West institutions which also grant credits without official Western support. A case in point is Centrofin in Vienna, in which the British merchant bankers Kleinwort and Benson participate.

(c) Settlement of debts

20. So far the Soviet Union and the other COMECON countries have satisfactorily met their commercial liabilities. However, a dispute still exists between certain Eastern countries (especially the Soviet Union) and Western countries (particularly the United States) concerning the payment of debts incurred by the former prior to the First World War (Russian loans), between

(1) All Western industrialised countries have a government sponsored system of export credit insurance

the two Wars, during the Second World War (lend-lease, civilian supplies, etc.) and as a result of the nationalisations which came in the wake of political changes in Europe after 1945. Although partial agreements have been reached between the Eastern countries and some of the Western countries, the yearly repayments made on these debts do not amount to much. The final settlement of this problem on the basis of a commitment by the Eastern countries to reimburse, under arrangements to be decided, a mutually acceptable figure, would certainly help to foster East/West economic and financial co-operation.

II. PROPOSAL

21. The countries of the Alliance could agree to examine bilaterally and multilaterally, in the appropriate fora, ways and means of increasing monetary and financial co-operation with the Warsaw Pact countries, within the limits imposed by their own financial requirements (especially those of the developing members of the Alliance) and those of their traditional Third World trading partners as well as of countries friendly to the West.

A. Advantages for the West

- (a) As a major economic power and the world's second largest gold-producing country, the Soviet Union should be able to take part in world-wide financial and monetary arrangements. Its participation could increase trade and financial movements not only between the industrialised West and the countries of the East, but also between the latter and the Third World.
- (b) An expansion of financial flows from the West to the East based on improved understanding by the Eastern countries of the advantages and obligations involved in financial co-operation with the West may bring in its wake an acceleration of economic reforms in the Eastern countries and possibly some adjustment of the centralised economic system to the rules of a market economy, with a concomitant increase in the rôle of money.
- (c) It is difficult to conceive of genuine industrial co-operation in the absence of suitable legal, financial and organizational arrangements. The existence of such arrangements would give Western firms a sense of security and make it easier to reach agreements with Eastern countries.

B. Disadvantages for the West

- (a) The danger inherent in any expansion of financial co-operation (especially in establishing any extensive dealings with the COMECON banks) is that the Soviet Union may use the advantages stemming from this type of increased co-operation with the West to strengthen its political and economic hold over the other COMECON countries.
- (b) Financial co-operation involving a substantial increase in the flow of funds to Eastern countries would create the risk of future repayment difficulties if such funds were not channelled into activities generating hard currency earnings.
- (c) The development on a large scale of financial co-operation with the East might lead to a certain amount of economic dependence which in turn could have undesirable political consequences for the West(1).

III. RECOMMENDATION

That the proposal in Item II be accepted.

IV. TALKING POINTS

- (i) As a token of their willingness to co-operate in the financial field the Eastern countries could be invited to negotiate the settlement of their debts prior to 1914 or dating from the First and Second World Wars and subsequent events.
- (ii) The problem of the facilities to be granted to financial establishments wishing to open branches in the Eastern countries could be brought up during discussions on practical ways of broadening financial co-operation.
- (iii) The attention of Communist countries could be drawn to the inadequacy of their financial and monetary statistics.

(1) In this respect also see Note No. 1 on industrial co-operation

ANNEX

SOVIET GOLD SALES

Millions of dollars	1956	1957	1958	1959	1960
<u>Soviet gold sales</u>	150	260	220	250	200
Increase in gold reserves of Western Central Banks	495	705	670	695	340
Proportion(1)	33%	37%	33%	36%	59%
	1961	1962	1963	1964	1965
<u>Soviet gold sales</u>	260	200	550	450	550
Increase in gold reserves of Western Central Banks	590	330	840	725	240
Proportion(1)	44%	61%	65%	62%	229%

Source: BIS Annual Reports

- (1) These percentages are purely indicative and must not be interpreted as implying that the bulk of Soviet gold sales necessarily flowed into Western Central Bank reserves

ACCESSION TO GATT OF ADDITIONAL COMMUNIST COUNTRIES

I. PROBLEM

1. It seems unlikely that the East European countries would wish to discuss as a separate issue the accession of additional Eastern countries to the GATT. It would nonetheless be appropriate to consider the matter both in the event that it is raised in the context of other issues and also to consider whether Western countries might profitably raise it.

A. Review of present GATT status of East European countries

2. In addition to Yugoslavia, the following Communist countries of Eastern Europe are GATT contracting parties:

- (a) Czechoslovakia, which was an original signatory in 1947. Since the Communist coup d'état in 1948, Czechoslovakia has remained a contracting party but has taken a relatively inactive rôle in GATT proceedings.
- (b) Poland, which became a full contracting party in June 1967, after having become an observer in 1957 and having acquired associate status in 1960. It was the Polish accession that provided East European states with a distinct alternative to the practice of market countries of offering tariff concessions as an "entry fee" in reciprocity for the benefits of becoming a contracting party. A number of contracting parties had doubted that the GATT could or should accommodate Poland. They were concerned that the Polish system did not offer Western exporters sufficient access; that the Polish import programme as part of the national economic plan basically left to imports from market countries only a residual market that could not be met by domestic production or imports from COMECON countries; that participation in COMECON resulted in a discriminatory choice of imports incompatible with MFN, and that state planning resulted in arbitrary determination of trade patterns by administrative fiat rather than the market forces that the GATT is designed to encourage. However, the view that eventually came to predominate was that accommodation might be possible if Poland would undertake commitments that would influence her planning process and if contracting parties could obtain special safeguards in view of the different approach by state trading countries to setting export prices. Accordingly, the Polish accession protocol

includes the following provisions:

- (1) an undertaking (so far adhered to) by Poland increase imports from contracting parties at a rate of at least 7 per cent per annum;
 - (2) annual consultations on Polish import targets;
 - (3) bilateral consultations should Poland or any contracting party request them, with provision for either Poland or the contracting party to suspend GATT obligations toward the other if further consultations with the contracting parties as a group do not lead to a settlement;
 - (4) action by a contracting party to restrict imports from Poland should they cause or threaten serious injury to domestic producers and should consultations fail to resolve the issue;
 - (5) a clause permitting contracting parties which maintain discriminatory quantitative restrictions inconsistent with the GATT to continue to apply them provided that the inconsistency is eliminated by the end of a transitional period of unspecified length.
- (c) Romania, which became a contracting party in November 1971. The Romanian accession protocol is modelled after the Polish instrument, but differs in that Romania's import commitment is an expression of intent to increase imports from the contracting parties as a whole at a rate equivalent to the overall increase in imports foreseen in the current Five-Year Plan. The consultations with Romania are to be biennial rather than annual. Contracting parties maintaining discriminatory quantitative restrictions inconsistent with the GATT undertake not to increase the discriminatory element of these restrictions and to remove them progressively with the objective of eliminating them before the end of 1974.

3. Hungary is attempting to negotiate accession to the GATT on a different basis. The Hungarians, while maintaining state trading relations with COMECON countries, have established tariffs against imports from market countries, with which some Hungarian enterprises have been given greater freedom to deal on the basis of market considerations. They have refused to consider undertaking an import commitment to GATT contracting parties offering instead to enter into tariff negotiations. The basis for this approach is the substantial decentralization and adoption of market features that have characterized the country's recent economic reforms.

4. The Soviet Union, Bulgaria and Albania have not applied to accede. Their economies as presently structured more closely resemble the centralized, state-directed economies of Poland and Romania than the partially decentralized Hungarian economy. Insofar as these countries are willing to undertake commitments along the lines of Poland, there are no manifest technical grounds for excluding any of them(1).

B. Consequences of Communist countries participation in GATT

5. The consequences of participation by Czechoslovakia and Poland in the GATT do not appear to have been very significant either for the two countries or for the GATT. Poland has participated somewhat more actively than Czechoslovakia in GATT proceedings, but has pursued a pragmatic rather than ideologically dogmatic approach. Although information is somewhat limited, Poland appears to be seeking through its GATT participation generally to promote access to Western markets and ensure stable trade relations with the West.

6. Poland's participation in the GATT does not appear to have contributed significantly to pressures for domestic economic liberalization. The recent reforms appear to have concentrated on reordering planning priorities mainly in response to domestic social pressures, and have not led to substantial changes in the highly centralized structure of the economy. In part the lack of domestic impact stemming from Poland's participation in the GATT reflects the terms of accession. Few substantive changes in Poland's system of foreign trade were required. GATT provisions will continue to have limited applicability as long as Poland retains most features of a state trading country and Western countries do not utilize consultation procedures to press for changes.

7. If Bulgaria or Albania were to accede to the GATT on terms similar to those in the Polish and Romanian cases, it is reasonable to assume that the significance likewise would be modest both for these countries and for the GATT. It seems unlikely that they would be inclined to unite with Poland, Czechoslovakia, Romania and Hungary to pose a vigorous, concerted challenge to the industrialized market countries' domination of the institution.

8. Were the Soviet Union to accede, however, the consequences would likely be more far-reaching and more uncertain, for the following reasons:

- (a) the economic magnitude of the Soviet Union would make negotiation of terms of Soviet accession a major trade negotiation;

(1) The conditions under which accession to GATT of the German Democratic Republic would be possible will be discussed later.

- (b) the Soviet Union as a contracting party might well consider itself obliged to play an active rôle in keeping with its status as a major power;
- (c) the Soviet Union would probably seek to assert leadership over other East European contracting parties, some of which would be likely to respond by playing more dogmatic and assertive rôles than at present;
- (d) the Soviets and others might be inclined to pursue major reform of the GATT so that its structure and functions would be as consistent with state planning as with market economies;
- (e) the Soviets could be expected to press hard for total removal of discriminatory restrictions, and to seek to enlist the support of market countries that do not themselves maintain such restrictions against East European countries.

II. PROPOSAL

9. Avoidance of discussion of the subject at the CSCE would eliminate any risk of erosion of Western countries' ability to exact concessions from future Eastern applicants in the course of accession negotiations. Should the Soviets probe prospective Western attitudes to any application to accede, the West, by avoiding discussion, would reduce any risk implicit in a more positive Western response of encouraging the Soviets to apply without a sufficient commitment to undertake obligations that would be required of them. However, by refusing to discuss the subject at the CSCE, the West would give up the possibility of eliciting Eastern responsiveness on trade matters in return.

III. RECOMMENDATION

10. The West should not take the initiative in raising the subject. If the Eastern countries raise it, the Western countries should respond with assurances that they are prepared to examine carefully and on their merits in the GATT - the appropriate forum to consider the subject - any additional applications to accede.

RESPONSE TO COMPLAINTS BY COMMUNIST COUNTRIES
ABOUT WESTERN TARIFFS(1)

I. PROBLEM

1. The Communist countries are likely to complain that tariffs are an obstacle to the expansion of their sales in the West. Their general posture on non-discrimination in international trade does not appear to imply a denial on the part of any state to introduce restrictive measures for protecting its industry against harmful competition. Their position is, however, that such measures must be applied equally to all states and that the practice of discriminatory restrictive measures is a violation of international law and, indeed, "an act of economic aggression". This paper discusses possible Western reactions to such complaints.

A. The problem of tariffs

2. The Communist countries might complain in general terms about Western tariffs imposed on goods exported by them. The point to note in this connection is that the reduction of tariffs in the GATT framework, which has been a feature of the post-war period, has been based on the principle of reciprocity set out in the Preamble to the General Agreement. Countries commit themselves to limit tariff protection of their own production in exchange for better access to markets in other countries, which have undertaken similar commitments, and on the understanding that all countries undertaking these commitments are treated in the same way.

3. In the centrally controlled economies tariffs play a different rôle than in the West. In Western countries the purchase of foreign goods can be discouraged by means of tariffs; in the Eastern economies there is no need for this mechanism, since import decisions are controlled from the centre. These economies cannot hold out the prospects of increased imports as the result of tariff reduction in the GATT context. Consequently, they cannot reasonably(2) claim to be entitled to "GATT treatment". There are two special cases to be considered:

- (a) where reciprocity designed to have a real impact in a centrally planned economy is offered; Western countries have accepted the commitments of this kind made by Poland and Romania;

(1) The German Delegation has a general reservation on this note
(2) The question of accession to GATT by certain Communist countries is dealt with in Note No. 15

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- (b) where central planning is replaced by a socialist market economy and trade decisions are taken by individual enterprises influenced by government economic policy rather than subject to administrative orders. In the negotiations on the Yugoslav accession to GATT, Western countries considered that a meaningful application of the Agreement presupposed that manufacturers and traders of any contracting party should be able to compete with local producers as well as with outside suppliers over the whole range of goods they might wish to try to sell, and the Yugoslav Government accepted in principle that customs tariffs should be the sole means of protecting domestic industries.

4. The European NATO members do not use tariffs to discriminate against the Communist countries, which, in fact, share in the benefit of any general reduction in tariffs (e.g. Kennedy Round). Because tariffs on East European imports are considered rather ineffective(1), the European NATO countries have preferred to control imports from the East by means of QRs, a system rather more akin to the administrative control of trade of the East. Canada does not use QRs, and accords MFN tariff treatment to all Communist countries except the GDR and Albania. The United States is the only NATO country which denies MFN tariff treatment to Communist countries other than Yugoslavia and Poland(2).

B. Tariff concessions to less developed countries

5. Another argument which the Communist countries theoretically might take up would be to claim that they should benefit from the Generalised Preferences which the industrialised countries have accorded or promised in favour of less developed countries(3).

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- (1) The interest of Eastern countries in tariff reduction or abolition is not quite similar to that of the market economies. Since their prices are fixed without the same consideration of costing as in market economies, it is clear that tariffs cannot have the same bearing on exports as in the West. In centrally controlled economies, tariffs have no direct impact on the profitability of the enterprise and the state monopoly absorbs the effect of the tariff. Therefore tariffs do not have the same deterring action on exports nor on the overall economic activities as they have in the Western market economies. However, any attempt by Eastern countries to overcome tariff barriers by marking down their export prices diminishes their export earnings.
- (2) Within the European Economic Communities, tariff negotiations are handled by the Commission which acts within the framework of directives from the Council.
- (3) These preferences have until now been applied by: the EEC; Denmark, Ireland, Norway, the United Kingdom; Finland, Japan, New Zealand, Sweden, Switzerland.

6. Yugoslavia is included among the countries benefiting from Generalised Preferences. Romania has officially requested such treatment from the EEC and Bulgaria has made a similar request to the individual EEC countries. In addition, Bulgaria and Romania have expressed an interest in benefiting from the application of the Canadian General Preference Scheme. Between the COMECON countries this is likely to be a divisive issue. On economic grounds Poland might perhaps qualify for such treatment, but the case of Hungary would appear more doubtful, and neither Czechoslovakia nor the GDR could be called less developed. Presumably, the USSR neither could nor would request such treatment. The issue is therefore unlikely to be raised by the Eastern bloc, but might be brought up by Romania or certain other COMECON countries.

7. As regards concessions to others, five COMECON countries - Bulgaria, Poland, Hungary, Czechoslovakia and the USSR - have announced their willingness to grant trade concessions to less developed countries which they maintain would be comparable to the benefits of Generalised Preferences. This position is part of the report of the Special Committee on Preferences (TD.B.329/Rev. 1) which was approved by the UNCTAD board on 13th October, 1970.

C. Special tariff arrangements for East/West trade

8. Some years ago the USSR attempted, on the basis of most favoured nation clauses in bilateral agreements to claim that it was entitled to benefit from the lowering or abolition of tariffs within the EEC and EFTA. According to the GATT rules, the most favoured nation principle does not prevent the establishment of custom unions and free trade areas. Although this has never officially been conceded by the Soviet Union, the line of argument mentioned here appears unlikely to be taken up again.

