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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

DEVELOPMENT OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (COMECON)

Note by the German Delegation

Since the middle of 1962, the Council for Mutual Economic Assistance (COMECON) has a long-term programme for economic co-operation which provides for a continuous expansion of raw material production, specialisation and co-operation in industrial production, as well as the expansion of inter-bloc trade and transport communications. Since that time, the rôle, activity and responsibility of COMECON have substantially increased. Although many of the integration measures taken by the Soviet bloc are still in an early stage, a gradual - though slow - progress may be expected from the multilateral clearing system for inter-bloc trade and from a co-ordination of national economic programmes.

A. Conception and Economic Ties between Member Countries

2. The economic ties between the member countries of the EEC are entirely different from those between the countries of the Soviet bloc which is due to the difference in the two economic systems and in their economic development. In the free-market economy of the West, integration is a matter of individual and predominantly private action whilst in the centralised and government-controlled economy of the Soviet bloc integration is effected by the governments of the member countries who all have the same political and social constitution. The initiative to establish close economic ties between COMECON member countries was taken by Moscow who aims at transforming the former Soviet autarchy into a bloc autarchy.

3. Among the COMECON countries, the inter-bloc share of their total foreign trade is considerably higher than in the EEC countries (50 versus 37%); however, in most COMECON countries the per capita volume of foreign trade is very low.

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4. In spite of a strong tendency towards standardisation, the Soviet bloc economy is still lacking most of the prerequisites for a common economic policy. For this reason, economic co-operation is still far from being perfect.

B. Development up to 1962

5. The first steps towards integration within Moscow's new sphere of power led to the creation of an interdependent trade network where the European satellites had to rely on the USSR for their raw material and/or food supplies. Long-term trade agreements together with the adoption of five-year plans by the European satellite countries resulted in their close adaptation to the Soviet pattern. The revolutionary events of 1956 in Hungary and Poland led Moscow to revise its centralist-authoritarian policy of exploitation: the trade conditions were altered in favour of the European satellites, Moscow agreed to help some COMECON partners by granting them long-term credits, and the COMECON organization was improved by the establishment of expert commissions. However, it was only in 1958 that COMECON began to display its full activity - strongly supported by the Communist Party.

6. In 1958, concrete proposals were made with regard to co-ordination in the fields of raw materials, of the petrochemical industries and of agriculture which was to be realised through bilateral agreements between the member countries. Instructions were issued to work out a study on "The Basic Principles for an International Socialist Division of Labour" which were finally adopted in June 1962.

7. This was the start for a long-term programme for economic co-operation which called for a continuous expansion of raw material production, for specialisation and co-operation in industrial production (primarily machinery and equipment) and for an expansion of inter-bloc trade and transport communications. A fresh impetus had become noticeable which was to enhance the future rôle, activity and responsibility of COMECON. The integration of Western Europe and the "Polycentralism" of the Soviet bloc were the underlying reasons for this policy. The implementation of the programme was to be achieved with the help of newly created expert commissions of a functional character (statistics, standardisation, currency matters and finance) and through the establishment of the so-called "Executive Committee".

C. The Present Stage of Integration Measures in the Most Important Fields

8. The total economic output in the COMECON area is to be increased through a rational division of labour between member countries. A voluntary co-ordination of the economic plans of

the member countries is considered the proper way to achieve this goal. Such co-ordination is being prepared by discussion and technical arrangements, but it is still in an early stage.

9. Today, joint planning cannot be based in all economic fields primarily on the principle of cheap production costs. This applies to agriculture, to raw material production and especially to the sources of energy. Some COMECON countries suffer from an acute shortage in these fields and are therefore compelled to increase production at any cost.

10. Although this problem is to be partly solved by 1965 when Soviet crude oil will be available through the COMECON pipeline, it will be inevitable to open up new additional sources of energy (coal mines) situated as closely as possible to the centres of consumption, in order to avoid high transportation costs. A novel solution is the plan to cover the high long-term investment costs necessary for raw material production, especially in the poorer COMECON countries, through a joint venture between the future user of these raw materials and the country concerned. In this connection it is intended to build jointly new industrial plants some of which will be situated in the border regions. A common programme for fuel and energy production is to become effective in 1966.

11. Mineral oil products are produced by the consumer countries. This is to ensure that they themselves benefit from the production profits and to free the USSR from the need of establishing additional refinery capacities.

12. The supply of electric power from country to country over common transmission lines is insignificant and will also in 1965 contribute little towards filling the existing gaps.

