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ECONOMIC COMMITTEE

PRICE POLICY IN COMECON INTRA-BLOC TRADE

Note by the German Delegation

INTRODUCTION

At the 70th session of the COMECON Executive Committee (Moscow, January, 1975), it was decided to introduce changes in the price system for intra-Bloc trade. Between 1976 and 1980, prices will be fixed on a yearly basis. The average prices in force on the world market in the preceding five years will be taken as the basis for the relevant calculations. Nonetheless, prices will continue to be fixed by bilateral agreement.

2. In contrast with the regulations in force so far, even the prices for 1975 will be calculated on the basis of average world prices between 1972 and 1974.

3. Underlying these changes is the Soviet insistence on higher prices for commodities (particularly oil), an attitude which has probably been prompted by the following line of reasoning:

- Higher prices for supplies from the Soviet Union may have an adverse effect on the trade policies of the COMECON countries which are geared to increased trade with the West.
- Shortfalls in Soviet deliveries to other COMECON countries (1971 to 1974 equalled 1.7 milliard roubles) can be made good, at least in part, by these price increases.
- The COMECON countries have been reluctant to play an active part in the harnessing of Soviet raw materials on which the USSR was insisting. Consequently, the price of raw materials has had to be increased to cover development costs.

4. Other price increases can be expected within the framework of the 1976-1980 five-year plan. It is anticipated in the COMECON, apparently on the strength of Soviet arguments - that

N A T O   C O N F I D E N T I A L

AC/127-WP/433

-2-

the formation of prices on this new basis will be more closely in line with real costs and that this will serve to stimulate foreign trade policy within the COMECON and consequently to promote economic integration.

PRICE POLICY IN COMECON INTRA-BLOC TRADE

1. Until 1975, the price of goods traded within the COMECON were fixed, on a five-year basis, by bilateral agreements between the different partners. Average world market prices for the preceding five years were used as a basis for the relevant calculations.

2. As regards raw materials and commodities, the fixing of quantitative and qualitative quotas for goods to be delivered and procured was a relatively simple matter since prices on the world market provided a yardstick. On the other hand, prices for **semi-finished** and finished goods produced by the processing industries were always the subject of lengthy negotiations with Western documentation providing the basis for discussion. In cases where negotiations on the price of certain goods, in which the partners were particularly interested, could not be brought to a satisfactory conclusion, the goods in question were bartered. In such instances, price-fixing played no decisive part, since overall deliveries were offset against overall supplies. The same system was applied to quota-free trade or so-called "internal trade" which consists in the barter of consumer goods and which has often been used simply to restore deficits in trade balances. "Internal trade" in the COMECON accounts for over 1% of the total amount of goods exchanged.

3. There has been no official change in the prices laid down by bilateral agreement at the start of the five-year plan. However, the appearance of new goods or modified goods has provided the opportunity for negotiating higher prices and this opportunity has often been taken. Higher prices or additional services have likewise been asked for in the case of deliveries over and above the agreed quotas. This has been true, in particular of Soviet raw material deliveries to its COMECON partners. Price levels for Soviet deliveries and supplies within the COMECON have remained fairly steady. There are no means of establishing whether the same applies to the other COMECON partners. During the period 1966-1970, Soviet export prices dropped by about 1.25% per annum, whereas average import prices rose by 0.74% per annum.

4. During the period 1971-1973, prices for goods imported into the Soviet Union from the other COMECON countries rose by an average of 3.5% per annum and exports by 2.6% per annum. Prices

for raw materials, which had been relatively stable in the early 1960s, and the steady increase in export prices for deliveries of machinery and equipment imported by the USSR from the COMECON provide the reason for the price increases referred to above.

5. Regardless of the prices agreed for intra-Bloc trade, final delivery prices can be increased by the indirect manipulation and inflation of untraceable transport costs. This practice largely accounts for the differences in the price of comparable goods delivered by the Soviet Union (raw materials).

6. The programme for the integration of COMECON provided in 1971 for the examination during the period up to 1972 of the COMECON foreign trade price system and for the establishment of its own price yardstick. Despite lengthy discussions this had not been achieved so far. According to reports, progress has only been made with regard to the fixing of prices for specialised goods. Attempts to evaluate the different cost factors failed because of the wide differences in the economic development of the COMECON partners. It was generally agreed by the latter however that future increases in the price of raw materials would be inevitable, given likewise the increase in operating and transport costs.

7. Price increases in intra-Bloc trade had already been heralded within the framework of the 1976-1980 five-year plan. These increases would have affected, first and foremost, the price of raw materials and goods incorporating a high proportion of raw materials following the increase in world prices which have taken place in the interval. The recommendation by the Executive Committee of COMECON, in January 1975, to increase the price of certain goods as from 1975 came as a surprise. (The COMECON countries were not informed by the USSR until the end of 1974, in the course of bilateral talks, of the proposed changes.) It was also decided to modify the calculation of prices in the future five-year plan. Between 1976 and 1980, intra-Bloc trade prices will be fixed yearly on the basis of average world market prices for the preceding five years. The principle of bilateral negotiations has been maintained and the different countries will accordingly have some room for manoeuvre in pressing their own claims.

