



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

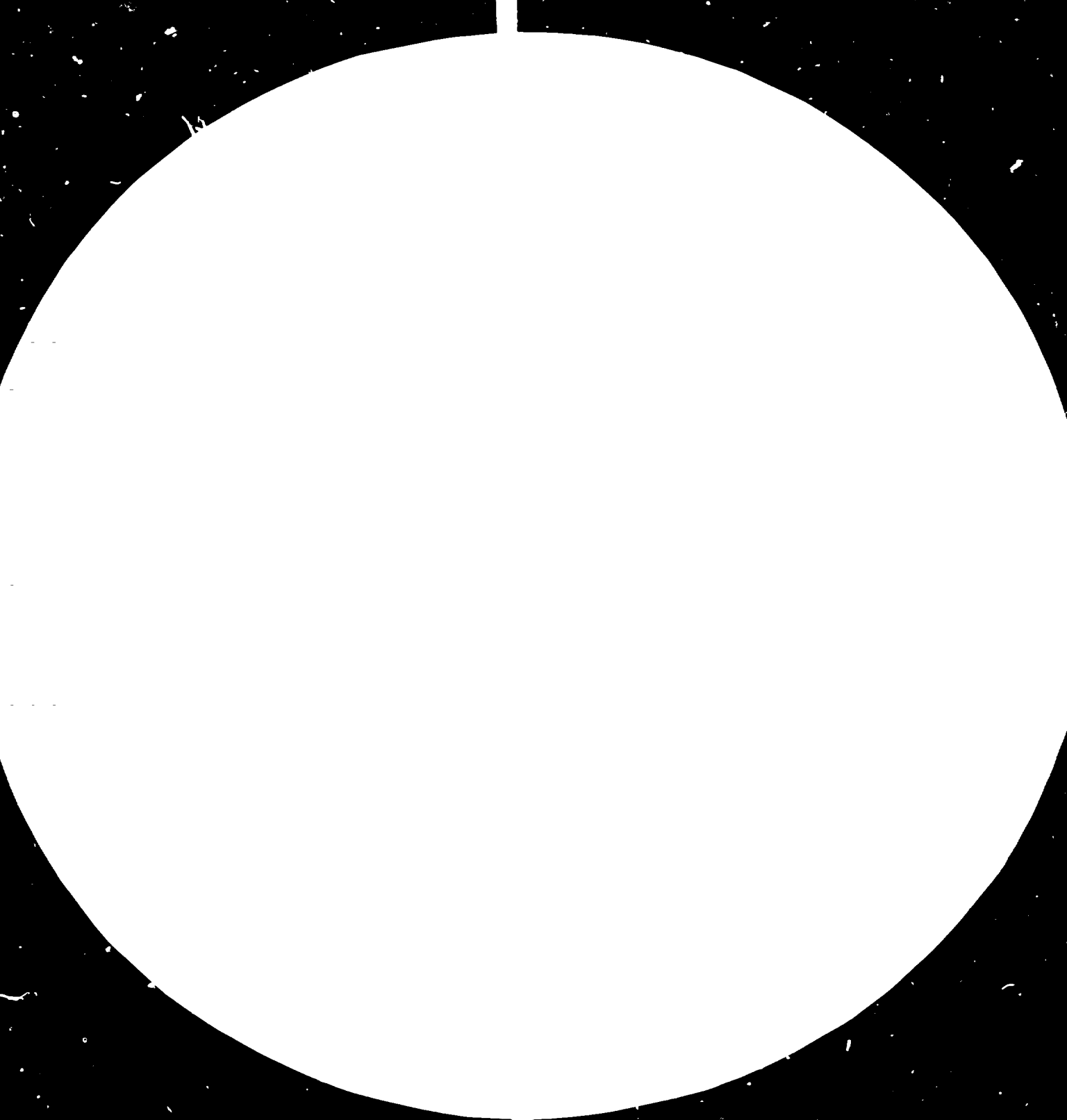
FAIR USE POLICY

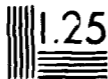
Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org





1.8

2.0



MEASUREMENT OF RESOLUTION TEST TARGET

1.0 1.1 1.25 1.4 1.6 1.8 2.0 2.2 2.5 2.8 3.2 3.6



10314



United Nations Industrial Development Organization

Distr.
LIMITED
ID/WG.337/1
25 February 1981
ENGLISH

Meeting of the Ad Hoc UNCTAD/UNIDO Group
of Experts on Trade and Trade-related
Aspects of Industrial Collaboration
Arrangements

Vienna, Austria, 1 - 12 June 1981

THE DEVELOPMENT OF
EAST-WEST INDUSTRIAL CO-OPERATION *

Prepared by
The Secretariat of the
Economic Commission for Europe

906375

* The paper has been prepared as a special contribution of the Secretariat of the Economic Commission for Europe for the meeting of the Ad Hoc UNCTAD/UNIDO Group of Experts on Trade and Trade-related Aspects of Industrial Collaboration Arrangements.
This document has been reproduced without formal editing.