13. The iron and steel industry in the European satellite countries will in future be more effectively adapted to local conditions. Although Soviet deliveries of iron ore are expected to continue to increase in future, Soviet exports of pig-iron to these countries will increase even more. The exchange of different products between COMECON countries, so far insignificant and based on specialisation in the production of rolled steel, is to increase considerably in future. A common programme for the iron and steel industry is to be expected.

14. The strongly expanding chemical industry can get most of its raw materials in the COMECON area but has to rely on the West for imports of equipment. The following measures are to be expected: joint long-term raw material programmes, co-operation in research, specialisation based on the natural raw materials available, specialisation in branches where production for the home market alone would be unprofitable, specialisation according to types, especially for the future development of the petrol-chemical industry.

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15. Co-operation in the machine building industry among the COMECON countries started very early and on a relatively broad scale; it embraces primarily machinery and equipment which is in short supply in COMECON countries and/or of primary importance to technical progress. This co-operation is of special interest for the Soviet Union whose imports of machinery and equipment exceed her exports.

16. Specialisation of production is planned and has to some extent already been realised under the following aspects: according to product types, assemblies, spare parts and technological procedures. Tractors, agricultural machinery and metal shearing machines are of primary importance. Moreover, measures have been taken or initiated to ensure that certain countries specialise in one particular category of machinery, or in equipment serving a special purpose - such as machinery for mineral oil production - and which is of importance to their own national economy. In almost all branches of the machine and vehicle building industry a reduction in the number of types has been initiated and will be continued in future through the more effective executive organization.

17. In the light industry and the food industry similar arrangements with regard to machinery and equipment have recently been made. However, due to the weak position occupied by these consumer goods industries in the Communist economy, this co-operation has so far yielded only minor results.

18. Certain transport difficulties occurred, especially in 1962, because of the increasing volume of raw material transports from the USSR. For this reason, the problem of establishing a freight car pool for all COMECON partners, which had for a long time been under discussion, was now given priority. A draft agreement was completed in 1962. The European satellite countries are to make available 20% to 25% of their freight car capacities for this purpose. For technical reasons, USSR participation in this pool is still uncertain. A common freight agency for ship transports is planned to be established in order to save foreign currency.

19. The specialisation in agricultural production in COMECON member countries - with the exception of Bulgaria - can only to a minor extent be governed by local conditions. All countries wish to obtain the highest possible degree of self-sufficiency, but the industrialised countries continue to depend on the Soviet Union for their grain supply. Inter-bloc co-operation covers seed growing and cattle breeding, the exchange of technical information - especially as far as mechanisation and standardisation of farm machinery is concerned - and vermin control. The Soviet position in these fields is weak on account of their backward methods in agricultural production. The co-ordination of agricultural production plans is bound to be sketchy since plans are normally not fulfilled.

20. The chief problems of inter-bloc trade are at the moment the transition to multilateral clearing and - as a result - the price system. In the past, multilateral clearing was arranged by the Soviet State Bank and only for inter-bloc transactions in excess of the established plans, but in future the "Socialist Countries Bank" which is about to be established, is to handle the entire multilateral clearing system. The old system of bilateral exchanges with balanced accounts often failed to meet the economic needs of the two partners. Moreover, this system restricted the volume of such exchanges to the capacities of the weaker partner.

21. The present price system does not permit a useful calculation with regard to these mutual exchange transactions, since there is no sensible relationship between inter-bloc prices and inland prices. The Communist side is aware of this and tries to improve matters through price reforms in the various countries. But in the absence of an overall-concept founded on a sound scientific basis, quick improvements are not to be expected. Even the multilateral clearing system will take years to work satisfactorily.

22. In view of the present price system in the COMECON area and a low productivity of labour in the less developed partner countries, the import of goods having a high labour content will still be profitable in the long run. Those COMECON partners who import raw materials in great quantities are apt to lose under the present inter-bloc trade arrangements because the raw material prices fixed for mutual exchange transactions - i.e. the world market prices of 1957 - are higher than today's rates whereas the world market prices for finished products have on the whole increased. The USSR as a raw material exporter of considerable importance, is profiting from this situation. Their dependency on Soviet raw material supplies sets a limit to all COMECON countries in their freedom to choose a market of their choice. Conditions for COMECON importers of raw materials will slightly improve when the new COMECON prices come into force (1st January 1964). However, raw material exporters will then receive more investment aid from the consumer countries. This will help to make up for the differences in the economic development of the various COMECON partners, although the industrialised countries are not very willing to do so.

23. The newly established "Commission for the Co-ordination of Scientific and Technical Research" has primarily the function of a co-ordinating and stimulating scientific agency for special central tasks.

