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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY  
USSR AGREEMENTS WITH CEMA PARTNERS ENVISAGE  
SUBSTANTIAL TRADE GROWTH IN 1968

Note by the United States Delegation

SUMMARY STATEMENT

In November and December 1967 the USSR completed its annual round of trade negotiations with all the East European CEMA member countries. The protocols signed for 1968 provide for increases over last year's protocols averaging 12 percent and aggregating \$11 billion. This is the largest increase projected so far in the five-year period 1966-1970. In 1966 a small, unplanned absolute decline occurred, and while 1967 results are not yet available, the protocols for that year provided for trade turnover averaging 7 percent above actual 1966 levels. If the 1967 targets were met and the amounts projected for 1968 can be realized, the overall five-year target of close to \$55 billion for 1966-1970 set in the five-year trade agreements will be within comfortable reach, requiring relatively modest increases of 5 percent each in 1969 and 1970.

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Soviet Foreign Trade with CEMA Countries  
(Million US dollars)

		<u>1966</u>	<u>1967(1)</u>	<u>1968(1)</u>	<u>1970(2)</u>	<u>% of Total Trade in 1966</u>
Bulgaria	- Turnover	1,351	1,440	1,660	1,900	8
	Exports	697	n.a.	n.a.	n.a.	
	Imports	654	n.a.	n.a.	n.a.	
Czechoslovakia	- Turnover	1,813	2,000	2,110	2,500	11
	Exports	894	n.a.	n.a.	n.a.	
	Imports	919	n.a.	n.a.	n.a.	
Soviet Zone of Germany	- Turnover	2,644	2,780	3,110	3,200	16
	Exports	1,407	n.a.	n.a.	n.a.	
	Imports	1,238	n.a.	n.a.	n.a.	
Hungary	- Turnover	1,017	1,100	1,330	1,600	6
	Exports	504	n.a.	n.a.	n.a.	
	Imports	512	n.a.	n.a.	n.a.	
Poland	- Turnover	1,537	1,670	1,940	2,300	9
	Exports	803	n.a.	n.a.	n.a.	
	Imports	733	n.a.	n.a.	n.a.	
Romania	- Turnover	792	810	855	900	5
	Exports	387	n.a.	n.a.	n.a.	
	Imports	405	n.a.	n.a.	n.a.	
Total		<u>9,154</u>	<u>9,800</u>	<u>11,005</u>	<u>12,400</u>	<u>55</u>

(1) Trade protocol targets

(2) Estimate

2. Prospects are that the overall share of the East European Communist countries in Soviet foreign trade will not change substantially by 1970, although for individual countries the gradual downward trend is likely to continue, particularly in the case of the Soviet Occupied Zone of Germany and Romania. With the possible exception of the latter however, the USSR will undoubtedly remain the largest trade partner of the East European countries. A continuation of the rise in the free world's share in East European trade, evident in recent years (see Appendix 1), will more likely be at the expense of East European commerce with Communist countries other than the USSR.

(a) The Soviet Occupied Zone of Germany

3. The first of the 1968 Soviet trade protocols - signed on 16th November - was the one with the Soviet Zone of Germany, the USSR's largest trade partner. It provides for a total turnover of \$3.1 billion, said to be a 10 percent increase over 1967. If realised, this would be the first substantial increase in Soviet Zonal trade since 1963. However, since the five-year trade agreement envisaged only a 15 percent increase over the aggregate for 1961-1965, the target of \$14.3 billion for 1966-1970 is within reach even if the level of trade in the remaining two years does not rise beyond the figure projected for 1968.

4. The Soviet Zone's references to the protocol stressed that Soviet deliveries would increase, whereas they referred to a "stable and continuous" sale of important zonal export goods, implying that Zone's deficit in its trade balance with the USSR is likely to continue. Among the Soviet deliveries to be increased (beyond the provisions of the five-year trade agreement, apparently) were mentioned iron and steel products, iron ore, apatite and lubricants.

5. In line with the general Soviet drive to increase the machinery component of its exports, Soviet machinery deliveries to the Soviet Zone in Germany which made up 8 percent of the Zonal purchases from the USSR in 1966 - are also scheduled to rise. They will include among others aircraft, complete installations for the Eisenhuttenkombinat (iron and steel combine) Ost, two electric and one nuclear power stations, as well as automation equipment described reassuringly as "modern and sure to function." As in the past, machinery will make up the preponderant share of Zonal exports, which will also include consumer goods and chemicals.

(b) Bulgaria

6. The Soviet-Bulgarian protocol was signed on 2nd December and provided for a 15 percent increase in trade turnover to over \$1.6 billion. The 1967 protocol had specified a level of \$1.4 billion. So far the Bulgarian trade appears to be keeping pace with the projected 70 percent increase for 1966-1970, which is to bring aggregate turnover under the five-year trade agreement to \$8 billion. The composition of goods to be exchanged follows the traditional pattern.

7. Foodstuffs comprise the largest share of Bulgarian exports, but the Soviets also continue to provide the major market for Bulgarian machinery, which has accounted for about 30 percent of Bulgarian exports to USSR. The Soviet Union will

remain practically the sole supplier of industrial raw materials, including petroleum products, 3.1 million tons of crude oil, rolled metals, and 800,000 tons of iron ore. Bulgaria will remain the largest CEMA importer of Soviet machinery, which made up 46 percent of Bulgarian imports from the USSR in 1966.