Table of Contents

	<u>paragraphs</u>
INTRODUCTION	1-5
I. BACKGROUND TO EAST-WEST INDUSTRIAL CO-OPERATION.....	6-53
A. INTRODUCTION.....	6-7
B. TERMINOLOGY AND DEFINITIONS.....	8-10
C. HISTORICAL ANTECEDENTS AND GROWTH FACTORS.....	11-13
D. THE DEVELOPMENT OF EAST-WEST TRADE AND INDUSTRIAL CO-OPERATION.....	14-32
E. THE ROLE OF THE ECE IN EAST-WEST ECONOMIC CO-OPERATION.....	33-53
II. THE RELATIVE IMPORTANCE AND IMPACT OF INDUSTRIAL CO-OPERATION IN EAST-WEST TRADE.....	54-162
A. IMPACT IN QUANTITATIVE TERMS BY TYPE OF CO-OPERATION, INDUSTRIAL SECTOR, AND GEOGRAPHICAL ORIGIN OF PARTNERS.....	57-66
B. QUALITATIVE RESULTS OF ENTERPRISE-TO-ENTERPRISE CO-OPERATION.....	67-73
C. THE ROLE OF TECHNOLOGY TRANSFER AND FINANCING AGREEMENTS, INCLUDING COUNTER-TRADE, IN THE DEVELOPMENT OF EAST-WEST INDUSTRIAL CO-OPERATION.....	74-93
D. ARRANGEMENTS AT THE GOVERNMENTAL LEVEL.....	94-111
E. THE ROLE OF INTERGOVERNMENTAL JOINT COMMISSIONS..	112-125
F. TRADE POLICY AND RELATED MEASURES.....	126-158
G. THE ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES...	159-162
III. RECENT TRENDS IN EAST-WEST INDUSTRIAL CO-OPERATION....	163-189
A. LEGISLATIVE MEASURES.....	154-171
B. TRADE AND CO-OPERATION AGREEMENTS.....	172-176
C. INTERGOVERNMENTAL JOINT COMMISSION	177-181
D. JOINT PROJECTS, TRIPARTITE CO-OPERATION AND THIRD-MARKET CO-OPERATION.....	182-185
E. COUNTER-TRADE.....	186-189

TABLES 1-12

FIGURE

ANNEXES I-II

INTRODUCTION

1. The present account of the development of east-west industrial co-operation since the mid-1960s in the ECE region ^{1/} has been prepared by the ECE secretariat as background information for the Second Meeting of the Ad hoc UNCTAD/UNILo Group of Experts on Trade and Trade-related Aspects of Industrial Collaboration Arrangements. The contribution of the ECE to the Second Meeting has three main purposes:

- (a) To describe and examine arrangements, institutions, practices and experience of east-west industrial co-operation at both inter-governmental and enterprise levels;
- (b) To identify areas and topics drawn from east-west experience with industrial co-operation arrangements that might be examined at the Second Meeting with a view to their possible application to north-south co-operation; and
- (c) To consider some key issues in east-west industrial co-operation which will be dealt with in greater depth in other studies presented to the Second Meeting.

2. The present paper has been structured to provide a discussion framework that corresponds to the foregoing objectives. As such, it comprises three main parts. The first part provides the historical and economic background of east-west industrial co-operation and presents the relevant terminology and concepts. A separate section examines the role of the ECE in the monitoring and encouragement of the various forms of industrial co-operation practised by trading partners within the ECE region.

3. The second part of the paper assesses the relative importance and the impacts of industrial co-operation in east-west trade, both in quantitative and qualitative terms, and examines the key role played by intergovernmental agreements and commissions designed to further this co-operation. The various trade policy measures taken by the ECE member Governments to encourage industrial co-operation are also considered.

4. The third and final part reviews recent trends in east-west industrial co-operation and examines the prospects for the further development of specific types of co-operation, such as the tripartite form, and the implications of current trends in east-west commercial exchanges, such as counter-trade, for the development of industrial co-operation.

5. The entire paper is based on documents prepared by the ECE secretariat, a list of which may be found in Annex II. Copies of all key documents referred to in the text are provided as supplementary material with this paper. The relevant paragraphs included in the text and footnotes should be consulted for additional information to amplify the points made in this paper. Copies of documents that are referred to, but not supplied with this paper, will be made available to all participants in the Second Meeting.

^{1/} All European countries together with Canada and the United States are members of the Economic Commission for Europe.

I. BACKGROUND TO EAST-WEST INDUSTRIAL CO-OPERATION

A. Introduction

6. Economic relationships among ECE countries, particularly those with different economic and social systems, began to develop rapidly in the mid-1960s, at the same time taking diverse forms. East-west trade, the most traditional form of such relationships, began to expand faster than production, leading to new types of co-operation. Over the past fifteen years this co-operation has been fostered through various institutional and trade policy measures, which have led to various initiatives at the enterprise level.

7. Before these measures and initiatives are assessed against the background of growth in east-west trade in section II, the main forms of industrial co-operation practised today are briefly discussed in the present section, and their historical antecedents and the factors responsible for their development are traced. The motivations and factors responsible for the expansion of this co-operation are reviewed with reference to the quantitative data contained in the annexes. The role of the ECE in the monitoring and promotion of east-west industrial co-operation is also reviewed.

B. Terminology and definitions

8. The following working definition of industrial co-operation was adopted by the ECE in 1973:

"Industrial co-operation in an east-west context denotes the economic relationships and activities arising from

- (a) contracts extending over a number of years between partners belonging to different economic systems which go beyond straightforward sale or purchase of goods and services to include a set of complementary or reciprocally matching operations (in production, in the development and transfer of technology, in marketing, etc.); and from
- (b) contracts between such partners which have been identified as industrial co-operation contracts by Governments in bilateral or multilateral agreements." ^{1/}

9. Falling within the scope of this definition are the following forms of industrial co-operation, which are discussed in more detail and illustrated with examples in Part A, Chapter I, of the accompanying ECE study East-West Industrial Co-operation (ECE/TRADE/132), in paragraphs 10-93. A classification of these forms is found in Annex I: this classification is used as the basis for the annual statistical survey of industrial co-operation contracts carried out by the secretariat, which are summarized for the years 1978-1980 in Tables 10-12. The forms include the following general categories, which serve as the basis for the sub-categories discussed in ECE/TRADE/132:

^{1/} United Nations Analytical report on industrial co-operation among ECE countries (E/ECE/844/Rev.1), Geneva 1973, p. 2.