24. The domineering influence of the USSR in the entire field of nuclear research and technology is particularly apparent in the "Permanent Commission for the Peaceful Use of Atomic Energy". Requests made by the European satellite states have

not been met. The links with its European satellites enhance the strong position of the Soviet Union also on the international level. Decisions on the use of atomic energy for military purposes will probably be taken outside COMECON.

25. In spite of a strong tendency to establish common rules of standardisation, COMECON will be careful not to isolate themselves completely from the other international standards. Since the introduction of new standards is accomplished step by step, a long readjustment period may be expected. However, standardisation seems indispensable if industrial specialisation is to become a reality.

D. Changes in the Organization

26. When it became apparent that the highest COMECON authority, the Council Plenum, met too rarely to give a continuous and decisive impetus to the COMECON activities it was decided in June 1962 to make an important change in its organization - last not least in view of the great activity displayed by the EEC. A new agency was created, the "Permanent Executive Committee", which decides upon practical measures of co-ordination. This Council agency which convenes - ever since July 1962 - once every two months and may become the nucleus for a Central Planning Agency, is to attain the same efficiency that is attributed to the supra-national EEC agencies. However, it seems unlikely that the present principle of unanimity will be abandoned in favour of decisions based on a majority vote. The predominant weight of the Soviet Union will always permit to enforce without constitutional backing certain plans of central interest. Moreover, the member countries are represented in this Committee by their deputy prime ministers whose task it is to harmonise on the highest government level the economic policy of their governments with that of the Executive Committee and to watch over its practical implementation. The co-ordinating activity of the Committee covers economic planning, investments, policy matters in all foreign trade relations and the work of the COMECON agencies.

27. The present strong position of the Secretariat which is partly due to the fact that it controls also the Secretariats of the various expert commissions, will probably be restricted by the creation of the Executive Committee, and this the more because policy decisions are apt to predominate over purely technical questions. The internal administration, the organization, information policy and outside representation will continue to be the responsibility of the Secretariat. It may be assumed that the COMECON reorganization, which is not yet completed, will also lead to a stricter control of the implementation of decisions issued by the expert commissions. However, it is as yet uncertain whether all expert commissions will be transferred to Moscow. The meetings of the Council of Deputies are likely to lose some of their importance.

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28. The leaders of the Soviet Union were always compelled to respect Communist China as an independent power and as the only country in the Communist bloc outside the USSR capable of building up its own fully developed economy. Nevertheless, a united economic bloc embracing all Communist countries was to be expected in view of the Soviet Union's leading position in World Communism. However, even within the Soviet concept, the ties connecting China and the smaller Communist countries of Asia with COMECON were to be rather loose. The principal reason for this was their status as developing countries coupled with Soviet fears that closer ties between these countries and COMECON would commit the other COMECON partners to higher development credits. A closer co-operation, which had been planned for 1958, failed to materialise because of Soviet-Chinese tensions and the dwindling economic importance of China. Poor harvests in China and the resulting decline of China's foreign trade volume tended to loosen the existing links even more.

29. During a short period (1956-58) Yugoslavia was a member of COMECON in an advisory capacity, and bilateral commissions for economic and technical co-operation between Yugoslavia and some East bloc countries have been in existence ever since. In recent years, Yugoslavia's trade with the Soviet bloc increased up to about one fourth of its total foreign trade volume. Under certain conditions Yugoslavia might agree to join COMECON again as an advisory member. But it is not very likely to risk either its provisional GATT membership or its relations to the EEC (delegation of experts) or western foreign aid. Nor would it submit in its foreign trade to a high degree of dependence on the Soviet bloc - a dependence inevitable for fully fledged COMECON members - or to COMECON specialisation.

E. The future Development

30. Specialisation within COMECON, especially in industry, is apt to be implemented in future more consistently and energetically than in the past. The economic functionaries, particularly in the Soviet Zone of Germany and in Czechoslovakia, support this trend because they expect higher yields from mass production. However, there are also those who oppose this development. Difficulties may also arise when investigations are carried out under strict controls to verify that parallel production has in fact been discontinued. For this reason, COMECON countries are likely to appear more often than before in western markets with unexpected demands for investment goods.

31. The system of a bilateral equalised yearly balance in COMECON or Eastern bloc trade can no longer meet the requirements of specialisation if it is to be carried through consistently. It will therefore be inevitable to adopt the multilateral clearing system mentioned above, even if it will take several years before it can work satisfactorily.