9. It appears more probable that the Communist countries will resort to the argument that the changes in Western trade arrangements presently taking place will increase their difficulties of marketing their products in the West. Apart from the Generalised Preferences for less developed countries, competition will increase as a consequence of the agreements envisaged between the enlarged Common Market and EFTA countries which are not seeking admission. The EEC has also made association or trade arrangements with a large number of countries. The state trading countries might claim that as a result of these developments, they are likely to become one of the few groups of countries subject to full tariffs of the enlarged Common Market. They might therefore ask for special arrangements, including tariff concessions.

II. RECOMMENDATION

- (i) Should the Eastern countries attack the custom tariffs, it should be stressed that the Communist countries already receive MFN treatment by most NATO countries; and that where Communist countries grant MFN treatment their administrative control of trade gives them ample means of discriminating in practice against particular countries. However, the Western countries, which are prepared to do so, could if the occasion should arise, and in accordance with GATT rules, - particularly on the most-favoured-nation basis - indicate their willingness to negotiate tariff concessions in request of certain clearly defined products in exchange for various non-tariff concessions which Eastern countries might grant.
- (ii) Should individual COMECON countries repeat their claim to be considered as less developed countries in relation to the Generalised Preferences, NATO countries might point out that some requests of this kind have already been made and are currently under discussion in the light of criteria discussed within UNCTAD.

III. TALKING POINTS

- (1) Most NATO countries apply GATT bound tariffs to imports from all Communist countries. Those which are not members of GATT therefore benefit, without any comparable counterpart, from tariff concessions agreed on in an arrangement whereby all other countries have paid an entrance fee by opening up their own markets.
- (2) The question of the accession to GATT of certain East European countries is dealt with in Note No. 15 (Category B.).

RESPONSE TO COMPLAINTS ABOUT COCOM

I. PROBLEM

1. It is probable that the Soviet Union and the East European countries will maintain that the existence of a large COCOM list directed primarily at the Warsaw Pact countries is an obstacle to expanded trade between Western Europe/North America and Eastern Europe, and will request its removal.

A. Procedures for establishment of COCOM lists

2. COCOM (Co-ordinating Committee) whose membership is the same as that of NATO, but excludes Iceland and includes Japan, has however no institutional link with NATO. It began operating in Paris in January 1950 and since that time the lists of items internationally agreed upon by the Committee for controls have been frequently revised.

3. There has been a downward trend in the number of items under control and the scope of the embargo. As new information is developed about productive capability and advances in Communist countries, some items are removed from the list. Conversely, because of new technological developments in the West, new items are periodically added.

4. The lists currently comprise items in the following four categories:

- (i) strategic: with both civil and military application;
- (ii) military: covering weaponry, munitions, etc.;
- (iii) atomic energy;
- (iv) items of lesser strategic importance: items on this watch list are not embargoed but their export to Communist countries must be reported to COCOM.

5. The latest review of the COCOM list has been under way since October 1971. At the beginning of this review there were approximately 163 items under control, consisting of the 106 international strategic list items, 26 international atomic energy items, 22 international munitions list items and 9 watch list items. This may be compared with the high point in 1953 of approximately 450 controlled items.

B. Lists criteria

6. Criteria for placing items under COCOM embargo are as follows:

- (a) materials and equipment (by types and grades) which are designed specifically or in peacetime used principally for the development, production or utilisation of arms, ammunition or implements of war;
- (b) materials and equipment (by types and grades) incorporating unique technological knowhow, the acquisition of which by the Sino-Soviet countries may reasonably be expected to give significant direct assistance to the development and production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or of delivery, or of counter-measures to them;
- (c) materials of which the Sino-Soviet countries have a deficiency which may reasonably be expected to be critical in relation to the production in peacetime of modern arms, ammunition or implements of war, of their means of utilisation or delivery, or of counter-measures to them, and which they could not overcome within a reasonable period.

C. Composition of the International Strategic List

7. The COCOM List is highly selective and includes inter alia:

- (a) certain metals, minerals and their alloys such as zirconium, cobalt and unrefined nickel;
- (b) metal-working machinery such as jig borers and grinders with close tolerances, specialised hydraulic presses, and numerical-controlled machine tools;
- (c) specialised processing equipment for chemical and petroleum industries such as certain gas liquefying equipment, equipment for the production of military explosives and solid propellants, ion vacuum pumps and cryopump systems;
- (d) electrical and power-generating equipment such as electrical vacuum furnaces, electronic beam equipment and semi-conductor devices for direct conversion of solar or nuclear energy to electric energy;

- (e) transportation equipment such as hydrofoil vessels, certain aircraft, helicopters and engines and associated equipment;
- (f) electronic and precision instruments such as advanced communication, navigation, direction finding and radio equipment, radio relay communications equipment, single and multi-channel communications equipment, semi-conductors and computers;
- (g) chemical and petroleum products such as lead azide, boron, fluoro-carbon compounds, synthetic lubricating oils and greases;
- (h) specialised synthetic rubber;
- (i) synthetic film for dielectric use of a very fine thickness.

D. Exceptions procedures

8. Items on the International List may still be exported to Communist countries provided that COCOM exceptions procedures are followed. These are that the exporting country must be satisfied that the export is to a civilian user, is suitable for the stated civilian end use, does not contain critical knowhow which should not be transferred to Communist countries, and does not relieve a critical deficiency in these countries. The exporting country must obtain the unanimous approval of other member countries in most cases, although there are special administrative notes on some items that allow for governmental exceptions without prior clearance in COCOM. Moreover, there are special exceptions procedures for servicing and de minimis shipments.

II. GENERAL CONSIDERATIONS

- (a) By denying the Communist countries uncontrolled access to such items, the West helps to preserve its military security by preventing an even more rapid growth of the Eastern military potential, thus contributing to the maintenance of defence expenditures at an acceptable level.
- (b) Lacking such an agreed list, there would be danger of excessive competition between Western firms for Soviet and Eastern European markets without adequate attention to mutual security considerations.

- (c) It should be noted that procedures are sufficiently flexible to permit exports of international list items providing that the export is suitable for the stated civilian end-use and the consignee is known to be a civilian end-user.
- (d) A firm Western position would remind the Warsaw Pact countries once more of the dependence of an increase in trade in COCOM list items on improvement in political/military relations.
- (e) Nevertheless, it must be admitted that these controls reduce the potential export earnings of member countries and that unwillingness to discuss modifications in the COCOM System could forgo a possible bargaining area.

III. RECOMMENDATION

9. If the Soviet Union or other East European countries raise the subject, NATO countries should maintain that they have the right to restrict exports which in their opinion could be detrimental to their security and mutual defence, and that in any event the controls are limited in their trade impact. Furthermore, Western governments might respond that the lists have been much reduced in recent years and that such controls are under continual review in COCOM, the results of which could be influenced, among other factors, by an improvement of East/West relations.

IV. TALKING POINTS

10. If Warsaw Pact countries raise the COCOM issue, the following talking points are suggested:

- (a) The West intends to control exports in the interest of its security and mutual defence. The Warsaw Pact countries do not have such official (and published) lists as they can exercise such control through their government-controlled trade organizations.
- (b) COCOM controls are limited in their effect since they are highly specialised and do not constitute an absolute embargo. Procedures are flexible enough to provide for export of items for legitimate civilian use.
- (c) Over the last ten years trade of the COCOM member countries with the USSR/East European countries has increased threefold.

RESPONSE TO COMPLAINTS BY COMMUNIST COUNTRIES ON
WESTERN QUANTITATIVE RESTRICTIONS(QRs)

I. PROBLEM

1. In the United Nations Economic Commission for Europe, GATT and bilaterally, the Communist countries have been pressing Western countries to undertake obligations not to impose any new QRs on imports from the East and to set a definite time limit for the complete removal of existing "discriminatory" QRs.

2. Special QRs on imports from Communist countries are not employed by Canada or the United States, where trade flows with COMECON countries are relatively small. The QRs employed by Turkey do not fall within this category: they are solely dictated by general economic considerations within her development plans and are based on the kind of goods rather than their exporters. On the other hand, they have played an important rôle as a tool of commercial policy in the other European NATO countries. The range of products subject to QRs is larger as regards imports from state-trading countries than from other countries. This paper only deals with these so-called discriminatory QRs.

A. Position of the Eastern countries as regards QRs

3. The Communist countries attack the use of QRs as a political discrimination against them inherited from the cold war, and as a departure from the liberal trade principles professed by Western countries. This is an attempt to avail themselves of advantages for which they can offer no equivalent counterpart. Western efforts to reduce and eventually abolish QRs affecting trade between market economies are based on reciprocity. The restraints on the use of QRs accepted by GATT countries presupposes that physical limitations of the volume of imports is the exception not the rule. In contrast, the foreign trade plans of the centrally controlled economies amount to 100% regulation of foreign trade by means as rigid as QRs and substantially wider in effect than those operated by Western countries.

4. The Communist countries reject this interpretation and argue that once the volume of imports has been fixed by the plan (that is, quantities have been restricted by direction), their foreign trade organizations are obliged by law to choose their sources of supplies in accordance with commercial considerations. As these governments clearly have the authority to transmit orders directly and secretly to the executive agencies, it is not possible for outside observers to ascertain what factors in each case determine the decision on where a purchase is to be made.

5. The government control over trade in the Warsaw Pact countries is moreover used to discriminate heavily against the West. With the exception of Romania, all the Communist countries direct some two thirds of their trade to each other by way of bilateral agreements, thus excluding Western exporters from large areas of potential trade(1). In view of this situation, the Communist countries' general contention that Western countries should not apply special QRs to control imports from them is unacceptable for some Western countries.

B. Practical advantages to the West of QRs

6. QRs normally aim at protecting domestic producers or traditional foreign suppliers. The reason for applying QRs to imports from the state-trading, but not from other, countries is therefore mostly that home producers fear competition by unfair pricing from these countries in particular. The Eastern commodities most frequently subject to specific quotas seem to be agricultural foodstuffs, textiles, clothing, footwear, ferrous metals and chemicals. The social and economic justification for this protection can only be examined case by case by the countries concerned. There are, however, two general reasons for using QRs in trade with Communist countries.

7. First, the state-trading countries dispose of a considerable bargaining power in negotiations with a Western country, because the Eastern representatives are able to decide from which country their imports are to come. On their side, Western governmental officials are not normally able to place orders, but the existence of QRs has offered them a bargaining asset which enabled them to offer assurances that import licences would be granted within certain limits. In return they have, in some cases, obtained from state-trading countries promises to buy, and in other cases, less specific promises that these countries would use their "best endeavours" to take an agreed amount of goods from the Western country.

8. Secondly, most Western countries consider that the possibility of introducing new QRs or reducing quotas has provided a deterrent to dumping from Communist countries where it is difficult to ascertain what the real cost of production is. These countries seem to consider that this deterrent has worked fairly satisfactorily and that problems might arise if they abandoned all possibility of controlling their imports from Communist countries by way of QRs. Other Western countries, however, believe that existing anti-dumping practices provide adequate protection against dumping.

(1) This discrimination is often not overt, but it does occasionally find its way into published legal texts. This is for instance the case of a Bulgarian decree of July 1971. This decree states that purchase of a licence from the West will only be authorised in cases where it has been established that it cannot be obtained in other COMECON countries.

C. The decreasing Western use of QRs

9. All the industrialised West European countries have in recent years reduced considerably the range of goods subject to QRs(1). Some NATO countries have, furthermore, in bilateral agreements undertaken to aim at the complete abolition of QRs by 1974(2). In many cases Western countries have, however, carried through liberalisation measures without undertaking any international obligation not to reintroduce QRs.

10. The reduction of Western QRs has been furthered by:

- the Eastern interest in buying in the West capital goods which they could not easily obtain elsewhere;
- the recognition of Western governments that the East would have to increase its exports to pay for these purchases;
- the fact that exports from Eastern countries often do not constitute a great challenge to most Western producers;
- the greater weight by and large given to the interests of Western exporters rather than to those of the domestic producers;
- the probability that Eastern countries would use all the hard currency earned to buy in the West or to reimburse their debts.

11. Most Western countries maintain that QRs are a necessary means of self-protection which will be dispensed with as soon as circumstances permit. A premature internationally binding renunciation by Western countries of the right to use QRs would severely limit the possibilities of these countries to correct trade distortion. Such distortions might arise should Communist countries build up their exports to all Western countries while concentrating their purchases elsewhere or - a more likely hypothesis - in those Western countries which they wanted to reward politically. This might considerably increase possibilities for the East to apply political leverage. Other Western countries, however, consider that there are more acceptable means of ensuring market discipline.

- (1) Austria on 1st January, 1971 lifted all QRs on imports from the USSR. It should be noted that in order to continue the pressure on other Western countries to abolish QRs, the Communist countries will undoubtedly ensure that Austria suffers no inconvenience for having taken such an initiative.
- (2) This is the case of France vis-à-vis the USSR; Italy vis-à-vis the USSR, Poland, Czechoslovakia and Hungary; the United Kingdom vis-à-vis Hungary; Denmark vis-à-vis Czechoslovakia and Poland.

II. RECOMMENDATION

12. The Western countries could take an open attitude on the question of quantitative restrictions. In particular, account will have to be taken of commitments already entered into at the bilateral level or vis-à-vis certain Eastern countries in a multilateral framework (GATT). In response to Eastern complaints, the countries maintaining QRs could point out:

- (i) that the planning and foreign trade system in East European countries de facto imposes universal and arcane QRs on trade with Western countries(1);
- (ii) that the West European countries have reduced these controls considerably in recent years while there has been no corresponding reduction in the restrictions operated in COMECON countries; in fact, such restrictions - exemplified by the increased percentage of intra-COMECON trade - have increased;
- (iii) that QRs in the West are generally maintained to protect economically healthy industries against low price competition;
- (iv) that Poland and Romania in the context of their entry into GATT have been given assurances that, except in specified circumstances, new QRs will not be introduced and that the existing ones will gradually be abolished(2).

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- (1) Some Western countries, while in agreement with this judgement, do not regard it as implying any justification for Western QRs.
 - (2): This argument seems logically necessary, in particular if it is considered to be in the interest of the West that Communist countries other than the USSR should seek admission to GATT. It should, however, be kept in mind that the Poles do not consider that so far they have obtained much by their accession to GATT.

WESTERN RESPONSE TO POSSIBLE EASTERN COMPLAINTS
REGARDING WESTERN CREDITS

I. PROBLEM

1. Eastern countries have for a long time been complaining about the volume, the conditions and the duration of Western credits granted to them. They have constantly asked for an increase in the amounts granted, for a relaxation in the conditions, in particular a reduction of the interest rates, and for a lengthening of the term. These countries have abundantly indicated over the last few months that should industrial co-operation with the West develop as a result of a CSCE one of the corollaries to it would be the possibility for them to obtain larger export credits on favourable terms to finance their purchases. It is therefore to be expected that this matter will be brought up at the Conference.

A. Background Analysis

(i) Development of Western credits

2. Western export credits have acquired considerable importance in the 1950s and especially in the 1960s. The extension of such credits to Communist countries began somewhat later than that to LDCs: in the late 1950s for credits of up to five years and in 1963/1964 for longer-term credits. Since 1964 the share of Communist countries in longer-term credits guaranteed by the OECD countries has been around 12%.

3. During most of the sixties the East European countries as a whole benefited from much larger credits than did the USSR. However, in the last few years the flow of credits to some of the East European countries has decreased and to all these countries taken together it appears to be levelling off. On the other hand, there has been a sharp increase in credits to the Soviet Union which in 1970 accounted for a larger flow of credits than that to the East European countries. Most of the credits taken up by the USSR since 1966 are of a duration of more than five years. They accounted for 93% of all credits extended to this country in 1969/1970. The share of longer-term credits in the amount obtained by the East European countries is much more modest (35%).

4. Most of the credits granted to Eastern countries have been officially guaranteed private export credits. Private credits without official backing have been quite significant in some NATO countries, but there is reason to believe that in the NATO area as a whole this form of credit represents only a modest share of the total credits granted.

