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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

RECENT DEVELOPMENTS OF THE COMECON BANK

NEW COMECON CONVERSION SCHEME

Note by the United States Delegation

The COMECON Standing Currency and Financial Committee at its recent session accepted proposals for partial settlement, within the framework of the COMECON Bank, of members' trade imbalances in hard currency. However, the Bank itself, reportedly will not receive any foreign exchange resources of its own and conversions will be on a strictly bilateral basis. Thus, the original Polish proposals which aimed at some multilateralisation of intra-COMECON trade may be distorted in practice into an instrument for enforcing bilateral trade commitments, leaving the COMECON rouble as inconvertible as ever.

2. According to the official communiqué, as published in Nepszabadsag on 19th October, the Standing Foreign Currency and Financial Committee of COMECON, at its seventh session, meeting in Budapest from 15th to 18th October, "accepted proposals concerning the formation and use of part of the basic capital of the International Bank for Economic Co-operation in gold and convertible currency ...".

3. This implied that some action was taken on the earlier Polish proposals that COMECON Bank members:

(a) pay part of their contributions to the Bank's capital in gold or convertible currency; and

(b) be enabled to convert part of any long-term overall surplus with other COMECON members into hard currencies(1).

(1) See AC/89-WP/177 for more detailed information.

4. Finansy SSSR had reported in its August issue that the (sixth) May session of the Currency and Financial Committee had put this subject on the Agenda of its next meeting after agreeing on the desirability in principle of some aspects of these proposals. The participation of the ministers of Finance of all member countries might have set the stage for significant decisions on partial convertibility, which also seemed to be implied by a TASS release on 2nd November asserting that "the adoption of recommendations (at the Committee session) will give member nations a large measure of financial independence when concluding import deals."

5. What actually happened at Budapest, however, was far removed from any meaningful implementation of the Polish proposals, according to a Polish Embassy official in Washington. The Committee apparently accepted the part of the proposals providing for partial conversion of long-term surpluses, but in a strictly bilateral context. No specifics are available on the portion of surpluses to be converted or on the time which must elapse before the country having a surplus can claim conversion. The Polish official expected that details would be worked out bilaterally in the context of the next trade agreement negotiations, which presumably means that the conversion scheme will not go into effect until 1967.

6. It is clear that the surpluses to be converted will be bilateral, rather than involving an overall balance with all COMECON members, as envisaged by the Polish proposals. The main objective of this "convertibility" will be to force countries to honour their trade commitments as laid down in the bilateral agreements. No foreign exchange is likely to change hands as a result of this scheme, since the delinquent partner would undoubtedly take advantage of whatever opportunities for remedial action the bilateral conversion clause provided.

7. Although the original intent of their proposals has been frustrated, the Poles reportedly got some satisfaction from the adoption of the new procedure, because they have experienced difficulties in getting some of their COMECON trade partners to fulfil delivery commitments. Bulgaria and the Soviet-occupied Zone of Germany were specifically mentioned as having frequently been lax in meeting delivery dates.

8. The COMECON rouble is thus not one step closer to convertibility. On the contrary, multilateralism has suffered a setback, since the new scheme actually reinforces bilateral arrangements. The COMECON Bank, with no significant amounts of convertible currency at its disposal, will be in an even poorer position to settle payments imbalances multilaterally. Countries with payment surpluses at least theoretically will be able to extract foreign exchange from delinquent trade partners which they undoubtedly prefer to additional deliveries from some other bloc country derived from a switch transaction.

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