- Licensing with payment in resultant products;
- Supply of complete plants or production lines with payment in resultant products;
- Co-production and specialization;
- Sub-contracting;
- Joint ventures;
- Joint tendering or joint construction or similar projects.

C. Historical antecedents and growth factors

10. East-west trade began to grow in the mid-1950s following a decade of stagnation in the immediate postwar period. The rapid expansion of this trade until the mid-1960s was not accompanied by any significant change in its commodity composition. This trade more or less retained the traditional patterns that characterized postwar trade. 1/

11. The reasons why industrial co-operation began to develop rapidly from the mid-1960s onwards can largely be explained as a pragmatic response to a set of interacting technological and economic forces. Such interactions include, for example, the increase in the average size of enterprises and international technological specialization. When examining the economic factors and motives accounting for the growth of industrial co-operation, they must be considered at both the macro-economic and micro-economic levels. This is particularly true in the east European countries, where the plan always serves to link the objectives at both levels. It is less true of market-economy countries, where enterprises often act independently of Governments' policy aims.

12. At the macro-economic level the following factors have been identified by the ECE as accounting for and resulting in the advantages realized from industrial co-operation: 2/

Technological progress;
Economies of scale and specialization;
Diversification and new trading opportunities;
complementary factor endowments (and differential costs);
Stability in economic relations;
Management techniques;
External economies ('spin-offs');
Payments and Customs facilities.

13. At the micro-economic level the following enterprise motives have been largely responsible for the growth of east-west industrial co-operation:

(1) New trading opportunities and geographical diversification of exports

The expanding and intensified business relationships that usually result from industrial co-operation can help eastern and western enterprises to overcome or at least reduce their unfamiliarity with their reciprocal market opportunities and mechanisms. Together they can also open up new or enlarged markets by entering joint marketing and other market-oriented joint ventures in third countries.

1/ The status of east-west trade in the postwar period is examined in United Nations, Three Decades of the United Nations Economic Commission for Europe (E/ECE/962), New York 1978, 272 pp., especially pp. 31-38.

2/ These factors are examined in detail in the Analytical report on industrial co-operation among ECE countries, pp. 31-38.

(2) Differential factor costs and complementaries

Co-operating enterprises on both sides have found that various combinations of their own and their partners' inputs bring cost-reducing or time-saving advantages, in addition to making it possible for each to call on the other's production capacity at short notice, should demand increase suddenly.

(3) Technical progress and the transfer of technology

The entire innovative cycle, including research and development, up to the commercialization of new products or processes, is frequently speedier and less costly when the relevant resources of co-operating enterprises are set to work jointly. Often partners will agree on specialization in the R and D area, corresponding to their specialization in production.

(4) Stability in the development of economic relations

The medium- and long-term nature of most industrial co-operation agreements facilitates the formulation and implementation of both national and enterprise plans within a stable and predictable framework. For example, if fixed or stable prices are provided for in enterprise-to-enterprise contracts such co-operation becomes counter-inflationary in effect.

(5) Specialization and economies of scale

One of the most frequently-encountered forms of industrial co-operation, co-production or specialization consists in the partners exchanging component parts or sub-assemblies or extending each other's range of finished products by mutual deliveries based on an agreed division of labour. Such specialization makes possible longer production runs and thereby economies of scale. Additional advantages include fuller utilization of installed capacity, improved quality control and fewer interruptions for re-tooling.

(6) External economies and 'spin-offs'

These are two types: the most evident is the impact of industrial co-operation extending to a network of enterprises, usually linked through sub-contracting arrangements with the principal partner to the contract. The second is the opportunity afforded by an industrial co-operation agreement to identify new opportunities for future co-operation, owing to improved flows of information.

(7) Balanced financing and foreign exchange economies

The reciprocally-offsetting exchange of goods and services characteristic of east-west trade makes it possible for trade to expand, despite the scarcity of convertible currencies on the eastern side.

(8) Administrative, Customs and related facilities

Special provisions of industrial co-operation agreements, resulting from reciprocal governmental arrangements, accord privileged access to products resulting from such agreements in respect of border formalities and quota or tariff régimes. In many eastern countries they may benefit from liberal allocations of foreign exchange.

(9) Transport costs

Depending upon the share of transport costs in unit values, the relocation of production closer to markets, or to supplies of productive resources by means of entering into industrial co-operation, can result in substantial advantages for both partners, particularly those in contiguous or nearby countries.

(10) Miscellaneous advantages, specific to particular technologies, markets, enterprises or products

(a) Whereas most of the advantages listed above can be realized by nearly all enterprises engaging in industrial co-operation, there are certain industrial branches whose technologies or markets are particularly suited to this form of relationship. Of decisive importance in this connexion is the degree to which manufacturing processes in the branch can be divided into separate stages. For example, most technologies in the engineering industries lend themselves to sub-division into the manufacture of component parts for both central and decentralized assembly. An outstanding example is vehicle manufacture. In contrast, many metallurgical and chemical technologies cannot be segmented in this way.

(b) Another relevant factor is whether the production process or product is intended for mass production or 'one-off' manufacture. Products manufactured on a mass production basis are probably more suitable for industrial co-operation arrangements than those that are 'tailor-made', since the latter are likely to be subject to more stringent quality control procedures.

(c) The range of industrial co-operation possibilities open to a particular enterprise is to some extent determined by the optimum technological scale of the enterprise in a given country. If it is large in relation to the domestic or even sub-regional market in which it operates, the incentive to penetrate new markets is greater.

(d) The advantages provided by industrial co-operation can be substantial in those industries whose markets are characterized by keen competition, which can be successfully met by either price differentials or product differentiation. The cost advantage of eastern partners is particularly attractive when price competition predominates. If product differentiation is characteristic of the western partner, then its competitive position can be enhanced through industrial co-operation.