5. Accumulated officially guaranteed outstanding credits, as of end 1970, from NATO countries, comprising credits which had not yet been drawn, amounted to \$4.7 billion, of which \$2.5 billion to Eastern Europe and \$2.2 billion to the USSR. Reimbursements(1) have been growing over the years and in 1971 amounted to just under \$1 billion. It should be noted that as the bulk of the USSR debt is more recent and of a longer duration than that of the East European countries, the Soviet repayments in 1971 were less than half those of Eastern Europe.

6. The growth of credits to the East has resulted mainly from the following factors:

- a general trend in international trade where credits have become an important means of improving exporters' competitive positions;
- a growing proportion of Western exports to the East has been in industrial goods, in particular in complete factories, a field where credits have become a normal feature of trade;
- certain East European countries found that they could overcome Soviet objections to some of their economic projects by purchasing from the West on credit. Most East European countries have been relying on credits temporarily to offset their payment deficit with the West;
- the realization by the USSR in the mid-sixties that it was lagging behind the West in many industrial sectors and the attempts by the Soviets to bridge the gap by procuring machinery and equipment embodying Western advanced technology and its concomitant decision to draw on the increasingly available Western credits to finance such purchases;
- in the case of the Soviet Union, the existence of substantial gold reserves has strengthened her credit standing by providing a partial cushion against difficulties in repaying Western loans. In turn, the availability of long-term credits since 1964 has allowed the USSR to maintain and increase purchases in the West without having to resort to gold sales;
- in the West the financial risks involved in credit extensions to the East have been considered to be small; as the buying enterprises or Eastern banks concerned are government-owned these credits are practically, if not legally, guaranteed by the Eastern governments; defaulting would jeopardize the credit-worthiness of the country as a whole;

(1) Repayment of capital plus interest

- the consensus reached in NATO that the development of East/West trade would not only be beneficial from a commercial but also from a political point of view(1).

7. In addition to export credits, Eastern countries and the COMECON banks have been recently turning to the Western financial markets for loans not tied to any specific purchases(2).

- The International Bank of Economic Co-operation (IBEC) has obtained from Western bank consortia loans amounting to about \$140 million. Although this is a relatively small figure there are indications that it is a prelude to much larger fund raising, not only by the IBEC but also by the other COMECON bank, the International Investment Bank (IIB).
- There is no need to stress the predominant position of the USSR in both banks. A consequence of this control is that the Soviets through the allocation of convertible funds of IIB and IBEC will be able to influence the investment choices of the East European countries. Indeed, the Soviets have long expressed their interest in there being a "common" control over Western investment in the area so that Communist countries should not become dependent on capitalists.
- At this stage the projects financed by the COMECON banks affect the East European countries rather than the Soviet Union itself, which is in the process of negotiating for much bigger loans from various Western sources. The real point, however, is that the projects likely to be favoured by these banks are those which would promote the type of economic integration favoured by the Soviets, whereas projects to develop East European potential, which might result in a switch of trade to Western countries, might not receive Soviet support, however justifiable they might be on purely economic grounds.
- On purely financial grounds there would be no inconvenience for the West increasingly to channel funds to the COMECON countries through the COMECON banks. Should, however, this development reach major proportions, the COMECON banks could become a screen between the East European countries and other sources of funds in the West which would normally be directly

(1) See C-M(66)86(Final), paragraph 46

(2) See Note No. 10 on the development of East/West monetary and financial relations.

available to them. They might therefore find it more difficult to promote industrial projects to which the Soviets could have objections. This could hardly be a desirable development from a Western point of view.

(ii) Indebtedness

8. The recent study by the Economic Committee on Communist countries' indebtedness(1) indicates that Romania's and Bulgaria's debt service ratio is very high and that several NATO countries have accepted refinancing arrangements of the debts. There has, however, been no general debt consolidation of the kind which has been negotiated with a number of less developed countries by groups of lending countries. The indebtedness of the other East European countries and of the USSR does not seem at this stage to be a source of difficulties as far as reimbursements are concerned.

(iii) Effect of credits on Western exports

9. Export credits have facilitated a rapid growth of Eastern imports of capital goods. The Soviet Union imports of machinery and equipment from NATO European countries - the sale of which is normally financed by export credits - grew by 190% between 1960 and 1969, whereas total exports grew by 142% only(2). This pattern is even more striking in the case of the East European countries where the corresponding growth was 289% and 160%(3). It is open to speculation how much of these exports would have taken place had the credits been denied. The USSR might have been able - but perhaps unwilling - to finance these purchases by selling gold. This possibility would not have been open to the East European countries. There is therefore little doubt that Western exports would have been smaller in the absence of credits but it is not possible to say by how much. A further indication of this might be that the United States sales of manufactured products to the East have remained at a very low level during the sixties. Although this phenomenon is partly due to direct export controls, the unavailability of credits has no doubt also played a significant rôle.

- (1) The Economic Committee has decided to follow the evolution of the Communist countries' indebtedness with a view to providing the fullest possible information. The first results of this study have been distributed as C-M(72)12 (Romanian indebtedness) and C-M(72)13 (Communist countries' indebtedness).
- (2) Total sales to the USSR: \$576.6 million in 1960 and \$1,397.7 million in 1969. Sales of machines and transport equipment: \$231.7 million in 1960 and \$674.7 million in 1969.
- (3) Total sales to Eastern Europe: \$1,064.7 million in 1960 and \$2,770.5 million in 1969. Sales of machines and transport equipment: \$242 million in 1960 and \$941.7 million in 1969.

(iv) Conditions

10. In certain West European countries various arrangements have made it possible to lower the cost of export credits below the interest rates prevailing for domestic transactions. This has worked to the advantage of all importers including the Communist countries. The interest rates applied to the latter are usually the same as to other industrialised countries. However, there have been instances where Communist borrowers have had to pay interest rates on export credits slightly above the market rate, as bankers have considered them as a special risk on account of their repudiation of pre-war debts. On the other hand, there have been cases where lower rates have been charged as the Communist countries concerned had a high credit rating as regards the reimbursement of their post-war commercial debts.

(v) Western harmonisation of credit conditions

11. In the early sixties, attempts were made in NATO to develop common policies as regards credits extended to Communist countries. These did not meet with any success as some member countries felt unable to discriminate in the granting of credits between Communist and other countries.

12. In the OECD, it has been attempted to develop rules which would limit the possibilities for any borrowing country to play one lending country off against another. A special group was set up in 1962. It comprises all NATO countries with the exception of Iceland and Turkey; furthermore, Australia, Austria, Finland, Ireland, Japan, Spain, Sweden and Switzerland are members. In this group the EEC proposed a system of prior consultations similar to its own, but it proved very difficult to find a basis on which all members of the group could agree. However, in 1972 a compromise has been reached on a system of exchange of information on request. Under this any member country can request an exchange of information with one or more of the other members as regards the conditions of any officially backed transactions tied to exports on credit terms which exceed a duration of five years. This system is applicable as from 1st July, 1972. The group earlier agreed on rules to limit competition as regards export credits to finance the sale of new ships, and work continues with a view to reaching similar agreements in other specific sectors.

13. In the EEC since 1963 a procedure has existed which implies compulsory consultations prior to the guaranteeing of credits of a duration of more than five years. In 1970 the Council adopted directives laying down the wording of common pro forma insurance policies for medium and long-term suppliers' credits. In 1971 the Commission made a number of proposals concerning the harmonisation of the premium payable on insurance for suppliers' credits, on common pro forma insurance policies for financial

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credits granted to buyers belonging to the public sector of their countries, on common rules for coverage of exchange risks and on common rules for guaranteeing exporters against abnormal and unforeseeable rises in production costs. It is expected that proposals aiming at reducing the existing differences between the national systems of financing export credits will be made this year.

B. Is there a need for a larger volume of credits on easier terms?

(i) Is there a scarcity of credits for the Communist countries?

14. It does not appear that in general Communist countries have come across difficulties in obtaining in Western Europe the export credits they wanted on the same conditions as the other industrialised countries. The exceptions have been Romania and Bulgaria which in the last few years have been considered as over-committed, so that several West European countries have applied ceilings for the guaranteeing of credits.

15. As regards all the other European Communist countries, since there is no limitation on the export credits they can get, it would seem that their objective is to obtain them on more favourable conditions than hitherto(1).

(ii) Special conditions for less developed Communist countries?

16. Romania and Bulgaria are currently seeking to obtain from Western countries the same trade preferences as have been granted to the less developed countries. Should this be conceded to them, they are likely to carry the argument further and ask to qualify for credits on special conditions under national schemes for aid to less developed countries. In fact, some NATO countries have already accepted some extension of the period of debt servicing of Romania and Bulgaria. In the case of Romania, following the floods of 1970, some credits were granted on concessionary terms.

17. Whatever the decision Western countries would take vis-à-vis Romania and Bulgaria, there would seem to be strong arguments for not extending to the other more developed European Communist countries export credits on special terms generally reserved for the less developed non-Communist countries. Indeed,

(1) In the ECE (Geneva) Poland complained that it was being discriminated against in the field of "long-term credits, in particular investment credits".

the allocation on soft terms of credits and loans to Communist countries would be tantamount to extending aid to them; it would reduce the already limited amount of finance available for this purpose and may have an adverse effect on the resources available in the West for economic assistance to the LDCs.

(iii) Longer-term financing?

18. However, traditional export credits may not be entirely adequate in two areas.

(a) Exploitation of natural resources

The USSR has put a certain number of proposals to Western countries involving substantial financing of projects for the development of natural resources such as natural gas, oil, copper, etc. Funds borrowed from the West would be reimbursed with the proceeds of the sales of the raw materials produced. In this regard, however, export credits will not be sufficient in view of the importance of the projects involved and their duration. Therefore, other forms of financing, using funds from private or other sources, will have to be devised.

(b) Coproduction agreements

Several of the East European countries are interested in co-production ventures(1). Here again, if there is a real Western interest in the products which might be manufactured by the Eastern partner, businessmen might be prepared to invest in joint enterprises or, if this is not possible, to finance production on a long-term basis.

II. PROPOSAL

19. At a CSCE Western countries should not raise the question of credits. Nevertheless the West can expect this issue to be raised by the East, in which case Western countries could emphasize the non-discriminatory and open policy which they apply in this connection. They could also state their willingness to examine requests for financing to the extent that these conform to prevailing market conditions.

A. Advantages for the West

- (a) Credits are good business for the banking and insurance sectors of the economy, and the interest payments a source of invisible earnings for the balance of payments.

(1) See note No.1 on the Development of Industrial Co-operation.

- (b) Exports are a major stimulus to economic activity; credits, by fostering international trade, may contribute to reactivating or maintaining expansion.
- (c) The possibility of obtaining credits on a large scale from the West provides the East European countries with an alternative to complete dependence on their COMECON partners.
- (d) To the extent that the Eastern countries, by taking up credits, have mortgaged their future hard currency earnings, their solvency will depend on their ability to develop their exports to the West. This will increase pressure for economic reforms which may have a spin-off in the political area.

B. Disadvantages for the West

- (a) A financial risk is involved if the growing indebtedness of Eastern countries is not matched by sufficient growth of their exports to the West.
- (b) Western countries' credits and loans create a certain interdependence with the East and in order to be reimbursed these countries will have increasingly to open their markets to Eastern products, for some of which there may be little domestic demand; increased Eastern sales might on the other hand have negative consequences for local producers or traditional suppliers.
- (c) Credits help Eastern countries to reduce their technological gap with the West and thereby improve these countries' capacity to compete with the West for markets in third countries.
- (d) In the lending countries, in periods of overemployment and of scarce industrial capacity the expansion of exports through credit grants increases the pressure on existing supplies, including available finance, and may become an inflationary factor.
- (e) The possible extension of government-to-government loans to Eastern countries or the subvention by the state of part of the interests charged on credits would have to be financed out of public funds, and would therefore diminish the volume of resources which could be made available for the domestic economy or for the economic assistance of the less developed non-Communist countries.

III. RECOMMENDATION

20. That member countries accept the line of approach set out in the proposal under Item II.

IV. TALKING POINTS

- (a) Western countries should stress to the Eastern countries that their dealings with them are governed, as far as credits are concerned, by the same commercial principles which are applied to other industrialised countries.
- (b) The attention of Eastern countries could be drawn to the need for keeping the amounts of credits within limits which would not impose excessive strains on the repayment capacity of the borrowers.

CATEGORY C

ITEMS INCLUDED FOR BACKGROUND PURPOSES BUT NOT INTENDED FOR
SUBSTANTIVE DISCUSSION AT A CSCE

- Signature by all parties to a CSCE of the Universal Copyright Convention and the Berne Convention (Note No. 4, Part II)
- A Mechanism for East/West Multilateral Settlement (Note No. 6)
- Eastern countries' participation in the International Monetary Fund (IMF) (Note No. 9)
- Diversification of Eastern imports from the West (Note No. 13)
- Price Formation in COMECON countries (Note No. 24)
- Economic relations between the Community and the State trading countries of Eastern Europe (Note No. 25)
- Hindrances to East/West trade due to the economic structure prevailing in Communist countries (Note No. 26)
- A new Western institution to finance East/West trade and economic co-operation (Note No. 27)
- East-West co-operation in the field of economic relations with the developing countries (Note No. 22)
- Increased purchases by Western Europe of coal from Eastern countries (Note No. 28(Revised))

IMPROVED PROTECTION IN EUROPEAN COMMUNIST COUNTRIES OF
WESTERN INDUSTRIAL PROPERTY RIGHTS(1)

I. PROBLEM

1. The major international agreement establishing basic rules on industrial property rights protection (patents and trademarks) is the International Convention for the protection of Industrial Property ("Paris Union"), signed in 1883 and last revised at Stockholm in 1967.

2. The USSR ratified the Paris Convention on 1st July, 1965. With the exception of Albania, all East European countries had adhered well before that date and maintained their membership after the change of régime following the second World War. GDR membership claim is disputed by many member countries and it has never attended a substantive or administrative meeting of the Paris Union. The Warsaw Pact may raise this fact as an indication of "discriminatory practices" by the West.

3. Eastern countries limit patent protection to periods of 15 to 20 years, similar to the practices of Western industrialised countries. Trademarks are registered for an initial ten-year period, renewable for like periods. Within all the Communist nations the sphere of industrial property is centrally administered. The agency entrusted with this administration is not only a centre of authentication and legislation but also evaluates inventions and selects those most appropriate for development; it works in close co-operation with the national planners.

4. "Know-how" is not the subject of any separate system of international protection and is not covered by the Paris Convention. In the East, however, it receives broad recognition, both national and regional.

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- (1) According to information available to the United States there have been no significant problems with the protection of Western patents and trademarks since the Soviets adhered to the Paris Union in 1965. Therefore, the United States Authorities would prefer to have this issue dropped unless the experience of other NATO countries is different from their own. There is a German reservation against the presentation of this problem at a CSCE by the West in order to avoid discussions on the international position of the GDR (see paragraph 2) before the intra German relations have been satisfactorily settled.

5. One major difference between the Western and Eastern approaches to protection should be underlined. The West accords an exclusive monopoly of ownership and control to the patent holder. In the East, in practice the right of the holder is not exclusive in the sense that the only possible users and bidders are state entities and these cannot be prevented from exploiting the patent as long as compensation, whatever its amount, is paid to the inventor. In all Eastern countries foreigners can be granted patents allowing exclusive rights over the use of an invention. Exploitation of a patent in these countries, however, depends upon negotiating a licensing arrangement with a state enterprise or organization.

6. Several East European countries have in the last few years enacted new trademark legislation in an effort to align their systems with international protection. Romania, Czechoslovakia and Hungary participate in the Agreement of Madrid concerning the international registration of trademarks of 1891. The GDR membership is contested by several member states. It should be pointed out, however, that this Convention, which was revised in 1967, has not achieved great importance in the West; a number of major Western countries have not ratified it. In 1936, the USSR recognised in law the value of the trademark. Further laws of 1962 and 1967 have added to the protection already given to domestic trademarks.