32. The growing economic co-operation between the European satellite states, especially the Soviet-occupied Zone of Germany, Czechoslovakia, Poland and Hungary, is likely to become even closer, and the foreign trade volume will increase more rapidly than before. Therefore, the share of inter-satellite trade in the overall inter-bloc trade is apt to surpass the present level. However, these trends are not very likely to impair the position held by the Soviet Union within COMECON. China with its present economic stagnation will be confined even more to its present rôle as a weak semi-partner.

33. Even under more rigid control, all COMECON integration problems can only be solved gradually. Numerous questions of policy and methods are still unsolved, especially the important price problem.

34. Since the autumn of 1962, COMECON has adopted a more realistic attitude towards the EEC and under certain circumstances it might agree to direct co-operation. One of the reasons is that the trade conditions for Soviet bloc raw material exporters in their dealings with the West are less favourable than some years ago and that the fear is still alive that Communist exports of agricultural products to EEC countries may be restricted.

OTAN/NATO,  
Paris, XVIe.

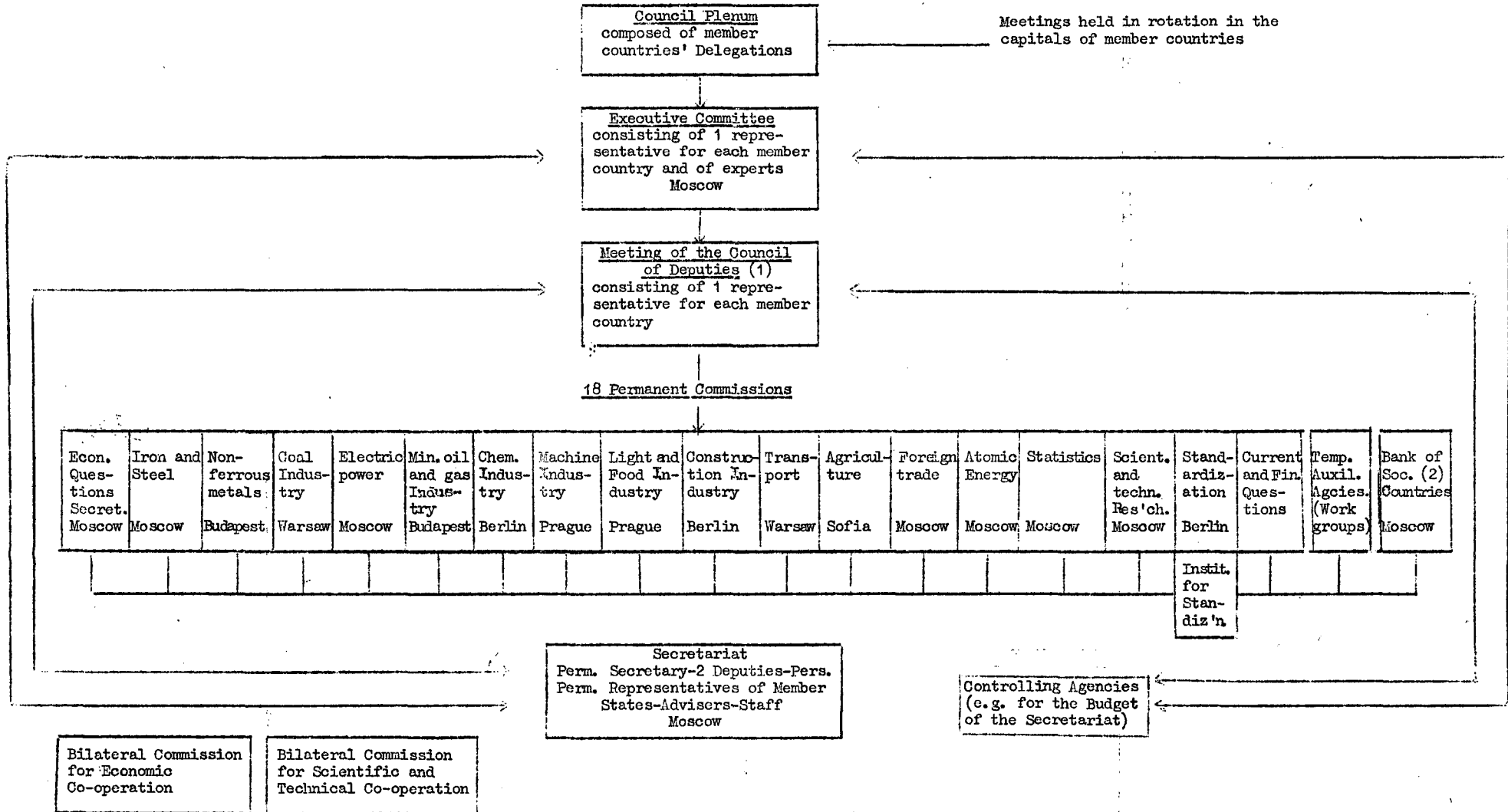
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ORGANIZATION OF THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