* * *

It should be noted that the foregoing catalogue of motives for industrial co-operation does not imply that they are all of equal importance and accessibility to enterprises engaging in such co-operation. A series of field investigations conducted by the ECE secretariat in the early 1970s, in which several western and eastern enterprises involved in industrial co-operation were interviewed, revealed that the western partners usually attached high value to savings in labour costs and to the quality of their partners' production and their reliability. In the case of eastern enterprises the highest value was attached to the opening of new marketing opportunities and the possibility of obtaining technological benefits. ^{1/}

^{1/} The results of this investigation are summarized in the Analytical report on industrial co-operation among ECE countries.

D. The development of east-west trade and industrial co-operation

14. The rapid growth of east-west trade during the 1965-1974 decade was accompanied by a parallel expansion in the number and value of industrial co-operation agreements between eastern and western enterprises. The number of agreements increased from less than 100 in the mid-1960s to over 1,000 by the end of 1973. The growth slackened in 1974 and the first half of 1975 when economic activity in western countries declined as a result of the recession. 1/

The growth of east-west trade since the mid-1960s

15. Until the early 1970s the level of east-west trade was below its potential, given the level of economic development in both regions. As late as 1974 per capita exports from the east to the west amounted to less than US\$60, while from the west to the east they were less than one-half of this amount. 2/ In 1973 the ECE reported that east-west European trade accounted for only 5 per cent of total intra-European trade, which it noted had not changed much since 1955. 3/

16. At the same time, the ECE observed that east-west European trade nonetheless maintained a high rate of growth during the period 1955-1970, which, at an annual average of 10 per cent, had been faster than the growth of world trade. Trade in manufactures had been particularly dynamic during this period, both in intra-European trade and in east-west European trade. Whereas intra-European trade in manufactures amounted to about 11.5 per cent of European manufacturing output in 1973, in 1955 it was only 8.5 per cent.

17. In value terms east-west trade grew very fast between 1965 and 1974, as can be seen in Table 8, which gives changes in the value and in the structure of western exports to and imports from eastern Europe and the Soviet Union for the period 1965-1974. However, western exports to eastern countries increased faster than their imports from the latter - by 19 and 15 per cent per year, respectively. During the early 1970s this growth accelerated, before the economic recession in the west began to have an impact on the region's trade. 4/

18. During this decade east-west trade grew more rapidly than the total trade of the eastern countries, which rose by 12 per cent annually. The share of east-west trade in total eastern exports rose from 24 per cent in 1965-1968 to 28 per cent in 1971-1974 and in total eastern imports from 27 to 33 per cent. Western exports to the east also increased more rapidly than total western exports, their share in total western exports rising from 3.3. to 3.6 per cent. On the other hand, the share of imports from the east in total western imports fell from 3.3 to 3.1 per cent. 5/

1/ United Nations, "Case study on specialization in east-west trade", Economic Bulletin for Europe, Vol. 29, New York 1977, p. 156.

2/ United Nations, "The development of east-west trade and payments, 1965-1974", Economic Bulletin for Europe, Vol. 28, New York 1976, p. 102.

3/ Analytical report on industrial co-operation among ECE countries, p. 27.

4/ Economic Bulletin for Europe, Vol. 28, p. 102.

5/ Ibid., p. 102.

19. It may be seen from Table 8 that the growth of this trade by individual product groups was uneven during the period 1965-1974. Among the more important western exports the most rapid growth occurred for manufactured goods classified as materials (SITC group 6), machinery (group 7) and some manufactured products belonging to groups 5 and 8. Among the larger import groups, fuels (group 3), machinery, and some manufactures from group 8 grew fastest. These differences in product growth rates only moderately affected the structure of east-west trade. 1/

20. Since the level of economic activity in the west has recovered following the recessionary period of the mid-1970s, the volume of east-west trade has not grown in a stable manner, as in earlier years. As can be seen in Table 9 the growth rate of exports and imports for individual years has diverged considerably. The volume of western imports from the eastern countries grew moderately in 1977 and 1978 (by 3 to 4 per cent), declined slightly in 1979 but rose rather fast during January-May 1980, by nearly 10 per cent. In contrast, the volume growth of western exports to eastern countries was buoyant in 1978 and 1979 (10 and 6 per cent respectively) but was very modest during January-June 1980 (less than 2 per cent). 2/

The expansion of industrial co-operation since the mid-1960s

21. It is exceedingly difficult to correlate the rapid increase in industrial co-operation contracts of the specialization and licensing type during the 1965-1974 period with the expansion of east-west trade, mainly because the growing number and magnitude of the contracts did not immediately affect exports and imports within the ECE region to any appreciable extent. In later years, however, the sharp rise in the number of large-scale investment projects financed through compensation deliveries, usually considered as a form of co-operation, did have a considerable impact on the volume and pattern of east-west trade.

22. These agreements, often referred to as large-scale compensation agreements, provide for the supply of western technology and know-how to eastern countries and are financed by western credits; eastern repayments of interest and capital are made, wholly or partly, in the form of counter-deliveries of the 'resultant products' of such investments, or with other - usually related - products. About 220 such basic investment projects have so far been negotiated, with the following distribution by eastern economic sector:

Manufacturing	102
Chemicals	65
Raw materials, agriculture, semi-finished goods	27
Natural resources	11

In terms of the origin of the eastern partner, these agreements were distributed as follows:

Soviet Union	70
Hungary	55
Poland	55
German Democratic Republic	19

1/ Economic Bulletin for Europe, Vol. 28, p. 105.

2/ "East-West trade", Economic Bulletin for Europe, Vol. 32, No. 1.

Each of the other CMEA countries, including Bulgaria, Czechoslovakia and Romania, signed between four and seven such agreements.