7. In the case of patents, inventors' certificates, trademarks and all other forms of industrial property, foreign citizens and corporations are eligible for the same protection in a Communist country as local parties. The only condition is that the applicant's own country must extend reciprocity of treatment. This restrictive condition poses no problem to nationals of Madrid Convention member countries seeking patent and trademark rights in Eastern European countries. Under the Convention, each signatory is obligated to accord to citizens of the other members the same treatment that it accords to its own citizens relative to acquisition and protection of patent and trademark rights.

II. PROPOSAL

The USSR and the Eastern European countries should be urged to continue strengthening their patent and trademark procedures relative to protection of foreign rights. Albania might also be asked to adhere to the Paris Union.

A. Advantages for the West

- (a) In the last resort better protection of the rights of Western firms and individuals would probably result in a greater flow of exchanges of information at the technical and scientific levels.

- (b) Western firms and individuals will be confident of being paid the royalties and fees due to them.

B. Disadvantages for the West

None.

III. RECOMMENDATION

That the proposal in II above be adopted.

IV. TALKING POINTS

- (a) For Communist countries Western inventors should not be assimilated to their Communist counterparts who more often than not receive from their inventions limited material benefits but plenty of honorific rewards.
- (b) Eastern law as regards patents, trademarks and trade names should be amended to allow payments in convertible currencies, to improve the protection of industrial secrets and to provide for proper compensation should the State insist on taking over specific industrial property rights.
- (c) Western holders of industrial property rights should be allowed to check physically whether the licensing contracts are being observed by the Communist firms.

A MECHANISM FOR EAST/WEST MULTILATERAL SETTLEMENT(1)

I. PROBLEM

One of the main impediments to East/West trade is the chronic shortage of hard currencies in the Eastern countries.

2. A system designed to inject flexibility into the bilateral payment agreements then in force was devised by the United Nations Economic Commission for Europe in 1957. This ad hoc machinery was only shortlived for a number of reasons, the two main ones being:

- the little interest shown by the East in this move;
- the fact that during the sixties most of the Western countries were able to persuade the Eastern countries to accept the use of a convertible Western currency when doing business with them.

3. As matters now stand, transactions with most of the Western countries are no longer carried out on a bilateral basis (clearing account). All Eastern countries can open convertible currency accounts, replenished, in particular, from their sales of goods, in all Western countries. All the Eastern countries may also buy or sell currencies in the countries in which they have accounts in exchange for the currencies of other Western countries.

4. Nonetheless, the present machinery is unsatisfactory in that an Eastern country may at any time simply run out of convertible currencies. When this happens, trade comes to a standstill and can be revived in four ways:

- (i) by increasing Eastern countries' exports;
- (ii) by obtaining additional bilateral credits which may take the form of:
 - export credits;

(1) Any consideration of this matter is opposed in principle by the United States.

- government-to-government credits;
- short-term arrangements between central banks;
- (iii) by floating loans on the Western money markets;
- (iv) by resorting to a commonly financed fund providing the Eastern countries with the wherewithal to overcome their temporary difficulties.

II. POSSIBLE SOLUTION

5. A common fund, provided in the first instance by the West and supplemented subsequently by Eastern participants, might facilitate multilateral settlement and trade expansion by financing temporary imbalances on trade account and, to some extent, by providing longer term credit for capital equipment.

6. If it were possible to set up an organization for multilateral settlement, which would imply a degree of currency convertibility not yet achieved in the East, the prospects for East/West trade would be better, since the Eastern countries, no longer committed to balance their trade transactions with one another, would be free to buy and sell in the most favourable market.

7. Such a system would seem to imply:

- (a) designating a body such as the BIS to administer the fund and to maintain close relations with the financial and trade authorities of the countries concerned;
- (b) choosing a common accounting unit;
- (c) fixing quotas for the individual countries;
- (d) deciding as to the size, duration and method of liquidating the surpluses and deficits which members would accumulate with the fund.

8. It is sufficient to enumerate these requirements to see that it would be difficult to persuade the Eastern countries, and particularly the USSR, to adjust their system sufficiently to make such a mechanism workable. Apart from this consideration, there are other drawbacks to the concept.

9. The mere allocation of funds would not, in itself, do much to stimulate East/West trade.

- (i) Although a common fund, by eking out scarce reserves, would help to cover temporary imbalances, lack of reserves is not the reason why East/West trade

remains modest, or even the main reason for the bilateral approach favoured by the East. Eastern planners have a very effective control over trade flows, but their production is not geared to Western market requirements, and their bilateralism is more a consequence of a weak monetary system than a dearth of foreign exchange as such.

- (ii) Although credit for the purchase of capital equipment and development projects undoubtedly fosters trade, it can be argued that sufficient capital is already available for any project which commends itself to Western producers.
- (iii) It would not be advisable to channel Western capital to COMECON banks. Soviet influence in these banks is strong and is likely to be used to favour integration projects that suit Soviet purposes rather than projects which might make the East European countries more independent of Moscow.

10. The inherent deficiencies of the COMECON system of trade, including the inability to use COMECON currencies, have led the Eastern countries to accept settlement in Western currencies in their trade relations with the West. To set up a special clearing system would be a step backward acceptable only if accompanied by the prospect of a change in the pattern of trade, a reform unlikely to be approved by the USSR.

11. At the present moment the Western monetary system is undergoing a strain, if not a crisis, and important changes are likely in the future. In these circumstances it might be unwise to enter into experiments involving the Eastern countries which the latter might be tempted to use, not so much to improve the situation as to embarrass the West in the monetary sphere.

III. CONCLUSION

12. Although, given the right disposition on both sides, it would be possible to operate a mechanism for multilateral settlement which would encourage the convertibility of the Eastern currencies and promote East/West trade, there are no indications at present that the East would make the adjustments necessary for its success. There would therefore be no point in raising this issue at the CSCE.

EASTERN COUNTRIES' PARTICIPATION IN THE
INTERNATIONAL MONETARY FUND (IMF)(1)

I. PROBLEM

1. Although the Soviet Union was represented at the Bretton Woods Conference and took part in the negotiations, it refused to join the International Monetary Fund which was established 30th December, 1945. Poland and Czechoslovakia, who were among the founders of the IMF, are no longer members. The first withdrew on 14th March, 1950 and the second was expelled at the end of 1954 for failing to comply with the obligations imposed on member countries(2). Recently the Soviet Union has been showing a greater interest in international monetary matters and indeed has suggested an international conference on the issue(3).

2. The reasons for the lack of interest shown by the Warsaw Pact countries in the IMF are both political and practical. As regards the political aspect, the Soviet concern to keep the satellites in maximum possible isolation during the fifties, and even later, explains why these countries were unable to seek membership of an organization which the Soviet Union had rejected. Had it joined the IMF, the Soviet Union would have been compelled to give reasons for the restrictions it was placing on foreign trade and payments. Nor was it in the interests of the Soviet leadership to encourage a body set up for the purpose of liberalising trade and payments at the very time when they were working towards the creation of a rival economic community (COMECON) through which they were then to keep a firm grip on the economy of Eastern Europe.

3. Since 1964 there has been a gradual trend in COMECON towards the establishment of a system providing for multilateral settlements between Communist countries and towards financial transactions on the international money markets. In July 1971 COMECON adopted a long-term programme with a view to making the currencies of its member countries (particularly the rouble) convertible for the purposes of transactions between COMECON countries in which prices are, however, still arbitrarily fixed by governments.

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- (1) The United States Delegation does not consider that this problem should be included in the CSCE Agenda
 - (2) Since 1964 Cuba has for similar reasons ceased to be a member of IMF
 - (3) This Note was completed before the Romanian application for membership to the IMF and the World Bank was announced (20th September, 1972)

4. The Soviet Union does not appear to favour intra-COMECON convertibility because this would tend to introduce market elements into intra-COMECON trade. However, it has accepted the goal as something to be studied and possibly implemented in careful, drawn-out stages. Hungary and Poland are among those East European countries who share the objective of intra-COMECON convertibility because they recognize the political and economic advantages for them of increased trade and other economic contact with the West. Government officials in several of these countries are of the opinion that membership in the IMF would greatly enhance the capability of their countries for economic interchange with Western countries. The Soviet Union, however, has apparently prevented Eastern countries from seriously exploring the conditions of membership with the IMF. Membership of the Fund would extend to the East European countries the benefit of financial facilities available, e.g. credits up to 3 or 5 years, standby credits, access to special drawing rights.

5. Moreover, by joining the IMF, the Eastern countries could become members of the International Bank for Reconstruction and Development. Membership of the World Bank would enable some COMECON countries with little industry (Romania and Bulgaria) to obtain long-term loans from that organization, as has been done by Yugoslavia.

6. It may be in the long-range interest of the West that all of the Eastern countries enter fully into the international monetary system. If this is so, the most difficult problem on the Western side may well be one of timing. The international monetary system is presently undergoing significant adjustment and Western financial leaders must of necessity be preoccupied with the critical task of putting their own economic house in order. When this is done the considerable effort of constructing a new room for the Eastern countries may be better undertaken.

7. If it is true that the Soviet Union is the primary obstacle to the Eastern countries' joining the Fund, then perhaps the best tactic for the West is to wait until individual application has been made to the Fund add then react to it on the merits of that case.

8. There are a number of technical problems to be solved before the Eastern countries could be admitted to the IMF:

- membership of the IMF entails the commitment to provide financial and economic information, which the Eastern countries have in the past been reluctant to divulge;
- the need to give the USSR and the other Eastern states an appropriate weight and representation in the governing bodies of the organization would raise difficulties;

- members of the IMF are required to fix the parity of their currencies in agreement with the Fund. Assessing the value of the Eastern currencies would prove very difficult as in these countries the value of the currencies is determined arbitrarily without reference to market values;
- the Soviet Union, at any rate, would be expected to announce, at least formally, its intention of making its currency convertible(1).

II. PROPOSAL

9. The West should not take the initiative of raising the subject at a CSCE. Should the Eastern countries do so, the West could encourage them to put themselves in a position to be able to accept the relevant obligations and to seek membership of the IMF(2).

A. Advantages for the West

- (a) Participation by the Eastern countries in international monetary arrangements might promote rapprochement between East and West.
- (b) An increase in the number of members of the world monetary system might strengthen the trend toward multilateral settlement and trade liberalisation.
- (c) It would be easier to bridge the short term gaps in financing East/West trade.
- (d) A large amount of basic data on such functions as the balance of payments would become available to Western observers, who would thus find it easier to keep track of economic developments in the Eastern countries.

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- (1) The Communist countries will not need to take a decision on the free convertibility of their currencies until after a transitional period which might be protracted. A number of IMF member countries do in fact invoke Article XIV of the Fund's Articles of Agreement to keep their currencies inconvertible.
 - (2) The United States reserves its position on this proposal. It opposes any discussion of the IMF on the grounds that the CSCE is not an appropriate forum for the discussion of this issue. In its view, the Eastern countries, should they raise the matter, should be advised to approach the Fund directly.

B. Disadvantages for the West

- (a) Problems for the West could derive from the fact that the size of the Soviet economy would probably make the USSR the second most important IMF member with all that this implies in voting power and representation on the Fund's executive board. It would, moreover, carry the danger of changing the board from a body operating through a consensus of views into a vote-counting, veto-ridden body.
- (b) IMF meetings could be used by the Eastern countries for anti-Western propaganda.
- (c) The efforts to place the International Monetary System on a sounder footing would be slowed down if the IMF were to receive applications from Communist countries in the near future. The Soviet system is alien to the frame of reference of the IMF and the World Bank as constituted. Thus there exists the danger that accession of the USSR would upset the unifying outlook and delicate balance that has enabled the institutions to overcome particular interests in the past and introduce new procedures in a Western spirit.
- (d) Should the USSR join the IBRD, it might endeavour to alter aid programmes and the IBRD's loan policy in such a way as to further its own penetration of the Third World.

DIVERSIFICATION OF EASTERN IMPORTS FROM THE WEST

I. PROBLEM

1. In trading with the West, the Eastern countries are primarily interested in the procurement of plant, semi-finished goods and transport equipment in which they are lacking. They also buy certain foodstuffs which they do not produce themselves or of which they do not produce enough. Their purchases of consumer durables are only incidental.

2. This situation is clearly mirrored in the statistics of Western exports to the Eastern countries. In the particular case of NATO European countries, foodstuffs, beverages and manufactured consumer items accounted for about 13.5% of all exports in 1960; in 1969 - after several years of considerable East/West trade expansion - they still accounted for only 14.6%.

3. Manufactured items(1) accounted for a very small proportion of overall consumer sales. At best(2), items of this kind sold by the European NATO countries to the USSR and the Eastern countries in 1960 totalled just over US \$58 million or 3.5% of total sales (US \$1,641 million). By 1969, this figure had risen to about US \$289 million or 7% of total exports (US \$4,168 million).

4. In terms of value, however, the expansion has been considerable, with sales increasing five-fold in nine years while total exports have increased 2½ times. The increase in deliveries of foodstuffs (2.3 times) has also been a large one.

5. By comparison with total exports of manufactured consumer goods, however, Western sales to the East remain minimal as the following OECD statistics show.

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- (1) Television and radio sets, refrigerators and other domestic appliances, clothing, shoes, motor cars, photographic and cinematographic equipment, clocks and watches, travel goods, books, etc.
 - (2) Miscellaneous manufactured items, unclassified items, motor cars and domestic appliances

EXPORTS BY EUROPEAN MEMBERS OF THE OECD
TO THE EASTERN COUNTRIES
IN 1969

(US \$ million)

	Total Exports	Exports to the East(1)
Television sets	249	0.5
Radio sets	228	0.7
Domestic appliances	972	5
Motor cars	5,944	42
Miscellaneous manufactured items	12,133	263

6. These figures confirm that the COMECON countries make a point of buying from the West almost exclusively the raw materials and plant which are essential to their economies. This policy can be readily understood if it is remembered that:

- (a) Under pressure from the USSR, a substantial proportion of the foreign trade of the COMECON countries is restricted to transactions with their partners in that organization. The GDR, Czechoslovakia, Poland and Hungary produce a huge range of consumer durables; Romania and Bulgaria sell handicrafts and foodstuffs. All these goods find outlets within the COMECON. It should be noted in this connection that in 1970, the USSR imported manufactured items to the value of 1,933 million roubles for the Soviet consumer market(2) and that 70% of these goods were provided by other COMECON countries(3).
- (b) These countries are still living in conditions of semi-austerity as regards most consumer goods. Eastern policy-makers may fear that the opening up of the market to Western goods, which are keenly sought after by the local population, could create social problems to the extent that imports fell short of demand. Rationing - presumably by price - would put them beyond the reach of most potential buyers.

(1) The term "East" covers the East European countries and the USSR; the figures have been rounded off and do not include sales by the Federal Republic of Germany to the GDR.
(2) I.e. 18.3% of overall imports which totalled 10,565 million roubles.
(3) Percentage based on five categories of groups, viz: clothing, shoes, furniture, pharmaceutical goods and household goods.

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The quality and design of Western goods might also show up the poor standard of Eastern output.

- (c) These countries are afflicted by a chronic shortage of hard currency. Consequently, consumer goods would have to be bought at the expense of imports which, from the standpoint of economic expansion had been assigned a higher priority. In addition, consumer goods are bought on different terms from those applying to plant and equipment and any credits would be for a much shorter period.

7. Any development in sales of consumer goods (whether durables or not) by the Western countries would seem to be subject to a number of factors:

- greater participation by the COMECON countries in international exchanges which would enable them to overcome their obsession with self-sufficiency;
- improvement in the output of the Eastern countries. ~~When the latter~~ are able to produce consumer goods of a better quality and in larger quantities, they may have fewer misgivings about opening up their markets to Western goods;
- improvement in the standard of living of the Eastern countries with the concomitant creation of new demand for both everyday and luxury items. In this connection, an improvement in housing conditions could have far-reaching consequences;
- opportunities for Western exporters to expand sales and "after-sales" networks in the Eastern countries which would receive regular supplies of spare parts;
- increase in the currency earnings of the Eastern countries which would give them a margin for the purchase of non-essential items;

II. PROPOSAL

8. The parties to a CSCE might agree to try to increase the share of manufactured consumer goods in total East/West trade. In explanation of the proposal the West would make clear its interpretation that the above refers primarily to an increase in the share of Eastern imports of Western manufactured consumer goods.