8. As regards 1975, the price of certain goods, and particularly raw materials, are being adjusted on the basis of average prices on the world market during the period 1972-1974. These adjustments, which are the subject of bilateral negotiations cover both deliveries and supplies and have been prompted by the Soviet claim for higher prices for its raw materials, particularly

AC/127-WP/433

-4-

deliveries of oil. In the case of crude oil, the Soviet Union is asking for between 37 and 38 roubles per ton for 1975; this is tantamount to an increase of between 100 and 150% as compared with rates so far. No information is available on price increases for petroleum products, for other raw materials (such as natural gas, iron ore, coal, chromium ore and timber) and for other unspecified goods.

9. The Soviet attitude to the problem probably stems from the following line of thought:

- The trade policy of the other CCMECON countries, which is geared to increased trade with the West, has led to growing indebtedness towards the Western industrialised countries. The increase in the price of supplies from the Soviet Union affects this development adversely.
- The shortfall in Soviet deliveries to the other COMECON countries (1971-1974) has been valued at 1.7 milliard roubles. This debt can be cancelled out, at least in part, and without extra charge to the Soviet economy by price increases for Soviet deliveries of raw materials.
- The COMECON countries have been reluctant to take an active part in the harnessing of Soviet raw materials, which the Soviet Union had called for, and the capital goods supplied to this end have not satisfied Soviet requirements either quantitatively or qualitatively. Supplies of raw materials have accordingly gone up in price to cover the development costs.

10. The 1975 protocols on the exchange of goods, attached to the trade agreements between the USSR and the other COMECON countries, were not signed until February and March of this year which is contrary to the practice so far. They cover either the growth in the volume of foreign trade (Hungary, Rumania, Bulgaria) and/or price adjustments (GDR, Czechoslovakia, Poland).

(a) USSR - Bulgaria

11. Reciprocal deliveries to a value of 3.1 milliard roubles have been agreed for 1975. Although Soviet deliveries of 9.5 million tons of mineral oil and petroleum products are provided for in the agreement, the rate of growth in the volume of trade (11%) does not point to any significant price increases for Soviet deliveries. Bulgaria is, moreover, to obtain goods on credit from the USSR. The deficit in the Soviet trade balance with Bulgaria accumulated over the period 1971-1974 is 296.4 million roubles. Relevant statistical information is not available for 1974.

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(b) USSR - Czechoslovakia

12. The exchange of goods in 1974 totalled some 3 milliard roubles. The protocol on trade for 1975 includes price adjustments. It is known that the Soviet Union will be supplying 15 million tons of mineral oil at the rate of 38 roubles a ton. On the other hand, nothing has transpired so far as regards the extent to which Czechoslovakia was able to raise its prices to the USSR or as to whether increases in supplies to Czechoslovakia could offset, at least in part, the Soviet trade deficit of about 193.7 million roubles (1971-1974).

(c) USSR - GDR

13. Total trade in 1974 amounted to about 4.5 milliard roubles. Over the period 1971-1974, shortfalls in Soviet deliveries to the GDR represented 583 million roubles. A trade protocol for 1975 provides for a substantial increase in deliveries and supplies. According to reports, the GDR will be required to pay between 33 and 38 roubles per ton for Soviet mineral oil. Higher prices for Soviet deliveries will be partly offset by GDR price increases in the engineering sector (said to be 15%).

(d) USSR - Poland

14. Overall trade in 1974 totalled some 3.5 milliard roubles. Shortfalls in Soviet deliveries over the period 1971-1974 represented 248 million roubles. According to reports, 14 million tons of mineral oil, at 38 roubles per ton, and petroleum products will be supplied in 1975. Poland however has been able to put up its coal prices and is consequently in a stronger position in this respect.

(e) USSR - Rumania

15. Since Rumania is largely self-sufficient in raw materials, price increases have had little impact on its trade with the USSR. In 1975, trade between the two countries will rise by 8% to a total of over 2 milliard roubles. Shortfalls in Soviet deliveries to Rumania represent 287 million roubles (1971-1974). The relevant figures for 1974 are not yet available.

(f) USSR - Hungary

16. Trade between Hungary and the USSR will increase by 8% in 1975 and total over 2 milliard roubles. The USSR has granted Hungary a long-term credit for deliveries of oil (1975: 6 million tons) and has agreed that the extra cost be set against the Soviet trade deficit for 1974 (36 million roubles). Shortfalls

AC/127-WP/433

-6-

in Soviet deliveries between 1971 and 1973 represent 84.8 million roubles. The Hungarians for their part have announced increases for some of their goods. For example, Hungarian tugs supplied to the USSR will go up by 43%. Light industrial goods will go up by 19% and foodstuffs in some cases by about 40%.

17. Over the period 1966-1970, trade between the USSR on the one hand and the other European COMECON countries on the other hand, produced a surplus for the Soviet Union of 1 milliard roubles.

18. Other price increases, particularly for Soviet oil and raw materials are expected within the framework of the 1976-1980 five-year plan. Oil prices charged in 1975 are still well below world market levels. Prices for commodities traded within COMECON will probably not reach these levels until 1979 and then only if the new price system within COMECON is strictly applied and if world prices remain steady. The price of oil can be expected to increase by well over 100% between 1976 and 1980 which means that by the end of this period Soviet oil will be costing between 65 and 80 roubles a ton.

19. Real growth and price increases between 1976 and 1980 will contribute to an increase in the volume of intra-Bloc trade well above the figures for 1971-1975 which were estimated at 240 milliard roubles.

20. It is anticipated by COMECON, apparently on the strength of Soviet arguments, that the new policy will lead to prices which are closer to actual costs and that this will both stimulate foreign trade policy within COMECON and promote technical innovation and economic integration.

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