23. Although a few of these agreements were signed during the early 1970, most were negotiated during 1974-1976. A few of the resulting projects were completed in the early 1970s and a few more in the mid-1970s. The bulk of them, however, is scheduled to be terminated during 1978-1985. The secretariat estimates that the imports of eastern countries related to these projects will amount to more than \$17 billion and more likely to nearly \$19 billion. Assuming a completion period of 10 years, this would imply an average of nearly \$2 billion of eastern imports from the west annually. 1/

24 Eastern exports of resultant products were relatively small in the early and mid-1970s but will grow in importance in the early 1980s. Other evidence indicates that the contribution of compensation agreements to the total trade turnover of the Soviet Union with western countries rose from 9 per cent in 1976 to 17 per cent in 1973 (i.e. from some \$2.3 to some \$5.2 billion). Almost two-thirds of the latter sum represented western exports to the Soviet Union. 2/

25. If compensation agreements account for the major share of east-west industrial compensation in value terms, then specialization or co-production are the most numerous, even though they account for only an estimated 5 per cent of total eastern exports. (Hungary is an exception in this case, however, since its specialization agreements account for as much as 10 per cent of its foreign trade turnover.)

26. Whereas the number of specialization agreements multiplied rapidly during the early 1970s, when about 1,000 were signed, in recent years the rate of increase has declined sharply, with no more than 300 new agreements or extensions or earlier agreements having been signed. 3/

27. Joint ventures domiciled in eastern countries, another form of industrial co-operation, are seldom used by eastern and western partners, even though legislation for their formation now exists in Bulgaria, Hungary, Poland and Romania. (Yugoslavia was the first country in eastern Europe to promulgate such legislation, which had resulted in the establishment of some 164 joint ventures by 1977.) 4/ Western firms are still hesitant to enter into such undertakings because several important contractual provisions laid down in the legislation of these four countries are not considered attractive. By mid-1980, 14 joint venture agreements had been signed between eastern and western countries; their contribution to east-west trade is marginal. 5/

28. A special form of joint venture, established for marketing purposes, has been increasingly encountered in east-west co-operation. At the end of 1978 it was reported that 270 such east-west joint ventures had been formed in western countries, usually for the purpose of marketing the eastern partner's products in local and third country markets. 6/

1/ "Special study: prices and volumes of east-west trade 1965-1977", Economic Bulletin for Europe, Vol. 31, No. 1, p. 42.

2/ Ibid., p. 43.

3/ Ibid.

4/ TRADE/AC.14/R.2, para. 101.

5/ Economic Bulletin for Europe, Vol. 32, No. 1, p. 51.

6/ TRADE/R.408, paras. 45-47.

29. Another promising form of east-west industrial co-operation is tripartite co-operation, in which western and eastern enterprises join together in the construction and equipping of industrial plants in third countries, which are usually in the developing world. According to a recent study by the UNCTAD secretariat, the number of tripartite projects has been increasing rapidly since 1975 although it is not accurately known how many such projects have been undertaken, even though independent researchers have made estimates of several hundred tripartite agreements. ^{1/}

30. In 1977 the secretariat estimated that 1,200 industrial co-operation contracts of all types had been signed between eastern and western enterprises. In terms of the country of origin of the eastern partner, in the secretariat's sample of contracts for 1980, which amounts to 569 not including those signed with Yugoslavia, Hungary accounted for the largest number, with nearly 36 per cent of the total, while the Soviet Union was in second place, with some 27 per cent. With Poland accounting for 16.3 per cent of the total, these three countries' contracts amount to some 80 per cent of the sample. In value terms, however, the weight of the agreements with the Soviet enterprises is predominant, as mentioned earlier. Table 10 gives the exact distribution for the years 1978-1980.

31. When the western partners are classified by western country of origin, the Federal Republic of Germany accounts for more than one-quarter of the total (25.7 per cent), including those contracts signed with Yugoslav enterprises, followed by Italy, the United States, and France, each of which signed between 10.1 and 13.1 per cent of the total. In other words, these four countries together signed over 60 per cent of the number of contracts covered by the sample.

32. The distribution of the contracts covered by the samples for 1978-1980 are given in Tables 11 and 12 by the industrial branch in which they are found and by the type of the contract, respectively. In 1980, for example, the engineering sector accounted for the largest share of the sample, or nearly 30 per cent of the total, including machine tools and transport equipment, followed by the chemicals industry, with nearly one-quarter. In terms of contract type, co-production based on specialization appears to be the most preferred form, accounting for over one-third of the sample, or 34.3 per cent.

E. The role of the ECE in east-west economic co-operation

33. Since its establishment in 1947, the Economic Commission for Europe has been a centre for region-wide economic co-operation in the framework of the United Nations. It has provided ECE Governments with a systematic, institutionalized opportunity to work together and to seek practical solutions to common problems, not only of a technical but also of a policy nature. ^{2/}

^{1/} Ibid., paras. 48-50.

^{2/} For a detailed treatment of the ECE's first twenty-five years, see United Nations, The Work of the Economic Commission for Europe, 1947-1972, New York 1972, 200 pp. A more up-to-date account can be found in United Nations, Three Decades of the United Nations Economic Commission for Europe (E/ECE/962), New York 1978, 272 pp.

Structure, work programmes and subsidiary bodies

34. The work programmes formulated and adopted by the Commission at its annual plenary sessions are carried out through a network of specialized bodies which cover all main sectors on the economy. The overall structure of the ECE, including its Principal Subsidiary Bodies, is given in figure 1.

35. The Commission meets annually in order to direct, supervise and formulate policy for the activities of the Organization as a whole. These sessions, which are attended by high-level representatives of ECE Governments, review the economic situation in its region; consider the activities of the principal subsidiary bodies; decide on activities to be undertaken in new fields and on the establishment of new subsidiary bodies for this purpose; and consider and approve the short- and long-term programmes of the Organization as a whole.