A. Advantages for the West

- (a) The Western consumer goods industry has a large output capacity and is in search of additional outlets.

- (b) Any increase in Western sales of consumer goods to the Eastern countries could act as an incentive to consumers in those countries to press for a rapid improvement in their standard of living. A development of this kind could foster the climate of détente.

B. Disadvantages for the West

- (a) It is not practical to press the Eastern countries, with their shortage of foreign currency, to purchase consumer items in the West without providing the means of payment. To increase their sales, therefore, the Western countries might have to step up their purchases perhaps not of manufactured goods but at least of agricultural produce, raw materials and semi-finished goods.
- (b) The Eastern countries will probably insist that in exchange for their increased purchases, the West should agree to raise their imports of the same type of goods. In this connection, they might also raise the question of quotas.
- (c) While the authorities of the Eastern countries can arbitrarily unload Western goods on their markets, the same is not true in the West. Even if Western governments were inclined to accept a stipulated amount of Eastern manufactured goods, they would as market economy countries, lack the mechanisms to carry out any such undertaking.

III. RECOMMENDATION

9. Recognition should be given to the importance of the diversification of Western countries exports, in particular as regards consumer goods. However, for tactical reasons, taking into account the disadvantages referred to under IIB above, and the likelihood of a counter-claim from the East, the proposal should only be made at a suitable moment in the context of the discussion of requests by Eastern countries for an increase in their sales of manufactured products.

IV. TALKING POINTS

10. In response to Eastern criticism regarding the difficulty of finding markets in the West for Eastern manufactures, these countries could be invited to make a more thorough study of the market and to bring their goods more closely into line with the tastes and requirements of Western consumers.

PRICE FORMATION IN COMECON COUNTRIES

I. PROBLEM

A. East/West Contrast

1. In contrast to the formation of prices in Western countries resulting from the influence of a variety of market factors, this process takes place in COMECON countries largely by direction - that is, at the behest of state planners and other officials. These prices are generally related to average direct costs and certain, but not all, market factors have some influence on price formation in those sectors of the economies of COMECON countries in which economic reforms have been developing. Such influence varies widely from one such country to another - and between sectors within some countries - and in relation to the totality of the markets of the COMECON countries this influence is, and can be for a number of years to come, no more than marginal.

B. Obstacles to Western Exports to the East

2. Communist economies are state-controlled and, if the decision has been made to discourage the import of certain types of goods, all that remains is the question of what mechanism will be used - outright ban, selective import licensing, discriminatory grants of foreign exchange facilities or, among others, pricing. Thus, false pricing of certain Western goods in the East is not the basic reason for their failure to circulate freely. The underlying cause is a basic government policy decision to limit certain imports (especially consumer goods) and discriminatory pricing is but one of many tools for this purpose. If the use of pricing were to be foregone, some other mechanism could be used in its place.

C. Effects on Western Countries

3. To the extent that price formation by state direction in COMECON countries affects the pricing of goods that are produced and marketed within each of those countries severally, or are produced in one and marketed in another such country, these pricing techniques are not a matter that need concern Western countries.

4. But where the COMECON practice of state direction of prices is applied to products of either Western or COMECON countries that are being marketed in the other area, it distorts the marketing environment that is seen as normal in Western countries and produces effects objectionable to them.

D. Differentiation between Trade Flows

5. These effects occur in both trade flows but less significantly in COMECON imports from the West. A large proportion of such trade is in single transaction sales - that is, as with capital goods imports, the state is both the purchaser and the end-user; in such sales the only price is that at which the Western supplier agrees to supply - and no price-distortion can arise. However, where the state is not the end-user - that is, the state-controlled foreign trade organizations import and subsequently supply the goods to end-users other than state organizations - distortion of prices, and thus of the market environment, does occur. This is because an artificial rise in price can be, and is, used both to restrict the end-user's demand for the goods and to reduce his purchasing capacity in the general market context.

6. This particularly applies to consumer goods in which Western quality is often so markedly above that of products from within the COMECON countries, or other countries with which they have economic ties, that prices of imports from the West increase by as much as 1,000% between entry into the COMECON area and their reaching the end-user.

7. The COMECON practice of increasing prices of Western goods to restrict demand for such products might provide grounds for protest by the West - especially when COMECON is supposedly encouraging the supply of these goods. However, this is unlikely to be a matter that could usefully be pursued, since the COMECON countries have a variety of other - and at least equally effective - methods of imposing restraint on demand or even of stifling it. Such price elevation on entry into a market is similar to the use of tariffs, but as practiced by the COMECON countries it acts as a system of quantitative restrictions applied to all categories of imports. As such it could be used to counter COMECON criticism of quantitative restrictions imposed on their products by the West.

E. Major Effect

8. It is however on exports from COMECON to Western countries that the major effect of administratively fixed pricing is felt(1). There is no mechanism by which domestic prices can be used as a yard-stick for keeping Eastern export prices in line with those prevailing on Western markets. Indeed representatives

(1) Some Western countries have tried to protect themselves from this practice. In agreements with the East they have included a provision that Eastern goods sold in the West conform, price-wise, to the conditions of the market.

of COMECON countries (the USSR in particular) readily confirm that "there is no relationship at all between our domestic and our export prices" which are in fact even established by different ministries.

9. In trade with one another it is thought that COMECON countries fix their export prices as an average of prices on world markets, but in trade elsewhere it is a matter of bargaining or what the market will bear. It is however virtually impossible to obtain details of how the calculations are performed. Whichever method is adopted the result is that in some cases goods may arrive at unrealistically low prices in countries where there is no central control over markets.

F. Supplies from other sources

10. In principle the introduction into market economy countries of goods whose prices are administratively fixed, and which are in direct competition with home production, constitutes some measure of threat of market disruption and can be undesirable. Moreover, it may have an adverse effect on the exports of third countries. However, arbitrary price fixing is not necessarily to the disadvantage of Western importing countries where the goods concerned are needed by them, are not produced in those countries and are priced more competitively than similar goods from other sources: in so far as imports into Western countries are concerned such goods are largely raw materials.

11. In contrast to raw materials, for which demand is reasonably regular and predictable and production can be reliably planned, demand for industrial products fluctuates in Western markets under the influence of a number of factors. This volatility of demand is little understood in COMECON countries - where ignorance of marketing in the Western sense is widespread - and the response of these countries to such a difficult sector is to attempt to guarantee themselves a share of the selected markets for industrial products by seizing it by artificial fixing of price levels of their exports.

II. PROPOSAL

12. To raise the problem of the effect of the Eastern system of pricing on Western exports to the COMECON countries would be tantamount to putting into question the internal economic mechanisms used in the East, therefore this matter should not be discussed at a CSCE at the initiative of the West.

13. However, the Eastern pricing system has an impact on Eastern exports to Western markets, therefore in response to attacks on Western tariffs and QRs the West could argue that the Eastern pricing system may give unfair competitive advantages to Eastern goods on free Western markets.

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A. Advantages for the West

14. Indications by the West of the possible benefits that the COMECON countries might obtain by the use of fair prices in Western markets could encourage these countries to follow such practices. These while increasing COMECON exporters' convertible currency earning capacity, thus stimulating East/West trade, would at the same time benefit Western countries by reducing the risk of market disruption.

B. Disadvantages for the West

15. The emphasis on benefits to the COMECON countries of fair pricing in Western markets would not have disadvantages for Western countries.

III. RECOMMENDATION

16. The proposal should be adopted.

IV. TALKING POINTS

17. To counter Eastern attacks on Western tariffs and QRs, the West should point out that state monopoly of foreign trade, as practiced in most COMECON countries, is at least as restrictive as Western tariffs and QRs, and most probably more so. Moreover, as Western countries continue to remove QRs on imports from COMECON countries, there is a progressive widening of the gap between the generally liberal Western policy on imports from the East and the very restrictive Eastern policy (implemented through state control of foreign trade) on imports from the West.

18. Emphasis should be put on the long-term advantages to the East of setting prices at fair levels in Western markets and of preventing the delivery of low-priced Eastern goods on most markets. One of these advantages would be, inter alia, that a period of consistent use of reasonable prices in Western markets would constitute a powerful incentive for a movement from discriminatory quantitative restrictions towards measures such as safeguards.

19. Possible Western concessions as regards quota restrictions (QRs) should not be offered merely in return for an agreement by Eastern Europe to fix prices at fair Western market levels, but should be used by the West in the context of a counter-demand that the whole protection mechanism at present operating on the markets of Eastern Europe should be dismantled.

20. The Eastern countries could be requested to give some information on the way their prices are set and what are the criteria behind their pricing policies.

ECONOMIC RELATIONS BETWEEN THE COMMUNITY AND THE STATE
TRADING COUNTRIES OF EASTERN EUROPE

I. PROBLEM

1. This paper is designed simply to give a brief account of the present state of economic relations between the Community and the state trading countries of Eastern Europe. Consequently, it does not deal with relations between member states and each of the East European countries (as such), nor does it attempt to map out the future trend of relations between the Community and these countries. It likewise refrains from touching on the possible relations between the Community and COMECON or between member states and the latter, these being so far non-existent.

2. One of the most interesting aspects of European economic development since 1955 has been the rapid rise in foreign trade. This is due primarily to the exceptional development of inter-European trade. Whilst between 1955 and 1970 trade between Europe and the rest of the world rose by a yearly average of 8%, the average for inter-European trade was 9.5%. In addition, inter-European transactions which, in 1955, accounted for 30% of world trade, had risen by 1970 to 40%.

3. The growing interdependence of the European countries insofar as trade is concerned has not been a uniform process. Generally speaking, development has been greater within regional groupings such as the EEC, EFTA and COMECON.

4. It must be pointed out, however, that West European exports of manufactured goods to the Eastern countries rose by 14% per annum during the period 1955-1970, in other words at the same rate as trade in the same goods between member countries of the European Community. During this period, sales in Western Europe of East European exports of these goods rose by 11% per annum. This percentage is on a par with the increase in inter-European trade in these goods.

5. In addition, Communist country exports of raw materials and base products to Western Europe rose more rapidly than those from the rest of the world. Western imports of these goods from the Eastern countries accounted for 11% of total imports in 1969, as compared with 7% in 1955.

6. It may be concluded in the light of these statistics that the Common European Tariff (CET) and the quantitative restrictions on imports still in force in member countries of the Community are not a serious obstacle to the development of East/West trade.

7. The attitude of the Community towards the state trading countries is realistic and highly flexible. The Community has not sought to force recognition by the Eastern countries but has been concerned above all with harmonising and encouraging the growth of trade relations, bearing in mind the need to avoid any action which could hamper the implementation of the common commercial policy. It has stated on several occasions that, in compliance with the recommendation of the 10th Session of the ECE Trade Development Committee, it is prepared to examine any problems that might arise as a consequence of integration in accordance with a procedure acceptable to all the parties concerned. Also, it has invariably tried to adopt a positive attitude towards the various feelers put out by the Eastern countries without giving too much weight to the formal aspects of these contacts.

8. On the Eastern side, the initially negative view of the Community's chances of success has now given way to a much more objective attitude. None the less, the Eastern attitude at the diplomatic level is still one of great wariness. This negative position is mainly attributable to the USSR which has been affected by the "impact of integration" in its dealings with the Community and views the problem in the light of world-wide policy considerations. The Peoples' Democracies, on the other hand, which export agricultural commodities and finished or semi-finished products, are mainly concerned with tariff and trade problems, the agricultural regulations and liberalisation measures. They are conscious in varying degrees of the need to improve their competitiveness on the Community market through negotiations and are trying to find ways and means of achieving a "realistic" policy to this effect without jeopardising the general policy of the Soviet bloc vis-à-vis the Community. This desire for negotiation in some form or other with the Community seems to have become keener as a result of the present enlargement which the Peoples' Democracies find disturbing from the economic standpoint.

A. COMMON COMMERCIAL POLICY

(a) The autonomous aspect

(i) The common external tariff

9. A common external tariff is applied to non-members of the Community with which there are no agreements.

(ii) The common import system

10. A common import system was laid down in EEC Regulation number 109/70, dated 19th December, 1969, the fundamental principles of which can be summed up as follows:

- preparation of various schedules of goods (one schedule for each East European country) which may be imported freely, i.e. which are not subject to quantitative restrictions. These schedules are "autonomous" in that the Community may unilaterally revoke specific liberalisation measures should they be found to run counter to its interests;
- provisions for screening and regulating imports (at the request of a member state and by decision of the Commission) which are relatively sensitive;
- procedure for the adoption of adequate safeguards in the event of serious prejudice or threats to Community production.

11. It should be noted in this context that the level of common liberalisation in the framework of the EEC is particularly high at the present time. The common schedule provides for the liberalisation of 930 full tariff items and 60 partial tariff items (of the 1,090 items subject to the common tariff) in the case of GATT and assimilated countries. For the East, the number of items varies from country to country, but it has already risen considerably by comparison with the levels originally laid down in the above mentioned Regulation number 109/70 (637 full tariff items and 128 partial tariff items for Poland, Czechoslovakia, Bulgaria, Hungary and Romania; 473 full tariff items and 140 partial tariff items for the USSR and Albania).

12. As for future common policy on liberalisation, a decision of the Council, dated 26th July, 1971, sets out rules for co-ordinating by 1974, the process of liberalisation initiated by the Community countries in the context of their policy for imports from the Eastern countries. The main features of the system thus adopted are as follows:

- agreement on a maximum number of restrictions which each member country undertakes not to exceed in its transactions with the Eastern countries as from 31st December, 1974;
- a yearly schedule for liberalisation measures for the period 1971-1974, the aim being to eliminate the present quantitative restrictions and gradually to bring them down to the level set for 1974;
- compulsory consultations between member countries designed to ensure that, should one of them object to a liberalisation measure planned by another member country, the matter would be referred to the Council.

(iii) Export policy

13. With regard to exports, under the terms of Article 113, the Community is required to pursue a common commercial policy. As things stand at present, this policy comprises:

- on the one hand, rules governing liberalisation and restrictions on exports (Regulation number 2603/69, dated 20th December, 1969, Official Gazette dated 27th December, 1969, page 25);
- on the other hand, export assistance schemes, which are applicable to the extent permissible under international law. A common policy is also being worked out for export credits and credit guarantees.

14. A procedure for consultation between member states on credits of over five years has been in force since January 1965. Decisions to grant long-term credits are taken by member states only after comments have been submitted by their partners. In addition, common policies with regard to supplier credits were adopted by the Council on 27th October, 1970 and will come into effect before the end of the year, along with the corresponding premium systems. Other aspects of common policy with regard to guarantees and export credits, particularly the term for which credits should be awarded, interest rates and such like considerations, are being examined.

(iv) Anti-dumping regulation

15. Anti-dumping Regulation number 459/68 dated 5th April, 1968, (Official Gazette - 17th April, 1968) sets out the procedure to be applied in this field and also applies to state trading countries.

(v) Common Agricultural Policy

16. The Common Agricultural Policy is applied to the East European countries in the same way as to other third-party countries. It should be noted (see statistical Annex) that the East European countries' share of Community imports has risen. In 1958, the countries with planned economies provided the Community with 4.1% of its total imports of controlled agricultural goods. The proportion rose to 9.6% in 1970. This more than two-fold increase was coupled with a four-fold increase in the absolute value of Eastern exports of these commodities to the Community, which totalled almost half a milliard dollars in 1970.

17. A detailed examination of import statistics shows, moreover, that the sales trends for the different planned economy countries have not been identical in each sector. The fluctuations reflect a more effective organization of trade

or greater availabilities of agricultural produce. Often, certain East European countries have, because of inadequate local production, begun to buy from the West the agricultural produce - grain, pork meat, poultry and other goods - which they previously sold to the Community.