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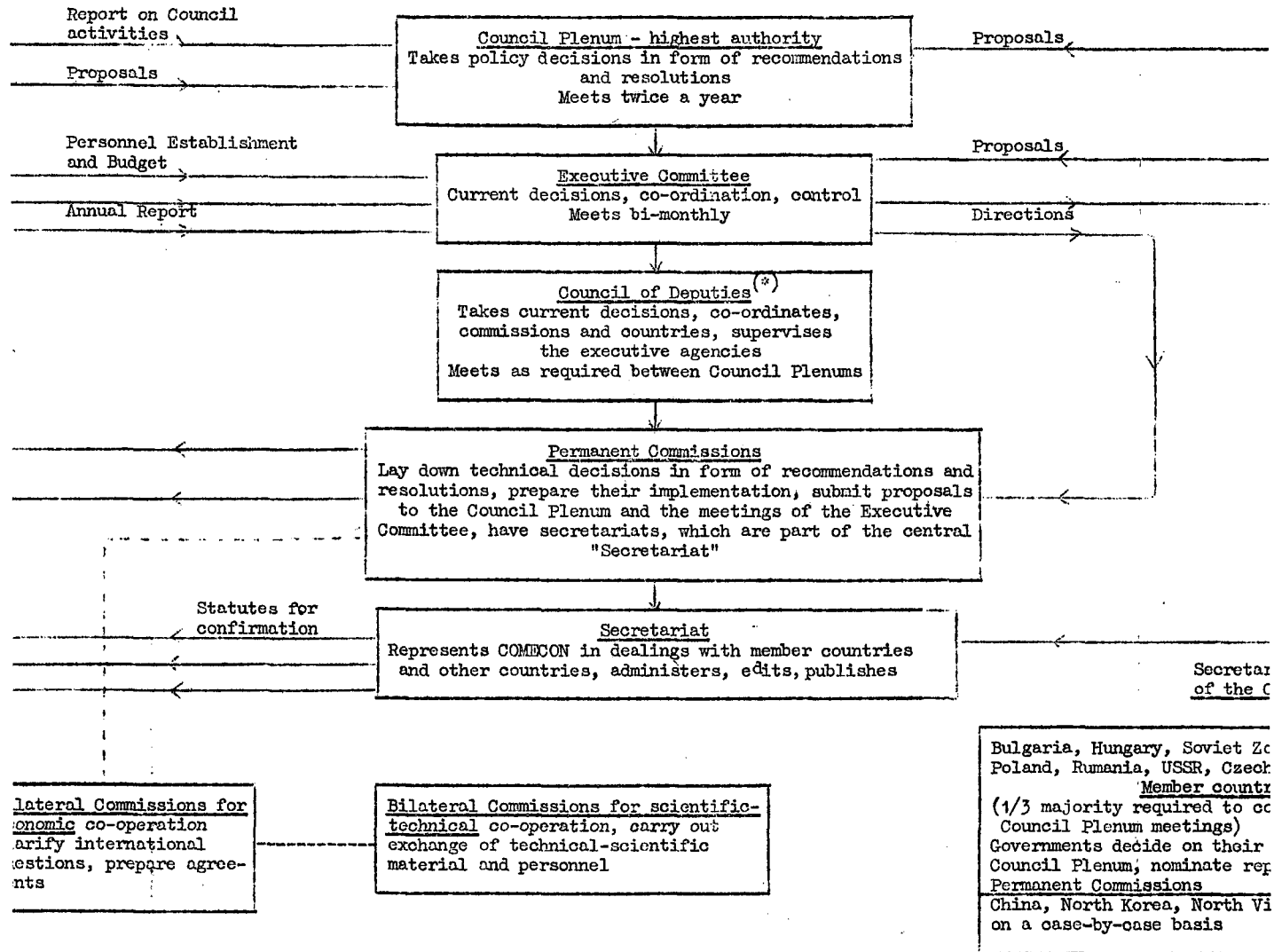
Agencies (Organization, Location)



- (1) Will presumably be replaced by the Executive Committee
- (2) Now being established in accordance with Decision of the XVII Council Plenum of December 1962.

ORGANIZATION OF THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

Agencies (Functions)



Direct agencies  
can usually be replaced by the Executive Committee