36. The overall policies and plans for future work formulated at the Commission level are carried out by these bodies, whose methods of work aim at organizing co-operation on specific problems and issues, as narrowly defined as possible. The practical experience of the ECE during its more than three decades of existence has proved their definite advantage of tackling economic problems in concrete terms on the expert level rather than in terms of broad generalities. To some extent this approach de-emphasized the political dimension which is frequently present in the process of co-operation among countries with different economic, social and political systems.

37. Since preparatory work on problems requires particular expertise, the various Committees delegate detailed examination of these problems to their own subsidiary bodies. A broad variety of such bodies has been set up and, upon completion of their specific assignments, is discontinued. These include bodies with continuing tasks, such as sub-committee and working parties, and others with clearly defined shorter-term tasks, such as ad hoc groups of experts, ad hoc meetings and consultations. Problems requiring several meetings are assigned by the Committees to bodies called Groups of Experts.

The ECE and the CSCE

38. The Final Act of the Conference on Security and Co-operation in Europe (CSCE), signed in Helsinki on 1 August 1975, records the wish of the signatory States, which are identical with the membership of the ECE, "to take advantage of the possibilities offered by ... the United Nations Economic Commission for Europe" and their resolve to implement the pertinent provisions "multilaterally also within in the framework of" the ECE. ^{1/}

39. The programme of work of the ECE in the field of industrial co-operation, as adopted in 1978, takes fully into account the pertinent provisions of the Final Act of the CSCE. These include the following activities:

- analysis of short- and long-term trends and prospects for industrial co-operation;
- examination of proposals and recommendations designed to create favourable conditions for industrial co-operation;
- examination of means of improving the provision of information to those concerned on general conditions for the promotion of trade through industrial co-operation and guidance on the preparation of contracts in this field;

^{1/} Three Decades of the United Nations Economic Commission for Europe, p. 9.

- collection and dissemination of information relevant to the promotion of trade through industrial co-operation, in particular laws and regulations, including those relating to foreign exchange, general orientation of national economic plans and programmes as well as programme priorities and economic conditions of the market; and
- elaboration of a Guide for drawing up international contracts between parties associated for the purpose of executing a specific project ('consortia' contracts).

The ECE secretariat

40. The ECE secretariat prepares and services the meetings of the Commission and its subsidiary bodies, carries out research on economic problems of the ECE region, prepares studies and reports requested by ECE bodies, maintains contact with ECE Governments, contributes as required to studies and operational work undertaken by the United Nations on a world-wide scale; co-operates with the secretariats of the other regional commissions and maintains co-operation with the secretariats of intergovernmental organizations within and outside the United Nations family or organizations as well as with non-governmental organizations on problems relating to the Commission's programme of work.

41. The secretariat's work in monitoring, analysing and publicizing the development of industrial co-operation is carried out by the Trade and Technology Division and by other Divisions in their respective fields of competence. The development of new forms of industrial co-operation is the subject of research by the secretariat, with a view to making more widely known the advantages which such arrangements offer to all partners as well as the contribution they make to an improved pattern of specialization in world production and trade. Reports on these trends, particularly when they involve transnational corporations, are prepared by a Joint Unit of the secretariat with the Centre on Transnational Corporations.

ECE activities in the field of industrial co-operation

42. The advantages inherent in the various forms of co-operation for diversifying the commodity composition of east-west trade were recognized as early as 1967, when the Commission made reference to the desirability of promoting such co-operation at its Commemorative Meeting of that year on the occasion of its twentieth anniversary. 1/ Subsequently the Commission adopted a series of resolutions and decisions in which it affirmed the importance it attached to the further intensification of such co-operation for the expansion and diversification of east-west trade; it also initiated a number of activities by the Committee on the Development of Trade and the secretariat to that end.

43. Since 1954 this Committee has been performing a unique function: it is the only intergovernmental agency for region-wide co-operation on trade problems. It serves as a forum for discussion, study, consultation and the preparation of recommendations on measures for the expansion of trade between European countries as well as between those countries and the countries outside Europe.

44. In 1973, in pursuance of the Commission resolution, the Executive Secretary prepared for the Commission's twenty-eight session the Analytical Report on Industrial Co-operation among ECE Countries, referred to earlier. This report contains an analysis of the forms which such industrial co-operation

1/ The Work of the Economic Commission for Europe, 1947-1972, p. 25.

had been taking, and its impact on the composition and rate of growth among ECE countries. It also includes an analysis of the measures which might be taken on a multilateral or bilateral basis for the further encouragement of the development of industrial co-operation.

45. Among the measures taken by the ECE secretariat to further the development of industrial co-operation is the register of intergovernmental agreements, which is maintained at the request of the Committee. At the twenty-sixth session of the Commission, the secretariat was asked to carry out a study of the feasibility of establishing a centre for industrial co-operation, one of the main tasks of which would be to extend the network of enterprises or branches engaging in industrial co-operation by the wider and more systematic dissemination of information on opportunities for such co-operation. The study was issued in 1971 and has been updated and modified for subsequent Committee meetings. The latest version of this proposal is included among the accompanying documentation. 1/

46. Another Committee activity was the preparation of the Guide for drawing up international contracts on industrial co-operation, which was felt to be necessary because the complex forms of such co-operation do not correspond to any of the known forms of commercial contracts. 2/

47. The first Meeting of Experts on Industrial Co-operation was convened by the Committee in 1972 in order to make possible wider multilateral familiarity with the experience acquired by bilateral governmental bodies in the promotion of industrial co-operation and to provide an opportunity for multilateral consideration of problems arising and further facilities that might be introduced. A Second Meeting was held in 1976 to examine special practical measures aimed at creating the best possible conditions for the development of industrial co-operation in the ECE region. A Third Meeting was convened in Plovdiv in June 1980 at the invitation of the Bulgarian Governments at which delegations from ECE member Governments evaluated progress in this field that had been made since the previous meeting some four years earlier.