(b) Contractual aspect

18. The basic decisions in this area are:

- Articles 111 and 113 of the Treaty;
- Decision of 9th October, 1961 (Official Gazette of 4th November, 1961) concerning the standardisation of the duration of trade agreements with third-party countries;
- Decision of 16th December, 1969 (Official Gazette, dated 29th December, 1969).

19. The decision of 16th December, 1969 lays down the procedure for negotiating agreements with third-party countries. Since the end of the transitional period, all negotiations leading to treaties or new arrangements, or to the modification of those that already exist, must be conducted in accordance with a Community procedure. The decision however provides, in Title III, for the situation created by the fact that the East European countries are still opposed to such negotiations on political grounds. It is stipulated in Article 9 that, until 31st December, 1972 the Council may, as an exceptional measure, on the recommendation of the Commission and after prior consultations, authorise bilateral negotiations between member states and certain third-party countries where Community negotiations in accordance with Article 113 are not possible(1).

20. Under this procedure, all the basic provisions of the proposed agreements insofar as trade is concerned must be subject to co-ordination. This co-ordination should also produce conclusions which will serve as guidance to the member state during the negotiations.

21. The agreements between member states and the different East European countries are valid until 31st December, 1974 and all include a revision clause to the effect that the agreements may be adapted to meet the requirements of the common commercial policy or be abrogated subject to one year's notice.

22. By virtue of its powers as regards the common agricultural policy, the Commission has agreed to a score of "arrangements" based on the agricultural regulations. These arrangements, concluded between representatives of East European government departments and officials of the Commission's staff, comprise, on the one hand, a commitment entered into on

(1) Unofficial translation

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behalf of the third-party country by the competent authorities, to the effect that exports of a given item will be guaranteed at a predetermined level (threshold price) and, on the other hand, an undertaking by the Commission that, in return, it will not levy supplementary charges on the item concerned. The arrangements also provide for the creation of a system for the exchange of information (see list at Annex).

B. COMMUNITY PARTICIPATION IN MULTILATERAL NEGOTIATIONS

23. In the multilateral context, the Community has been a party to trade agreements involving Eastern countries.

- During the Kennedy Round, the Community as such negotiated with Czechoslovakia (a founder member of GATT), whose signature thus appeared next to that of the Community.
- The Protocol for the accession of Poland was also negotiated at Community level during the Kennedy Round and its Preamble stipulates that: "The governments which are contracting parties to the General Agreement on Tariffs and Trade, the European Economic Community and the Government of the Polish People's Republic have agreed as follows".
- The Protocol for the accession of Romania signed in 1971 was also negotiated at Community level.
- This is likewise true for the negotiations with a view to the accession of Hungary.

24. In short, the Community has, in compliance with Article 110, striven to contribute to the orderly expansion of trade with the state trading countries of Eastern Europe. It has, to the best of its abilities, sought to smooth out the difficulties arising in one sector or another. However, it has been unable unilaterally to find a solution to all the problems facing socialist exporters. Also, in view of the abnormal relations prevailing between the Community and the various Eastern countries, it has not been found possible to consider how to create an economic and legal climate conducive to a more notable expansion of trade.

25. With the common commercial policy now established, there are now more realistic prospects of tackling, together with the state trading countries, the wide range of problems raised by the complex pattern of trade. This is in keeping with the political will that now exists to strengthen East/West détente.

STATISTICAL ANNEX

1. In 1971 Community imports from East European state trading countries totalled \$3,191 million. As can be seen from Table I, this represents a 15% increase over 1970, i.e. a greater rise than that recorded in 1970 (+ 13%). All the Eastern countries have succeeded in stepping up their sales, although at different rates.

2. Poland's sales growth is especially notable, since it is well above average and continues the trend noted for 1970, when a 30% increase was recorded.

TABLE I: Community imports from East European state trading countries

In millions of dollars

	1958	1970	1971	1971 index 1970 = 100
Albania	0.5	7.8	10.0	128
Bulgaria	26.0	152.0	152.9	101
GDR	33.0	155.5	170.9	110
Hungary	56.0	316.6	362.6	115
Poland	124.0	444.7	553.0	124
Romania	60.0	369.3	428.2	116
Czechoslovakia	104.0	368.0	429.0	117
USSR	274.0	961.8	1,084.4	113
Total	677.5	2,775.7	3,191.0	115

3. Community exports to Eastern countries in 1971 went up by 13%, as in 1970. The rise in sales to the USSR is still very low, as in 1970, whereas sales to Hungary are increasing very sharply and have almost doubled in two years.

4. After a two-year depressed period, sales to Poland have also picked up, so much so that Poland is now occupying the third place instead of Romania; sales to Bulgaria, on the other hand, show a relative decrease.

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TABLE II: Community exports to East European state trading countries

In millions of dollars

	1958	1970	1971	1971 index 1970 = 100
Albania	1.9	13.8	15.0	109
Bulgaria	25.7	180.2	191.5	106
GDR	34.3	141.1	178.3	126
Hungary	57.9	336.2	438.4	130
Poland	141.4	388.2	464.1	120
Romania	46.0	403.8	445.1	110
Czechoslovakia	109.5	474.3	574.5	121
USSR	207.5	1,103.0	1,117.7	101
Total	624.4	3,040.6	3,424.6	113

TABLE III: Trade balance

In millions of dollars

	USSR		Peoples' Democracies		Total	
	1970	1971	1970	1971	1970	1971
Imports	962	1,084	1,814	2,107	2,776	3,191
Exports	1,103	1,117	1,937	2,307	3,040	3,424
	+ 141	+ 33	+ 123	+ 200	+ 264	+ 233

5. It is clear from Table III that the drop in the Community's overall credit balance is due to the fall-off in its net earnings from transactions with the USSR, whose sales to the Community as in 1970, although at a slower pace, have sharply outstripped its imports from this source.

6. In contrast, the net earnings for transactions with the Peoples' Democracies have gone up by 62%, imports from these countries having increased by 16% and exports to them by 24%.

7. In this respect, however, it should be noted that all the Peoples' Democracies are not in the same position.

8. The deficit of Bulgaria, Hungary and, above all, Czechoslovakia vis-à-vis the Community has increased: Bulgaria, by \$10 million; Hungary, by \$56 million; and Czechoslovakia, by \$39 million. Thus, the total deficit for these three countries now stands at \$260 million, i.e. \$106 million more than in 1970.

9. On the other hand, Romania's deficit has dropped from \$35 million to \$17 million and Albania's from \$6 million to \$5 million, while Poland has increased its net earnings from \$56 million to \$89 million. The GDR, however, shows a deficit of \$8 million this year, as against last year's credit balance of \$14 million.

Trade pattern

10. In 1970, as in 1971, Community exports consisted mainly of manufactured commodities, and especially capital goods, whereas imports from the Eastern countries consisted of agricultural products, raw materials and semi-finished products.

11. The low proportion of manufactured goods imported from these countries is not due to the common commercial policy.

12. True, the quota system is not designed to promote trade in these goods. However, by helping to standardise trade practices and by restoring a more stable atmosphere, quotas indirectly exert a positive influence on East/West trade as a whole. Often, too, they are only partly used up, which proves that the real problem lies elsewhere.

13. The basic question for East/West trade at the present time is whether or not the countries with planned economies will be able to change the pattern of their exports to the West without delay so that East/West trade takes broadly the same form as that between the industrialised countries.

14. The proportion of manufactured goods imported from the Eastern countries to the Community remains virtually unchanged, especially bearing in mind the effects of the third industrial and technological revolution. As in 1958, only 22% of imports from the USSR consist of manufactured goods, which account for a little more than 30% of imports from the East European countries as a whole, as against 27.1% in 1958, whereas in the same period the proportion of manufactured goods in the Community's imports from all the industrialised countries rose from 45% in 1958 to 63% in 1970. It is true that these countries produce some goods especially for export, devote great effort to marketing, pay special attention to advertising and to consumer tastes and requirements, do their best to consolidate ties with consumers and have established highly efficient after-sales services. The fact that some countries were newcomers on the market for certain commodities has not proved to be an insuperable obstacle, as is demonstrated by the headway made by Japanese sales in key sectors, such as electronics or cars.

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15. In 1958, the countries with planned economies provided 4.1% of the Community's overall imports of restricted agricultural products; in 1970, the proportion totalled 9.6%. This more than two-fold increase was coupled with a four-fold rise in the absolute value of East European exports of these products to the Community, which totalled nearly half a milliard dollars in 1970.

16. It is true that during the last ten years, the pattern of agriculture has undergone many changes in both East and West. Consumption has altered, and with it demand, so that the availabilities for export are not the same. Nor has production developed uniformly in all sectors or in all countries.

17. For example, the Community's beef imports from the Eastern countries came to \$208 million in 1970, whereas in 1958 they totalled only \$17 million, and oil seeds and oils have risen from \$7 million to \$86 million; grain imports, which used to head the list (\$24 million) for quota-restricted East European agricultural products, have only a little more than doubled (\$59 million) and egg imports have fallen from \$22 million to \$4 million.

18. Moreover, a searching analysis of the import statistics reveals that the sales of the different planned economy countries have not developed uniformly in each sector. These fluctuations reflect a more efficient trade organization or better availabilities of agricultural products. In many cases, as a result of inadequate local production, some East European countries have started to procure from the West agricultural products (cereals, pork, poultry, etc.) which they used to export to the Community.

HINDRANCES TO EAST/WEST TRADE DUE TO THE ECONOMIC
STRUCTURES PREVAILING IN COMMUNIST COUNTRIES

I. PROBLEM

A. Historical Bankground

1. In considering the evolution of COMECON countries' foreign trade, a distinction must be drawn between the USSR and the rest of the COMECON.

(a) The USSR

2. The Soviet Union is only to a limited degree dependent on foreign trade: exports represent about 2.5% of GNP (against 4.2% for the United States) and about \$52 per head of population (against about \$216 in the United States). This situation is due to geo-economic and historical factors. The USSR disposes of an immense territory, rich in resources of all kinds. Its size and population make it possible, as in the United States, to carry on the full range of economic activities and to produce on a large scale. Traditionally the Russian policy has been one of achieving independent economic power through self-sufficiency. Nevertheless, in recent years this policy has been attenuated by a shift in Soviet priorities towards procuring high technology items, e.g. computers, electronics, chemicals, not readily available from domestic or COMECON sources. This trend has led to an upturn of general Soviet interest in foreign trade which is likely to remain active in the short and medium terms, and will, doubtless, produce a more flexible outlook in trading with the West.

3. Until recently, the Soviet attitude towards foreign trade indicated a lack of preoccupation with marketing. However, the Soviets are beginning to show increasing awareness of the importance of marketing techniques in developing their commerce with the West. This has been reflected in certain prestige commercial areas, such as aircraft sales; the Soviet Union have made, for example, joint arrangements with a number of Western companies to promote sales of the Yak-40 aircraft. As regards trade with the West, about a fifth of total trade, the USSR has been a substantial exporter of agricultural produce, timber, ores, fuels and semi-manufactured goods. For most of these products there have generally been ready markets obviating the need to study the evolving wants of buyers in the world. Most of the exports of engineering and other manufactured products are destined either to the COMECON area or to certain LDCs receiving Soviet aid - economic and military - where the question of marketing hardly arises, and the political motivation behind this trade is often strong(1).

(1) Soviet trade with other Communist countries and with LDCs represents respectively about 65% and about 13% of the total.

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4. The limited importance of foreign trade in the Soviet economy, the system of centralised control, and the state monopoly of foreign trade have made it possible for the Soviet leaders to subject their foreign trade to political considerations. This is particularly true in the case of Soviet trade with other Communist countries and certain developing countries either when it has been artificially boosted (Cuba, Egypt and the COMECON area) or when it has been suddenly broken off (Yugoslavia in 1948, China in 1960, Albania in 1961). Trade with the West is based on solid economic reasons, but here too there have been instances in the past of political interference: e.g. Finland, Israel.

(b) East European countries

5. The position of the six smaller East European countries is very different. None of them has a range of materials anything like that possessed by the USSR; imports of these are essential for their industrial programmes. Their internal markets are small and to produce on the scale large enough to be really efficient, they must limit their range of output and specialise in certain lines. They are more dependent on foreign trade than is the USSR, although the degree of dependency does vary considerably. The ratio of exports to GNP gives a measure of this dependence: Romania and Poland, about 10%; Czechoslovakia, East Germany and Hungary, between 14% and 17%; Bulgaria, slightly over 20%

6. While, as in the inter-war period, the foreign trade of these countries was overwhelmingly with Western Europe, Germany in particular, there has been a complete reversal as a result of the political changes which took place in Eastern Europe after 1945. With the exception of Romania, which does almost half of its foreign trade with non-Communist countries, all the other members of the Warsaw Pact have conformed to what has become a regular pattern within COMECON, that about two-thirds of foreign trade should take place with socialist countries. The Soviet Union has become the dominant trading partner through its hold over production organization and markets, utilizing its bilateral trading agreements to impose on the other members a trade pattern to suit its own political and economic aims. These agreements, within the COMECON framework, therefore, have been used to preempt the foreign trade potential of the East European countries and, thereby, restrict the possibilities of expanding trade with the West.

7. Other serious inhibiting factors include Soviet pressures towards greater economic cohesion in COMECON via the 20-year "Complex Integration Programme", approved in July 1971, which provides for such developments as multilateral plan co-ordination, financing through the Moscow based and sponsored IBEC and IIB agencies(1), a unified currency, etc.

(1) IBEC : International Bank for Economic Co-operation
IIB : International Investment Bank

If this integrated policy were to prove successful, it could decelerate the impetus towards greater East/West trade over the next two decades(1). Although it is somewhat early to judge the ultimate results of the "Complex Integration Programme" its initial phase has thrown up a large number of technical and organizational problems, and the chances are that full implementation will take many years. Inevitable resentment by the other Eastern countries at Soviet efforts to hinder further their economic autonomy could well make the USSR less enthusiastic about maintaining an unrealistically high volume of trade with its COMECON partners, although political factors will doubtless act as a counter-balance here.

B. Institutional hindrances to East/West trade

(a) Central planning

8. Traditionally, the highly institutionalised systems of centralised economic controls throughout COMECON, and especially that of the USSR, have been less concerned with expanding foreign trade than with satisfying domestic industrial targets. Foreign trade with non-Communist areas, in particular, has hitherto been considered as containing an element of risk and uncertainty. It seems that the USSR, however, is now emulating increasingly its COMECON partners in that its growing technology and consumer requirements are obliging it also to take a greater interest in trade with the West. In addition, it is clear that in many respects the system of centralised economic control, based on the Soviet pattern, fails to meet many of the requirements of the East European economies with their greater reliance on foreign commerce. The Eastern countries do have a strong need for imports which cannot be satisfied by Soviet capabilities, especially in the industrial sector: imports of heavy machinery, vehicles and technology by the Eastern countries rose at an above-average rate over the last decade reflecting efforts to advance industrialisation and growth. It should be added that central planning does not appear to impede bulk sales of Soviet raw materials, fuels and agricultural produce.

9. A sector highly affected by centralised planning is the consumer field. East European consumer preferences and tastes have tended in the past to be largely ignored by the planners; however, throughout COMECON, an increasingly sophisticated consumer orientated market will presumably cause more graphic shifts to occur in the Eastern Europe trading patterns. Clearly, something must also be done about the fundamental economic

(1) For example, Soviet sources provide for an 8% upturn in intra-COMECON trade by 1975 compared with approximately 6% with the West (average annual rates of increase).

inefficiency of these countries - a key reason why the COMECON members have been unable to accelerate their trade with the West. Another impediment to expanding Eastern commerce outside the COMECON area is its basic economic orientation towards the USSR, reflected in the series of bilateral trade agreements between Moscow and its allies, and the resulting lack of hard currency earnings. Nevertheless, the Eastern countries have endeavoured more recently, with limited success, to introduce some element of decentralisation and even the embryo of a market system. In this respect, Hungary seems to have been able so far to make the greatest progress. East European trade with the West which contains an important element of manufactured products and processed foodstuffs would clearly benefit from a more flexible and decentralised form of planning.

