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**COUNTRY**    Poland/Czechoslovakia/Soviet Bloc

**REPORT**

**SUBJECT**    1. Council of Mutual Economic Assistance (CEMA): Pricing Procedure  
                  2. CEMA Session in Prague

**DATE DISTR.**    26 JAN 1960

**NO. PAGES**    1

**REFERENCES**

**DATE OF INFO.**

**PLACE & DATE ACQ.**

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SOURCE EVALUATIONS ARE DEFINITIVE. APPRAISAL OF CONTENT IS TENTATIVE

report containing information on

the Council of Mutual Economic Assistance (CEMA) which is concerned, for the most part, with a review of pricing procedures for intra-Bloc foreign trade. The document contains further: a list of the seats of the various CEMA committees and a special section on the 10th Session of CEMA, held in Prague in December 1958.

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Initial data to the problem

It is to be noted, that the frequency of CEMA sessions grows with importance of its tasks. In the last years two such periods can be stressed - one in 1954, when a new Khrushchev policy started in the direction of a far reaching cooperation of plans, which resulted in a total reorganization of the Council and creation of Technical Commissions, and the second in 1958, after years of lethargy and expectation, created after the uprising in Hungary and changes in Poland.

- 4th session - 25-26 March 1954 - Moscow
- 5th session - 24-25 June 1954 - Moscow
- 6th session - 6-11 December 1955 - Budapest
- 7th session - 18-25th May 1956 in East Berlin
- 8th session - 18-24 June 1957 in Warsaw
- 9th session - 26-30th June 1958 in Bucharest
- 10th session 11-13th December 1958 in Prague

It is to be noted, that in 1958 a Conference of the Chiefs of Communist parties - members of CEMA was held in Moscow in the days 20-23th of May, just before the both annual sessions, and the recommendations to their CEMA delegates have been elaborated just there.

It can be easily judged that <sup>the year</sup> 1958 was crucial in the sense of important economic changes within CEMA. A place for the

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Session is often chosen   the problem which is to be constituted as a principal topic of discussion (~~not~~ It may seem incompatible with the fact that capitals of countries member countries are in turn offering hospitality to the CEMA sessions, but to a certain degree it remains true. The seats of Committees of CEMA are the following:

1. Economy (or International Division of Labor) Created in June 1958 and comprising specialists of (planning) - in principle rotating commission, but in effect - Moscow as a meeting place
2. General coordination of technology and science - in principle rotating commission, but in effect - Moscow as a general meeting place
3. Coordination of industrial equipment (partly incorporated into the machine and partly in foreign trade commissions.)
4. Geological research
5. Energy
6. Coal (Warsaw)
7. Oil and gas (Bucharest)
8. Metallurgy ~~and~~ (ferrous metals) - Moscow
9. Metallurgy (non-ferrous metals) - Budapest
10. Machines (Prague)
11. Chemistry (East Berlin)
12. Food industry and consumption goods (Created December 1958)
13. Construction (Created June 1958) - Berlin East
14. Wood and pulp - Bucharest
15. Agriculture - Sofia

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15. Transport - Created June 1958, Warsaw

16. Foreign trade - Prague

### Problem of Prices

As it's seen, Prague seats two commissions - machines and foreign trade.

That is the <sup>principal</sup> reason, ~~among~~ why the problem of prices was treated in Prague.

In trading with countries of the western trade area, and particularly with the industrialized countries, it is obvious that eastern European or Soviet trading agencies are normally confronted by a price structure to which they must conform and on which their own purchases and sales can generally have little effect. Special terms may sometimes be arranged within bilateral trade agreements, but in general it is to be expected that in trade with the west prices would at any time show little divergence from those of the world market.