48. Since the early 1970s the Committee on the Development of Trade has continued its multilateral examination of the development of this type of co-operation. It has also considered proposals for its further expansion by reference to changes in national legislation and other promotional measures introduced in ECE countries. On these occasions the secretariat has presented the results of its research in this field including annual reviews of the statistical distribution of a sample of industrial co-operation contracts by partner countries, branches of industry and contractual forms, which are summarized for the period 1978-1980 in Annex III.

49. It should be noted that the annual secretariat compilation constitutes a sample, which may be equivalent to one-third of the total number of such contracts in force with CMEA member States. The compilation is based on the monitoring of published sources, which are cross-checked and periodically updated.

1/ TRADE/R.418, 7 November 1980, "Proposed establishment of an ECE information centre on industrial co-operation".

2/ ECE/TRADE/124, United Nations publication; sales No. 76.II.E.14: US\$2.00, Geneva, 1976.

50. As the majority of such contracts are not publicly reported for a variety of reasons, there is no way of knowing how many are signed each year. These reasons include a desire by companies not to reveal the extent of their business activities in eastern Europe, generally for competitive reasons; a failure to report subsequent contracts and renewals or extensions once the original contracts has been signed; and the gradual transformation of a licensing agreement into broader forms of co-operation, which may not be reported as a separate co-operation contract.

51. Table 12 disaggregates the annual ECE sample of contracts for the years 1975-1980 by type of contracts, of which there are seven main categories and many sub-categories. These categories and sub-categories are defined in Annex I. Representative samples of each type can be found in the recent ECE report on east-west industrial co-operation (ECE/TRADE/132), in Chapter I of Part A, which summarized recent trends. Tables 4 and 5 (pp. 22-24) of that chapter give a detailed breakdown of the 1978 compilation in terms of individual eastern countries' shares by type of contract and industry.

52. At the twenty-sixth session of the Committee on the Development of Trade the secretariat submitted several proposals for strengthening and improving the financing of east-west industrial co-operation and projects of common interest by means of the establishment of new ad hoc institutions such as an European Industrial Co-operation Fund and a Bank for Industrial Co-operation. ^{1/} The Committee decided that further research into the technical aspects of the proposals should be undertaken in the broader context of studies of means of overcoming obstacles to the development of industrial co-operation.

53. The next section summarizes the results of research conducted by the secretariat during the past decades into various essential aspects of the development of industrial co-operation, including the role of importance of long-term intergovernmental agreements, intergovernmental joint commissions, counter-trade arrangements, and trade policy measures in furthering such co-operation.

II. THE RELATIVE IMPORTANCE AND IMPACT OF INDUSTRIAL CO-OPERATION IN EAST-WEST TRADE

54. The rapid development of east-west industrial co-operation during the past 15 years can be attributed to several main factors, which operate at both the institutional and enterprise levels. Most crucial are the technology and financing arrangements established between eastern and western partners in the framework of their co-operation contracts.

55. The fact that these enterprises have decided to co-operate in the first place can be ascribed to the favourable climate for such co-operation that has been created through institutional arrangements at the governmental level. These arrangements include various types of long-term agreements, whose provisions are translated into effective work programmes by intergovernmental commissions between various eastern and western countries. These agreements also contain provisions that help to protect enterprise interests. Parallel efforts at the trade policy level have further enhanced the trading climate between partner countries in the form of trade policy measures designed to improve the access of products resulting from industrial co-operation to the partners' respective markets.

^{1/} TRADE/R.355.

56. Before the relative importance of these institutional and trade policy measures is assessed in terms of their contribution to the development of industrial co-operation, a brief comment on the quantitative impact of co-operation on various industrial sectors in east-west trade will help set the stage, as will a summary evaluation of qualitative results of co-operation at the enterprise level. It is against the background of these quantitative and qualitative remarks that the broader institutional and trade policy measures are assessed.

A. Impact in quantitative terms by type of co-operation, industrial sector, and geographical origin of partners

57. Although the development of co-operation for implementation of large-scale projects is a fairly recent phenomenon in east-west trade, dating from the late 1960s, it has advanced very rapidly in key sectors such as coal, oil, basic chemicals and ferrous and non-ferrous metals. As mentioned in the preceding section, although this type of co-operation accounts for a relatively small percentage of industrial co-operation contracts, its share in east-west trade is much greater, owing to the magnitude of the projects carried out.

58. Although the available data for the impact of this type of co-operation on east-west trade are neither completely uniform, owing to the diversity of the equipment and services supplied, nor comparable in time, in view of cost inflation, they nevertheless furnish a guide in orders of magnitude. They also permit an assessment of the relative importance of the various sectors and of the share of the countries concerned both in the supply of equipment and in its utilization.

59. The total value of signed contracts given in Table 1 represents the total sales of the western partners during the period 1968-1978. It includes the value of the plant, equipment and industrial installations necessary for the implementation of large-scale projects, and includes related supplies and services provided under the same contracts.

60. Table 2A and 2B give the distribution of these deliveries in terms of supplier and recipient countries. For supplying countries, namely the Federal Republic of Germany, France, Italy and Japan account for 83.5 per cent (in value terms) of the contracts signed. About 94 per cent of the deliveries are to two countries - Poland and the USSR, including 82.7 per cent to the latter. These contracts have a very marked impact on the development of exports of capital goods of eastern countries, particularly the USSR, since they are very largely composed of products coming under section code 7 (machinery and transport equipment) of the Standard International Trade Classification (SITC).