(b) Subsidiary rôle of money and its effect on trade

10. In considering the rôle of money and its effect on foreign trade, two aspects are particularly relevant: the convertibility of Communist currencies and the relation between domestic and foreign trade prices.

(i) Convertibility

11. The insistence of the East on bilateral trade tends to derive from the lack of convertibility of their currencies. A convertible currency requires adequate reserves, a sufficiently strong balance of payments, a realistic exchange rate and external confidence in the currency. Indeed, the willingness of Western trading partners to hold Eastern currencies would be a salient condition of their convertibility. These factors are not operative in the case of the COMECON countries. The result orientates the Eastern countries towards bilateral trade and payments agreements which reduce the need to use foreign convertible currencies. In addition, although "transferable roubles" (t.r.) were established as a common unit at the same nominal gold parity as Soviet roubles, in which all trade transactions would be recorded, COMECON holders of credit balances have not found the t.r. useful to procure needed goods. Countries which amass a surplus of t.r. frequently find that items available for procurement are not those covered by bilateral agreements and that these relate to commodities not very much in demand. If the t.r. were fully convertible against Western currencies, of course, surplus balances could be used to finance purchases of "hard commodities" for the West, but this goal remains a very long-term aspiration.

12. It could be argued that this weakness of the Communist monetary system does not directly hinder East/West trade since transactions are nearly always effected in Western currencies. This is not quite so since at present the Communist countries,

in principle, keep separate their intra-COMECON trade from their trade with non-Communist countries. At this stage, one of the limits to the expansion of East/West trade is the hard currency earning capacity of COMECON countries, including the loans and credits they can obtain.

(ii) Relation between domestic and foreign trade prices

13. The absence of the link between domestic and foreign trade prices in the COMECON countries means that there is no way of assessing the extent to which foreign trade is desirable in economic terms. Imports from abroad are normally destined to meet scarcities. Moreover, Western countries are to some extent also concerned by the uncertainty as to real cost of COMECON exports as evidenced by the recurrent preoccupation with the possibility of dumping. The absence of a coherent cost structure may also explain why it has been possible constantly to reserve to socialist countries the conventional proportion of two-thirds of COMECON countries' total foreign trade.

(iii) Further obstacles

14. The state monopoly of trade and centralised planning have also created a number of practical obstacles to East/West trade which are briefly recalled here as most of them have already been dealt with in other papers: lack of business contacts between Eastern and Western firms; unnecessary secrecy in trade matters, even in the statistics of foreign trade; specimen contracts contain clauses which tend to discriminate against Western businessmen; discrimination through administrative procedures against particular countries and firms; for certain services Western firms are forced to use organizations designated by the East (e.g. transport and banking).

II. PROPOSAL

15. Without, of course, seeking the introduction of fundamental changes in the economic system of the Eastern countries, Western countries could avail themselves of the opportunities presented at a CSCE to emphasise that the major obstacles to realising the full potential of East/West trade are in their view those outlined in paragraphs 7 to 14 above. Western countries could express their willingness to co-operate with the Eastern countries in examining the possibility of minimising the effects of these obstacles.

III. RECOMMENDATION

16. That the proposal in Item II be accepted.

IV. TALKING POINTS

17. As regards Eastern Europe, there is considerable scope for increased trade with the West provided that there is some re-orientation in the production pattern. However, equal emphasis should be placed on the entire range of trade promotion activities, especially marketing, hitherto largely ignored by the East, especially the USSR. Western markets should be surveyed in greater depth and Eastern production patterns modified accordingly.

18. Multilateral trade and settlement should be encouraged; merchants, firms and trading organizations should be free to buy and sell in markets of their choice without having to submit to the requirements of a bilateral clearing and settlement.

A NEW INSTITUTION TO FINANCE EAST/WEST TRADE
AND ECONOMIC CO-OPERATION

I. PROBLEM

1. Hitherto, East/West trade has not been hindered through lack of finance. The main source of finance at the disposal of Eastern countries continues to be export credits guaranteed by Western public or semi-public institutions, a system which allows for a certain amount of supervision and control over the volume and terms of credits extended to the Eastern countries. While the size of the deals currently under discussion with the Soviets involves financial commitments of a size and duration which are more akin to investments and which will require substantial private capital, it is expected that the main source of financing will continue to be private credits guaranteed by public or semi-public institutions. Thus, at the present time, there is no apparent need for any new Western institution to finance Eastern purchases in the West.

2. The individual Eastern countries are steadily adapting their financial institutions to facilitate the continued inflow of Western financial resources. The IBEC (the International Bank for Economic Co-operation), which was previously concerned mainly with clearing intra-COMECON trade, has borrowed in all about \$140 million from Western consortia. Though modest in themselves these sums are thought to be the prelude to larger loans. It is possible, too, that the IIB (the International Investment Bank), recently set up to finance projects which would promote integration within the COMECON, might seek funds on Western markets. These institutions could become a screen between the East European countries and other sources of funds in the West which would normally be directly available to them. The East European countries might therefore find it more difficult to promote industrial projects to which the Soviets might object, thus further strengthening Soviet control over their economies.

3. It can be argued that a new situation is emerging, the economic and political implications of which call for new attitudes(1). Whereas over the five years 1966/1970 the average of new credits granted to the USSR by NATO countries was

(1) Western involvement in the Eastern economies takes several forms. (a) In the past, Western capital equipment was normally sold to Eastern countries on credit terms. (b) The Soviets increasingly favour the arrangement whereby capital equipment delivered now is paid for by material supplied later which does not entail foreign equity investment in Soviet enterprises. (c) Some East European countries are prepared to accept minority equity investment in their enterprises as an aspect of industrial co-operation. (d) Loans raised by Eastern banks on Western markets do not involve equity investment.

\$1.1 milliard, a figure of \$3 milliard has been mentioned recently in connection with a single US/Soviet deal. There have been suggestions that the time has come to set up an officially sponsored Western consortium, in which all financial groups, large or small, might participate, and which would be in a position to exercise a measure of supervision over the flow of capital to the East. So far the idea has not evoked much enthusiasm in official quarters, which would prefer that existing institutions continue to adapt themselves to the changing situation.

4. Nevertheless, it is possible that on the occasion of discussions in a CSCE certain East European governments might call for the creation of a joint official European financial institution. At present there is little reason to believe that such a bank would serve a useful purpose. Attempts by the new Western bank to offer a new alternative to COMECON financing would most likely lead to further weakening of credit terms and encourage further financial overextension by certain East European countries. The institution would by its nature be highly political. It is also possible that to gain Soviet acceptance the bank would have to accommodate to Soviet design and that, in fact, it would supplement and strengthen COMECON institutions rather than weaken them. In any case, even if the Western authorities decide to create any new institution in this field, there would be no need to discuss the scheme with the East or to justify it at a CSCE.

(a) Eastern attitudes

5. Eastern countries would no doubt welcome any increased access to Western capital, but since there does not appear to have been any hindrance to the flow of capital so far, their interest in the idea of a new institution would probably be prompted by other considerations. They might well reckon, for instance, that a joint official body would probably be less preoccupied with the purely business aspect of projects than banking consortia. They might also see in a body of this kind an indirect means of securing government-to-government loans.

6. The likelihood is that the Soviet Union would be less interested in a joint official body than the smaller East European states. Despite the fact that in Soviet plans political considerations often outweigh purely economic ones, the Soviets might, in fact, prefer to deal with Western financial institutions rather than have Western governments scrutinising their projects and perhaps giving preference to those which could enhance the economic independence of the East European states.

7. There is evidence that over the last few years the Soviets have been trying to gain some control over the flow of capital from West to East, so as to protect Communist countries such as Romania, from becoming too dependent on the capitalist West. One means of achieving this aim would be to channel Western capital through the COMECON banks. The USSR does not of course control their decisions, but its influence is strong. It is likely, for instance, that the USSR would back projects that were in line with its own concept of planned integration and would be luke-warm to projects that might alter the industrial structure in an East European country so as to make it less dependent on intra-COMECON, and more on East/West trade. So far the East European countries still have direct access to Western capital as well as through the COMECON banks, but increased use of the new machinery will almost certainly restrict their freedom of action in this respect. It is, therefore, by no means certain that the USSR would welcome a new institution which would be a rival channel to the IBEC and which might make it easier for the East European countries to obtain capital for projects more to their liking than Moscow's.

(b) Western attitudes

8. There is no evidence that the business world is particularly interested in government involvement in their financial deals with the East. Some groups, however, might welcome the idea of an institution if it seemed to offer the prospect of government guarantees of loans.

9. There is moreover no evidence that Western governments are anxious to assume a commitment in this field, most believing that the present arrangements should be allowed to mature. They would, understandably, be reluctant to commit public money to such an institution, the more so as Western banks could provide all the funds which could be economically expended. Even if Eastern governments should press the matter, Western governments would not be prepared in present circumstances to participate.

II. PROPOSAL

10. Western governments should not take any initiative in the setting up of a new international institution to facilitate the granting of finance to the East. If, however, the matter is brought up by the other side, they might reply that in present circumstances and taking into account the adequacy of existing mechanisms, the creation of a new financial institution would offer no advantage.

EAST-WEST CO-OPERATION IN THE FIELD OF ECONOMIC
RELATIONS WITH THE DEVELOPING COUNTRIES

I. PROBLEM

A. Basic factors

(i) Aid

1. Compared with the financial contributions of the Western industrialised countries(1), the volume of economic aid from East European countries to Third World developing countries is of only nominal value. There are strong political motivations behind such aid which, moreover, is subject to inflexible and ungenerous conditions.

(1) Flow of financial resources to the Third World in 1970

(In milliards of \$)

Development Assistance Committee members (OECD) (Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, United States)		
Total flow, public and private sector, net of which:		<u>15.54</u>
<u>European countries and North America</u>		
Public sector:	Development assistance (net)	6.15
	Other public flows (net)	0.46
Private sector:	Investments and loans(net)	4.15
	Exports credits (net)	1.75
	Grants by private institutions (net)	0.82
TOTAL		<u>13.33</u>
<u>East European countries</u>		
New official commitments		0.34
Gross aid actually used (estimate)		0.52
Total net economic aid flow (after deduction of capital reimbursements) (estimate)		<u>0.25</u>

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2. In terms of economic potential, these contributions as a whole represent 0.78% - official development assistance alone accounting for 0.34% - of the GNP of members of the DAC, as compared with 0.04% of the GNP of the East European countries(1). To achieve the aim of assigning 1% of the GNP to public and private financial resources for the Third World, the Western countries would have to increase their total contribution by less than one-third. On the other hand, on the basis of the target suggested for official development assistance (0.70% of the GNP), the Western countries would have to double the amount of such aid, while the East European countries would have to make a far greater contribution to achieve these aims.

3. Economic aid by the East European countries is limited to a certain number of Third World countries (42), while aid from the West is distributed among 135 countries and territories. Because of this, drawings on credits granted by the Eastern countries represent at least one half of the total aid received by some countries (Afghanistan, Nepal, Iran, Iraq, Syria, Egypt and Yemen). Although Eastern economic aid programmes for India, Pakistan and Indonesia are large in terms of volume, they account for only a small fraction of the aid granted by the Western countries.

4. The East European countries have constantly rejected any form of aid when the originating country cannot be identified. The West, in contrast, is increasingly convinced of the need to co-ordinate bilateral and multilateral aid and has, to this end, set up consortia and advisory and aid co-ordination groups where contributing countries can discuss the situation with the developing country concerned. The East European countries are not members of such international organizations which provide multilateral assistance as IBRD, IDA, Regional Development Banks. They contribute to the United Nations development programme, but only to the tune of 3% of its total cost. Since this contribution is, moreover, made in non-convertible currencies, its use is limited to the financing of deliveries by the donor country(2).

(1) This figure does not take account of economic aid to other Communist countries (Cuba, North Vietnam, North Korea, Mongolia, and so on). Little data is available on this subject. It seems likely that intra-Communist economic aid represents 0.16% to 0.20% of the GNP of the East European countries.

(2) Despite the conspicuous absence of the East European countries, the multilateral bodies have, since the early sixties, played an increasingly large part in the world-wide effort in favour of development (\$1.5 milliard in 1970 or about 18% of public aid by the West)

(ii) Indebtedness

5. The rapid rise in the indebtedness of developing countries over the past decade could well lead to an increase in servicing difficulties for some of them. By the end of 1969, the foreign public debt of 80 developing countries totalled \$59 billion and was increasing at an average annual rate of 14%. Since 1960, there have been 21 cases of multilateral debt re-negotiation at the request of developing countries. These cases of debt re-scheduling were generally in response to actual or anticipated balance of payments problems which resulted from inadequate export earnings or capital inflows. Unless export growth rates increase at a faster rate or higher gross capital inflows can be achieved, more developing countries than in the previous decade may experience debt servicing difficulties.

6. The indebtedness to East European countries as a proportion of total debt is greater than the volume of credits from those countries would suggest. At the end of 1969, such debt totalled some \$3.3 billion or 5% to 6% of the total indebtedness for 80 developing countries. Furthermore, deliveries of arms and military equipment from East European countries, and primarily the USSR, account to a large extent for the increase in this indebtedness, although their exact value is unknown. It is significant that a number of developing countries which could well experience debt servicing difficulties are indebted to East European countries. These are: in Africa, Ethiopia, Ghana, Mali, Sudan and Tunisia; in the Middle East, Egypt, in Asia, Afghanistan, India and Pakistan; in Latin America, Chile, Peru and Uruguay.

(iii) Trade

7. The trade drive launched by the East European countries in the Third World began in 1954. It was presented as offering the under-developed countries steady and rewarding new outlets for their raw material surpluses on the one hand and, on the other hand, new sources of procurement of industrial plant and complete factories on attractive credit terms (twelve-year loans at 2% to 3%) repayable in local currency.

8. Despite a rapid rate of expansion, trade between these two groups of countries accounted for only 5% to 6% of the Third World's overall foreign trade in 1970. Transactions between the Third World and the industrialized Western countries were 12 to 15 times greater, in value terms, than between the former and the East(1). Just under three-quarters of under-developed country exports to the East European countries consist of raw materials while their imports include the same proportion of equipment, machines, manufactured goods and semi-manufactures.

(1) For example, imports from the under-developed Third World countries represented less than 4% of total GDR imports but almost 16% of FRG imports

9. As regards the future, it seems likely that the Eastern countries will at best be taking only 8% to 9% of the under-developed countries' exports by 1980, while the Western countries will probably continue to take over 70%, the remaining 20% being accounted for by transactions between the developing countries themselves. To the extent that the Soviet Union will attempt to reduce the technological gap which separates it from the West, it will continue to assign a high priority to the development of intra-COMECON trade and to imports from the West. This would leave only a small margin for imports of raw materials and consumer goods of tropical origin which make a relatively small contribution to the growth of the East European countries' economies.

B. Areas affording possibilities for improvement

10. Western experience to date with the East European countries' approach to Third World aid problems offers no reasonable expectation that the political and propaganda content of their programmes will be significantly reduced in favour of true economic development criteria. Although the Western countries' aid programmes are not always devoid of political motivations, the difference in degree between Western aid and that of the East European countries - especially that of the USSR - is so great as to constitute a difference in kind, making the Eastern aid literally incompatible with Western programmes.

11. Theoretically speaking, consideration could be given to four specific areas:

- overall financial aid;
- technical aid;
- joint implementation of specific projects;
- stabilization of commodity prices.

(i) Overall financial aid

12. Better co-operation between East and West on the United Nations Development Programme (UNDP) could prove useful. The Eastern countries contribute to this at present, but on an extremely small scale and it might be suggested that they increase their participation. So far, however, the Eastern countries have consistently tried to focus attention on the origin of any funds made available to the United Nations by closely associating themselves with the projects arising from their contributions. They are unlikely to agree to increase their contribution to any joint efforts.