Within the eastern trading area, however, there was no obvious reason why the structure of prices in trade among its members should have conformed to that of the world market, once the aim had been accepted of rapid industrialization and economic expansion based on a maximum employment of the resources locally available and unhindered by the

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Somehow narrow view of comparative costs implicit in any free trade system where partners are at different stages of economic development and effective employment. Indeed, a policy of planned and co-ordinated development of the economies of these countries - had such a policy ever been effectively pursued - might well have led to a price structure within the area rather different from that outside, but economically justified by differences in factor proportions. In the event, these countries ~~are~~ adopted a half-way practice which accepts world market prices as some indication of a "fair" price; but prices in bilateral trade agreements are frequently fixed through a process of more or less hard bargaining.

(Note: The Vice-Chairman of the eastern German Council of Ministers, in charge of foreign trade, has stated that "the foreign trade agencies of the German Democratic Republic, in principle do not contract export sales below world market prices and they do not accept imports at higher than the world market prices". Die Einheit No 2, 1957, p. 176). According to a Bulgarian source, world market prices have been used as a basis for determining sale and purchase prices

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Since 1956, but it is stressed that world market 50X1-HUM  
 prices are adjusted to the specific cost level in the  
 selling country or to the possibilities of the  
 purchasing country" (Vneshna Trgovia, No 10, 1956,  
 pp. 6 and 13).

One merit of the system seems to have been  
 a somewhat greater price stability within the eastern  
 trade market than in the outside world, though  
 there have been occasional sharp changes, as in 1952  
 when prices of engineering exports in the eastern trade  
 market seem to have been adjusted to take account  
 of the earlier upward trend in western markets.  
 One of its disadvantages, as has already been noted,  
 was a tendency to make production of finished  
 goods for export within the area appear much more  
 profitable than that of raw materials when all  
 costs, including related social costs of output  
 expansion, were taken into account.

~~Under numbers of order~~  
 A principle was established, since 1957, that  
 a price laid as a foundation of general interregional  
 contracts between countries of CEMA, is to be  
 negotiated each year, at the same parallel

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to the negotiations of ~~un~~ bilateral foreign trade agreements, which fix for a longer period a volume and a structure of foreign trade for contracting parties. These negotiations, as it was agreed upon, should repose upon the average price of the international market, prevalent in the preceding year and considered as fair.

To fulfill this obligation, enterprises of foreign trade, representing the same branch of trading in various ~~to~~ member countries of CEMA were called to collect offers and ~~senders~~ tenders, sent by reliable western enterprises. These offers were to be compared and an average price was established, with a common consent of all representatives of the firms participating. These average prices were in its turn supplied on one side - to delegates from Foreign Trade Ministries, negotiating trade agreements, and on the other side - to ~~the~~ national delegates to CEMA meetings.

There have been, in practice, two elements of negotiations which were to be solved -

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Firstly - these organisations used   to eliminate 50X1-HUM  
all incidence and passing influences, which were  
exercised by monopolies and short-time market  
fluctuations upon the world prices

Secondly - these organisations had have agreed upon  
a splitting the difference between the transport  
costs, embodied in the world price (quoted CIF  
i.e. cost, insurance, freight) and the real effective  
transport costs, borne during fulfillment of concluded  
transactions.

There existed, above it, also a problem of choosing  
a market, where the world price would be prevalent.  
In the contracts (i.e. general and frame contracts,  
signed at the moment of concluding of a trade  
agreement) a following clause has been normally  
inserted, that (quote) "prices are to be fixed on the  
basis of average prices of the world market, prevailing  
and ~~the~~ in course on the principal market for  
this product within the period of time clearly  
defined" (unquote). Discussions on <sup>which</sup> ~~the~~ <sup>price</sup>  
market is to be considered as principal, were  
often left unsolved.

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Very often an agreement we have been concluded on a "horse trade" basis, which the higher and more dogmatic authorities considered as absurd. Moreover, there existed still an opinion among the political leaders that a price should serve, in a way, as a tool for politics, e.g. stimulus for industrialization, for reverting of a flux of foreign exchange from one importer (or exporter) to another etc.