(c) Poland

8. The Soviet-Polish trade protocol for 1968, which was signed on 3rd December, also provides for a substantial rise in turnover, namely by 14 percent over 1967 to a level of \$1.9 billion. Soviet deliveries of a wide range of raw materials, such as oil, iron ore, and various metals, are to be increased, and will again include cotton and grains. Among Polish exports the prominent rôle of ships was noted, as was the growing share of consumer goods. Apparently some difficulties arose over Soviet efforts to sell more machinery, for shortly before the conclusion of the protocol Radio Moscow reported that the volume of imports of Soviet industrial equipment still remained to be "co-ordinated". These difficulties may have been related to Poland's having to cancel part of its intended deliveries of complete "technological lines" for the chemical and wood industries as a result of shifts in the Soviet investment program (Deputy Premier Jaroszewicz in Trybuna Ludu, 30th December, 1967).

9. On the basis of actual and planned figures available, Poland, too, appears to be well on its way toward meeting the projected volume of \$9.4 billion for the current five-year period.

(d) Czechoslovakia

10. The Soviet trade protocol with Czechoslovakia, its second largest European trade partner, was signed on 8th December. The agreement provides for two-way trade of almost \$2.1 billion in 1968, stated to be an 8 percent increase. This comparatively low rate appears to reflect not only the relatively modest expansion for 1966-1970 envisaged by the five-year trade agreement (which calls for an aggregate of \$11 billion, a 30 percent increase over the 1961-1965 figure), but also failure of Soviet-Czech trade to reach the level agreed on for 1967, \$2 billion. Apparently this failure results from a cumulative surplus in the Czech trade balance with the USSR beginning in 1966 which led Czech authorities to slow down exports to the Soviet Union. Another factor may be Czech difficulties in meeting export commitments under both the trade protocol and the petroleum agreement of September 1966. In a comment on the agreement, Foreign Trade Minister Hamouz acknowledged that further "deepening" of economic relations with the USSR would bring complicated problems stemming from "different economic conditions and requirements" of each country.

11. Czechoslovakia is again to export primarily machinery, as well as ships and consumer goods, while the USSR, in addition to the usual range of raw materials, is to supply computers, automobiles, airplanes, agricultural machinery, and consumer goods.

(e) Hungary

12. The Soviet-Hungarian trade protocol, which was concluded on 20th December, envisages a 20 percent growth in two-way trade, the largest projected among the USSR's CEMA trade partners for 1968. Total turnover is to reach \$1.3 billion, compared to about \$1.1 billion called for in 1967, which was apparently realized. Hungarian Foreign Trade Minister Josef Biro at the signing ceremony claimed that the five-year turnover target of \$6.3 billion might be exceeded by as much as 10 percent. He also predicted a rise in the Soviet Union's share in Hungarian foreign trade to 40 percent this year from about 33 percent. Hungarian deliveries will again feature vehicles, rolling stock, ship exports, and electronic equipment. No mention was made of pharmaceuticals, a major Hungarian export item in the past. The USSR is apparently stepping up some of its raw material deliveries beyond the levels planned in the five-year trade agreement. A special oil supply agreement was signed earlier which provides for a 15 percent increase in Soviet deliveries of petroleum, including products, to 3.65 million tons. Larger agricultural imports were also mentioned, including 200,000 tons of feed grains as well as fertilizer. The share of Soviet machinery exports continues to amount to 20 percent of total Soviet exports, while consumer goods deliveries are apparently to rise, especially durables including passenger cars. Among Soviet goods to be purchased for the first time by Hungary are "advanced industrial products" including computers, TU-134 aircraft, as well as furniture and cosmetics.

(f) Romania

13. Not unexpectedly, Romania was the last of the East European CEMA countries to sign (on 30th December) the 1968 trade protocol with the Soviet Union. In his speech at the National Conference of the Romanian Communist Party, Ceausescu charged that "in practice the provisions of long-term economic agreements are not always fully respected" and that the "annual revision of the agreements, especially one side renouncing certain obligations, have negative effects on economic collaboration and co-operation." Although he did not specifically name any country, it was generally assumed that he was referring to the USSR in particular. There were reports, for instance, that the Soviets last October cancelled a contract and refused to accept further deliveries of oil drilling rigs, for which they had been Romania's chief customer. Presumably this would have involved cancellation of a quota included in the 1966-1970 trade agreement.

14. In any event, the signing of the 1968 protocol suggests that whatever major problems have arisen in Soviet-Romanian trade relations seem to have been brought under control - the more so as the current protocol provides for a considerable increase. It specifies a turnover of \$855 million - 8 percent above the figure agreed for 1967. In 1965 and 1966 Soviet-Romanian commerce had registered an absolute decline, from the peak year of 1964 (\$915 million), and the level set for 1967 would have involved a very small increase over 1966.

15. It is worth noting that a Moscow broadcast was at pains to state that the pace of trade growth "somewhat exceeds the volume envisaged by the five-year agreement," \$4.2 billion, which, however, represents an increase of only 8 percent over that reached during 1961-1965. Soviet deliveries in 1968 are scheduled to include raw materials, coke, iron ore and rolled metals, cotton, transport and construction equipment, machine tools and consumer durables; Romania is to supply oil products, chemicals, pipe, ships, machine tools and electro-technical equipment.

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GEOGRAPHIC DISTRIBUTION OF EAST EUROPEAN FOREIGN TRADE  
(in percent of total trade)

	<u>Bulgaria</u>	<u>Czechoslovakia</u>	<u>Soviet Zone of Germany</u>	<u>Hungary</u>	<u>Poland</u>	<u>Romania</u>
Communist Countries						
1960	84	72	75	71	63	73
1963	83	75	79	70	65	69
1966	76	70	73	67	63	60
Of which: USSR						
1960	53	34	43	30	30	40
1963	54	39	49	35	34	42
1966	51	44	42	33	34	35
Free World						
1960	16	28	25	29	37	27
1963	17	25	21	30	35	31
1966	24	30	27	33	37	40