13. It might likewise be envisaged that the Eastern countries participating in the international organizations which provide the bulk of multilateral aid (IBRD, IDA and the Regional Development Banks). But here the chances of meeting with a favourable response

from the East European countries are probably even smaller than in the previous case. If they nonetheless express a desire to participate in, or associate themselves with, the activities of these international assistance organizations, they should approach the latter directly. In this event, special arrangements might subsequently be devised to enable the countries which are not members of the IMF to contribute nonetheless to aid granted by the multinational aid bodies.

14. The West might also propose an improvement in the exchange of information on bilateral aid programmes. On the Western side, such data is already widely available, but it is desirable to obtain more specific information on the programmes of East European countries. The latter could be asked to provide this information as a first step towards better East-West co-operation. However, because of the political motives underlying their programmes, the Eastern countries have little incentive to do this. In view of the probable reluctance of the Eastern countries, it seems very unlikely that progress will be made in this area.

15. As regards the co-ordination of bilateral aid, the Eastern countries could be invited to participate in the consortia and advisory and aid co-ordination groups on the developing countries receiving aid from both East and West. Such participation would make aid more effective and prevent duplication, while at the same time maintaining distinct donor identification. This last consideration might avoid the traditional objections of the Eastern countries to multilateral projects. However, a CSCE is not the appropriate forum for negotiations of this kind, which should be referred to existing ad hoc bodies for more detailed discussion.

(ii) Technical aid

16. Technical aid appears to have limited utility as an area for better co-operation between East and West. Its unsubstantial nature and the ideological differences of advisers nurtured on fundamentally different systems make it likely that the slightest difference of opinion would degenerate into a propaganda contest.

(iii) Joint projects

17. Some Allied countries have already made special arrangements in this field and their experience might be used by other member countries to try to define the form and conditions of such co-operation. Each case would have to be considered on its own merits and regarded as a purely business transaction.

(iv) Stabilisation of commodity prices

18. The interest shown by the developing countries in this question was once again highlighted during UNCTAD's last meeting. However, there are sometimes differences of views on this matter

among the Western countries and it would be undesirable for this lack of unity to be openly displayed at a CSCE. Within the context of international agreements on individual commodities, the USSR and several Eastern countries have signed agreements on sugar, tin and wheat and Czechoslovakia is party to the coffee agreement. The quest for an acceptable solution for other commodities would perhaps be easier if there were better understanding between East and West.

19. In the framework of UNCTAD, five East European countries (Bulgaria, Hungary, Poland, Czechoslovakia and the USSR) have indicated that they have already introduced, or intend to introduce, generalised tariff preferences for manufactured or semi-finished products of the developing countries and that they plan to take other preferential measures. It might be interesting to compare and contrast the concrete advantages granted by each side in this field but it is difficult to see how an exchange of views on the subject could usefully be held at a CSCE.

C. Conclusions

20. The problem of co-operation between East and West in the field of economic aid for the Third World has been discussed a number of times in NATO, both in connection with the preparation in 1969 of a list of issues for possible discussion at East-West negotiations and within the framework of the preparation of a CSCE.

21. Some Allied countries have expressed the view that co-operation of this kind would be desirable in principle but that in practice it would be fraught with difficulties. They nevertheless feel that it might be in the interest of the West to explore the possibilities of promoting such co-operation and to declare its willingness, at a CSCE, to collaborate with the East on joint development projects or on projects carried out under the aegis of the United Nations in the Third World.

22. Other Allied countries hold a different view. They consider that:

- the raising of this issue at a CSCE could only lead to a rebuff from the Communist countries, their traditional argument being that the former colonial powers are to blame for underdevelopment and that consequently it is for them alone to make good the damage they have caused;
- the airing of this issue at a CSCE would raise false hopes in the Third World and that, in practice, joint projects would not be feasible;
- international organizations, particularly the United Nations, provide a suitable forum for the discussion of this type of co-operation;

- the Allied countries could not accept the Soviet argument that any increase in development aid by the Warsaw Pact countries must be conditional on their freer access to Western markets;
- if the Warsaw Pact countries raised this issue, the West should insist that they make definite proposals in order to be able to see precisely what was involved.

23. A number of Third World developing countries have already indicated that they feel concerned about the possible economic repercussions of a CSCE, and particularly about the shift in the pattern of trade that it might produce. Several Notes mention the anxiety of the developing countries in this connection(1). The fact nonetheless remains that any Western participation in such activities as the tapping of the USSR's natural resources will depend on the growth rate in the consumption of industrial raw materials in Western countries, and should not prejudice the legitimate interests of the developing countries in general and, in particular, of those who are members of the Alliance.

II. PROPOSAL

24. During talks at a CSCE on questions concerning economic relations with the developing countries, the Western nations could suggest that the Joint Declaration in the Communiqué should mention in general terms the determination of both the Eastern and the Western countries not to overlook the needs of the Third World.

A. Advantages for the West

25. The principal beneficiaries of East-West co-operation in the field of economic relations with the Third World would be the developing countries. An improvement in the effectiveness of development aid is bound to make for international stability. The economic development of the Third World is in the interests of the West.

26. Although the Western countries may consider it desirable to seek such co-operation, the fact remains that the chances of achieving tangible results are minimal, given the negative attitude that the East European countries are likely to take towards any Western initiative in this direction. However, in the event of a refusal by the Eastern countries, the West ought to be able to turn their position to good account by arguing that it provides additional proof that the East Europeans are not concerned about the peoples of the Third World. Thus, a negative Eastern response could have a favourable impact on relations between the West and the Third World.

27. Any comparison of efforts to provide aid could not fail to demonstrate how far the Western countries are ahead of the East in this respect. Member countries of the Alliance can prove that

(1) See Note No. 20

they are making a greater effort to help than are the Communist countries even if account is taken of the economic aid which the latter grant one another.

28. A greater contribution by the Communist countries to the flow of aid supplied by the multilateral organizations could help to keep politics out of such aid and speed up the development of the Third World.

B. Disadvantages for the West

29. The development aid programmes of the USSR and the East European countries are based on concepts which differ fundamentally from those adopted by the Western countries. These programmes often serve to transplant to the Third World the fundamental antagonism which the East feels towards the industrialised West. They are designed to undermine Western influence for Eastern ends and to encourage the Third World countries to turn their backs on the West. This is particularly true of the Soviet Union. Commercial considerations carry more weight in the aid programmes of the other East European countries. Nonetheless, the freedom of action of the latter remains limited within a general framework which is largely fixed by the USSR. In addition, the activities of China, which is competing with the European Communist countries to win the favours of the Third World, have on a number of occasions caused the East Europeans to raise their stakes in order to ensure that they are not dislodged by the Chinese.

30. Under cover of co-operation with the West, the Communist countries could step up their penetration of the Third World countries, where their rôle so far has been discreet.

31. Any form of East-West co-operation in this field would inevitably show up the economic activities of Eastern Europe in a more acceptable and more respectable light despite the fact that their contribution to the development of the Third World has been less than modest and bears no relation whatsoever to their overall economic potential.

III. RECOMMENDATION

32. Some members of the Alliance suggest that the West should take the initiative in implementing the proposal contained in paragraph 24 above.

33. Others, however, for the reasons set out in paragraphs 10, 22, 29 to 31 etc., feel that it is not in the West's interest to take such an initiative. If, contrary to their expectation, the East European countries were to raise this kind of problem at a CSCE, they consider that the West should respond with a request for detailed proposals. Thus, the members of the Alliance could propose the course of action mentioned in paragraph 24 only in response to an outside initiative.

INCREASED PURCHASES BY WESTERN EUROPE OF COAL FROM
EASTERN COUNTRIES(1)

PROBLEM

(a) Background

In the field of energy, a three-fold phenomenon occurred in Western Europe (OECD Europe plus Yugoslavia) during the 1960s:

- a considerable increase in consumption, which rose from 766 to 1,246 million coal equivalent metric tons (c.e.m.t.) between 1959 and 1969(2), as a result of an extraordinary development in the demand for petroleum products and natural gas;
- a decrease in total energy production. Between 1959 and 1969 this dropped from 567 to 542 million c.e.m.t., as a result of a steep fall in coal and lignite production from 510 million to 394 million c.e.m.t.(3), which was not offset by the expansion in the local production of crude oil, natural gas and electricity from hydro-electric and nuclear power stations;
- by the end of the 1960s, solid fuels were no longer the main source of energy in Western Europe. In 1969 they represented only 37% of total consumption.

2. As coal production has fallen more rapidly than coal consumption, Western Europe has to procure a certain quantity of coal and coke from outside its own area. In 1969 its main suppliers, for both products taken together, were the United States (13.6 million m. tons), Poland (12.8 million m. tons) the USSR (7.8 million m. tons) and

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- (1) North America possesses vast coal deposits. The United States is the main world coal producer and exporter: 535 million m. tons in 1970, including 65 million m. tons for export.
 - (2) Latest year for which full figures are available. See United Nations World Energy Supplies (1966-1968).
 - (3) The ECE in Geneva gives the 1969 production figures as 345.6 million m. tons of coal and 155.5 million m. tons of lignite.

Czechoslovakia (1.9 million m. tons)(1). Imports of coal and coke represented approximately 10% and 2.4% respectively of the production of these two fuels in 1969. The main customers were Italy, Denmark, Finland, France, Austria, Sweden and Yugoslavia.

3. The proportion of coal in imports by OECD Europe from the Eastern countries is variable. In 1969 this fuel represented 18% of the value of purchases from Poland, slightly more than 5% of those from the USSR, some 4% of those from Czechoslovakia and less than 1% of those from Hungary.

(b) Future developments

4. It may be wondered whether, under pressure from increasing world energy requirements and the rising price of hydrocarbons, the importance of coal in the world's economy will continue to decrease. However, in Western Europe everything points to the fact that the decline in local production will continue as the mines are worked out or closed because they are uneconomic. Coal production could be as little as 270 million m. tons in 1975 (as against 326 million m. tons in 1970); lignite production will also decrease very gradually to reach, under the most favourable assumptions, approximately 150 million m. tons (as against 157 million m. tons in 1970). In 1980, the proportion of solid fuel in the energy consumption of Western Europe might only be some 20%, as against 56% in Eastern Europe and 26% in the USSR.

5. Deliveries of coal and lignite will continue to go mainly to two sectors, steam generating stations and coking plants, since the demand from other industrial sectors, as well as for domestic consumption, is constantly decreasing.

6. The anticipated development of the European pig-iron and steel industry will increase the demand for coking coal, despite new steel production methods enabling proportionately less coke to be used. (In the very long term it is hoped to produce steel from pig-iron by direct reduction.) During the next few years, whereas the production of coking coal in the COMECON countries will be sufficient for their needs, Western Europe will be faced with an acute shortage of this type of coal.

(1) See OECD External Trade Statistics, Series "C". Complete figures for 1970 have not yet been published. In 1970, according to statistics of the ECE in Geneva, Western Europe imported 18 million m. tons of coal from the United States, 7.2 million m. tons from the USSR and 16.5 million m. tons from Eastern Europe (mainly Poland). In addition, some 3 million m. tons of coke were imported in approximately equal amounts from Eastern Europe, the USSR and the United States.

7. The Six of the original Common Market will continue to be the main importers. A working group of the Coal Committee of the ECE in Geneva has estimated the net imports of the Six in 1975 at 26-28.5 million m. tons of coking coal(1) as against 11 million tons in 1969. Sweden, Finland, Austria, Spain and Switzerland will also be significant importers of this fuel. In 1975, the net import requirements for Western Europe might reach 36 million m. tons. Furthermore, coke imports might be of the order of 3 to 4 million m. tons.

8. For several years now, the price of oil imported by the countries of Western Europe has substantially increased (at the same time there has been a certain rise in the price of coal) and the dangers of over-dependence on a single type of energy and a limited group of suppliers have become apparent. Consequently, a policy of diversification of the types of energy used might lead to a slower decline in the use of coal, especially by steam generating stations. In any event, since coal production is bound to decrease, greater use of coal will lead to a rise in the level of imports. It is difficult however to put forward a figure for total net coal imports by Western Europe in 1975 and this is even more true for a longer period(2).

9. While Western Europe should have no difficulty in importing from its traditional suppliers the steam coal necessary for its steam generating stations, this might not be true of coking coal. The United States should continue to be the principal suppliers, but in recent years that country has encountered production difficulties and the price of American coal has tended to rise. Between 1970 and 1975 the United States production of coking coal for export might rise from 56 to 76 million m. tons; in 1980 the figure would reach 94 million m. tons. It is by no means certain that this expansion, together with that in other exporting countries (Australia, South Africa etc.), will be sufficient to meet the increased demand from the non-Communist industrialized countries.

10. Of the Eastern countries which export coal to Western Europe, Poland appears to be best able to step up its deliveries.

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- (1) Net imports: Total imports less exports. This figure might be higher, since 1973 will mark the end of the system of subsidies established by the European Community to encourage the use of Common Market coal and coke by the iron and steel industry of the Six.
- (2) The study now being made by OECD of the energy requirements of the OECD zone in the present decade may offer a certain amount of useful information on this question.

11. The high cost of transport is one of the major problems affecting the export of coal. In this respect Poland has an advantage owing to its geographical situation. It is the main Eastern coal-exporting country (28.8 million m. tons of coal exported in 1970 and 4 million m. tons of lignite). Approximately half the coal goes to the non-Communist countries of Europe. Poland is conscious of the importance of coking coal in international trade and in the past few years has considerably developed the working of the Rybnik Basin reserves.

12. For Poland the quantitative and qualitative development of the coal industry appears to be essential for two reasons:

- to supply a national source of energy for its economy;
- to obtain convertible foreign currency, thanks to exports to the non-Communist industrialized countries.

In 1970, coal production in Poland reached 140 million m. tons and lignite 33 million tons. For 1975, the figures are 167 and 37 million m. tons respectively. However, Poland has a shortage of mining labour and is endeavouring to offset this by increased mechanization and productivity.

13. On several occasions the Polish authorities have advocated the signing of "long term agreements and the establishment of a suitable form of joint investment in production facilities" which would make it possible to meet the coal requirements of the European market. They have also stated that they could use any credits which might be granted by foreign coal consumers in order to increase the output of the coal mines and coking plants for export(1)

14. The USSR has considerable coal and lignite reserves but more than 88% of them are located in the Eastern regions (Siberia, Central Asia, Kazakhstan, etc.) or in the extreme North of the country. Some 42% of the coal production already comes from areas to the East of the Urals. The USSR is attempting to solve the problem of transporting coal over the considerable distances which separate the new coalfields from the centres of consumption by converting it into electrical power close to the mine. The present Five-Year Plan provides for coal (coal and lignite) production to increase from 624 million m. tons in 1970 to 685-695 million m. tons in 1975, i.e. a mean annual growth-rate of approximately only 2%.

(1) See ECE(Geneva) document ST/ECE/COAL 47 dated 9th March, 1970.

15. Exports from the USSR are small: in 1970 sales of coal and coke amounted to 24.5 million m. tons(1) and 4.1 million m. tons respectively. Under present production conditions, and taking into account the relatively limited market for coal in Western Europe, it appears unlikely that the USSR will make a special effort to develop production in order to increase the sale of coal the price of which is liable to be too high. On the other hand, the Russians are greatly interested in developing their oil and natural gas resources, the export prospects for which are attractive.

16. Czechoslovakia is a net importer of coal. However this country does export a limited quantity (nearly 3 million m. tons in 1970), as well as coke (2.5 million m. tons in 1970) and lignite (1.3 million m. tons in 1970). Its main customers are its COMECON partners, Austria and Yugoslavia. During the present decade, coal production will decrease slightly, the annual average probably falling to about 24 to 25 million m. tons. Lignite production will continue to increase and might reach 89 million m. tons in 1980. The shut-down of small uneconomic mines will probably be speeded up and, in view of the expected increase in on-the-spot consumption, it is unlikely that Czechoslovakia will be able to develop sales much beyond their present level.

(1) If the volume of imports is subtracted, the net exports of coal were only 17 million m. tons.