Soviet foreign trade price served as a best illustration of this tendency. We cite them below as a basis for comparisons.

Average price export prices for raw materials and food from the Russia, delivered to the Western market and Eastern (CEMA) market

in dollars per metric ton

Product	Western market	Eastern market
Coal	20.3	22.3
Oil	18.7	24.0
Anthracite	25.3	22.1
Gasoline (airplane)	39.6	48.0
"    (motor)	34.3	40.8
Diesel oil	29.7	36.8
Heavy oils	18.4	16.5

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Product	Western market	Eastern market	50X1-HUM
Manganese (ore)	64.0	52.6	
Chrome ore	41.0	41.9	
Cast iron	67.9	64.0	
Zinc	228.4	273.7	
Tin	2002	2161	
Aluminium	494.7	528.0	
Caustic soda	80.8	73.0	
Soda Ash	39.1	35.8	
Sulphate ammonium	41.4	49.8	
Nitric ammonium	75.4	82.7	
Paper pulp	14.7	14.8	
Paper journal	140.5	141.4	
Cotton	846.8	793.8	
Wheat	75.8	81.2	
Sugar (refined)	151.1	180.4	

All these discrepancies led to a general idea, supported by the Russians: to establish a system of foreign trade prices, obligatory on the CEMA internal market and founded upon the cost of production inside the "Socialist camp". It remained only to establish a criteria, which would enable to compare cost of production in a given country with costs of production in another country, and even to compare relations of competition within the CEMA markets with

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*those resigning on the international market.*

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*(to be followed)*

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continuation of the review of ~~SECRET~~ under CEMA

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Prague session. 10th in sequence , which took place

in december 1958 had following subjects under discussion

- development , specialization and co-operation in production

of plastics, man-made fibres, synthetic rubber (foremostly based

on such raw-materials as utilization of gas from oil-fractioning,

as well as natural gas) and mineral fertilizers. As to fertilizers,

it was decided that fertilizers based on nitrates and phosphorus

will be developed in every country, whereas phosphates- only in those

countries which dispose of sufficient minerals.

- specialization and cooperation in production of different diameters

of rolled iron semi-finished products and tubes of ferrous metals

(iron tubes mostly) Specialization in tubes and rolled iron

was meant to be closely ~~intimately~~ related to specialization in

machine industry.

- construction of a pipeline which will enable transportation

of Russian oil to Hungary, East Germany, Poland and Czechoslovakia.

This was meant in its turn to be closely connected with ~~such~~

planned increased deliveries of Soviet oil into these countries

in the years 1961-1965. These pipelines will be constructed

by each country on its own territory with this country's own

materials and labor, whereas technical side of this construction will

be supervised by Russia.

- in order to create an efficient basis under the future, more

exact synchronization of long-term plans ~~intimately~~, on

the same session long-run foreign trade contracts on deliveries

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to be carried out in the years 1959-1965, have been signed.

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These contract include deliveries of machines&equipment, and raw-materials such as iron-ore, ferrous and non-ferrous metals, coke, fertilizers.

Figures are unfortunately known only for East Germany and Czechoslovakia, which signed contracts with the Soviet Union on spot. As considers other countries and foremostly Poland, signing of major contracts have been postponed till the meeting of chiefs of appropriate foreign trade enterprises.

For the said countries contracts do represent following figures:  
(final deliveries for 1965) (thousands metric tons)

Product	East Germany		Czechoslovakia
	from the Soviet Union	from all sources	From the Soviet Union
coke	1 550	..	..
oil	4 800	5 000	5 250
iron ore	...	..	10 100
cast iron	1 600	1 635	..
rolled steel	1 560	2 000	..
copper	43	..	..
aluminium	85	95	..
phosphates	320	...	118
rubber	..	28	19
pulp	54	122	..
cotton	..	152	60

As far as the problem concern specialization in the machines, committee of experts has established that standardization shall eliminate some gauges and standards and reduce the number of existing types in all CEMA countries in a following way:

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number of types in all

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member countries

before standard. after standard

machine tools for metal cutting	1893	1333
machine tools other than "	1454	1007
<hr/>		
all machine tools for metals	3347	2340

As considers the role of soviet trade in the total export of other CEMA countries, some evaluations have been presented in Prague by the Soviet delegation showing that soviet deliveries play a following role in foreign trade of other countries (in percentage) - evolution show also by the delegation on this table. Percentage established in relation to the total in each group separately

	1950	1957
Machines and equipment	28,6	26,5
Iron ore	65,0	74,7
Cast iron	68,1	84,0
Rolled steel and tubes	48,9	57,5
Non-ferrous metals	26,5	59,4
Oil	47,3	97,1
Oil derivatives	62,6	58,6
Saw materials	12,7	63,1
Cotton	79,3	66,7
Grains	77,9	83,9

Last problem treated was prices. Soviet delegation insisted that prices be included into contracts. This was opposed diplomatically

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by Czechoslovak and East Germany delegation. Poland stood apart. Reason for these attitudes were following:

Soviet Union represents most important raw-material exporter and machine importer in these countries. World tendencies in prices for raw materials in comparison with machines are since 1938 unfavourable to raw material prices which rise rapidly only during short-termed peaks of prosperity cycles and in the rest of the time rise more slowly than machine&equipment prices. So Soviet delegation wanted to gain on terms of trade.

Germany and Czechoslovakia were opposing for the same reasons. They were however tempted, and this weakened their resistance, by the idea of having their machine export assured until 1965 (it is to be noted that these countries encountered certain difficulties in export of machines in the last period). Polish delegation had no attitude. Coal prices seem at the lowest possible level actually it would have to fix contract according to these low prices. On the other hand its machine export of relatively poor quality (except some machine tools for metals and milling cutters) would have assured export markets.

Soviet delegation motivated a proposal, which was accepted, to create in a short period a system of evaluations for foreign trade commodities and products, based not upon the world prices, but comparative costs, with roubles (with gold parity) as basic units. In this way commissions of economists are to be charged with a task to establish relative and comparative costs, increased by uniform profit for all countries (based upon interest rate of about 4-5% plus costs of export i.e. administrative costs of foreign trade apparatus plus an average of transportation costs.

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For the time being contracts have been concluded on the basis of current world prices, which are meant to be frozen for the whole period of contract deliveries. This was called "a price of equilibrium" invented in order to balance the value of bilateral deliveries. Each contracting party has however a right to ask officially to revise prices ~~within~~ during these periods, other country has, in these cases, a right to increase correspondingly prices for their deliveries. Contracting parties have been asked to resort to this clause only in really important cases and if these negotiations remain unsolved, it is the CEMA Foreign Trade Commission which will serve as referee court. A binding clause was however imposed that no country has a right to export or import its product ~~before~~ to countries outside CEMA region without the prior consultation with the partners as to their willingness to accept or supply these deliveries. This concerns almost all principal materials and products, a list of which has been established.

Meaning of these decisions are following-

assure a gain on terms of trade for the Soviet Union  
temper a constant tendency towards supremacy in all foreign trade questions, shown by East Germany and Czechoslovakia  
interwoven foreign exchanges of all CEMA countries in such a way as to ~~xxxxxxxxxx~~ approach as much as possible industries of these countries

leave strings in the hand of Soviet Union for both reasons:

deliveries of vital raw materials assured in a very high percentage from the side of this country

unit value par for future prices based upon its national currency-rouble

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weaken temptations to trade profitably with the west and  
enable to cut off the structure of foreign trade from  
the world market fluctuations  
through uniform system of prices and unified pattern  
of foreign trade, create a bloc with a powerful negotiating  
power in trade with the Common Market and Free Trade Association  
undertake common policies toward trade with underdeveloped  
countries

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