61. The impact of these deliveries depend on the value of the contract and on the timing of the deliveries; equipment supplied under contracts signed during the period 1968-1978 probably started in 1970 and will probably be completed around 1983-1984, with the final deliveries made under contracts signed in 1977-1978.

62. Table 3 give the secretariat's assessment of what the impact of such deliveries might have been in 1977, a year in which deliveries for major projects were probably higher in value terms than at any other time in the period under consideration, according to three scenarios of different sets of assumptions:

- The value of deliveries of the host country represents 5 per cent of the total value of contracts signed in the period 1962-1978 (lowest assumption);
- This value is 10 per cent (intermediate assumption);
- This value is 15 per cent (highest assumption).

63. The figures in Table 3 represent the percentages of trade (exports or imports) corresponding to these three scenarios. They were obtained by dividing the value of deliveries assumed in each case by the value of exports or imports, appropriate. It should be noted that this type of trade stimulus is all the more important in that it is accompanied, once deliveries have been completed, by a return flow of products in the form of raw materials, fuels or intermediate products, such as basic chemicals. 1/

64. Assessing the relative impact of other types of industrial co-operation on the partners' trade is more problematical in that the extreme diversity of forms, ranging from sub-contracting or licensing with product by-back to co-production based on specialization, may be accompanied by joint R and D and marketing arrangements, whose trade-creating effects are difficult to quantify. In the case of certain east European countries, the trade-creating effects of specialization agreements have been measured with some accuracy. For example, Hungarian exports to western countries within the framework of co-operation of all kinds, of which the majority are of the co-production type based on specialization, reached 7 to 8 per cent of the country's total exports to western countries and increased by 11 per cent in 1979, whereas corresponding Hungarian imports increased by 22 per cent. 2/

65. The rapid increase in east-west marketing co-operation in recent years has had a significant impact on the development of imports and exports of the partners' respective countries, according to data recently compiled by the secretariat. Table 4 below indicates that a large portion of the export trade of east European countries is now conducted through joint marketing companies located in the western countries. According to one Hungarian source, the share of exports handled by such companies is approximately 25 to 50 per cent in the light industry sector but only 8.5 per cent in the engineering sector. 3/

66. When the secretariat has examined the various forms of industrial co-operation in terms of their total impact in individual industry sectors in east-west trade, available data reveal that both the immediate and long-term effects have been the most significant when co-operation is of the co-production and specialization type in those industries characterized by a high degree of modernization. The impact of this type of co-operation, and other forms as well, has recently been assessed by the secretariat for two industrial sectors in east-west trade which are currently undergoing rapid modernization, particularly in eastern Europe, including the automotive and chemicals industries. Although the assessment has been carried out largely in qualitative terms, certain data reinforce the conclusion that the export capacities of both sectors have been considerably enhanced by industrial co-operation arrangements with western firms. 4/

1/ TRADE/R.408, paras. 5-17.

2/ "East-West Trade", Economic Bulletin for Europe, Vol. 32, No.1, p. 51 of the pre-publication text.

3/ TRADE/R.408, para. 57.

4/ TRADE/R.785/Add.1 and TRADE/R.417 (both relating to the automotive sector); TRADE/R.409 and TRADE/R.410 (both relating to the chemicals sector).

B. Qualitative results of enterprise-to-enterprise co-operation

67. A vast network of inter-enterprise relations has evolved during the past 15 years as a result of east-west industrial co-operation. These relations are to be found in virtually all areas of the partners' operations, including planning and forecasting, product development, layout and management of production facilities, finance, quality assurance, equipment procurement, training, and marketing. to name a few of the key areas. Actually, the extent of co-operation under each of these and related headings is much broader than is implied. Marketing, for example, covers product warranties, trademark policies, spares and service facilities, pricing, shipment and joint ventures for sales purposes.

68. Instead of summarizing the qualitative results obtained by both eastern and western enterprises, reference is made to the recent ECE study East-West Industrial Co-operation (ECE/TRADE/132) which contains a series of case-histories of enterprise experience with various forms of co-operation. Chapter I, of Part B, of this report (pp. 21-67) presents the results of an inquiry made by the secretariat involving 51 tripartite co-operation contracts between a total of 6 eastern enterprises and 67 western firms. A large share of the projects examined developed from earlier bilateral industrial co-operation.

69. Besides reviewing the legal aspects of these 51 contracts, such as the division of work, types of contract, and the obligations of the parties, the study also examines the motives of the enterprises interviewed, marketing problems and technology transfer and financing arrangements. The six eastern enterprise interviewed evaluated their experience with this form of co-operation in terms that reflect the diversity of their experience. In general the enterprises consider tripartite co-operation to produce positive results, besides providing them with additional export opportunities. (See para. 72.) Nevertheless, the study concludes that "The general consensus of opinion among enterprise officials interviewed was that tripartite industrial co-operation had achieved modest results and that its role in international economic relations was still not a major one". (Para. 70.)

70. The experience of Yugoslav enterprises with industrial co-operation, also obtained during a field inquiry by the secretariat, is summarized in Chapter II of Part B of the report (pp. 68-84). In this case interviews were conducted with nine Yugoslav enterprises which have co-operation contracts of five basic types in force with a total of 40 western firms, of which 16 are large and medium-sized transnational corporations. According to the conclusion of this study, the contracts in question "have undoubtedly helped the Yugoslav partners interviewed to obtain access to modern technology, to upgrade their manufacturing facilities, to acquire necessary foreign references and thus, as a result, to increase their foreign trade" (para. 120).

71. The experience of western enterprises with industrial co-operation is examined in separate sections: Chapter III of Part B (pp. 85-102) presents five detailed case-studies of five western firms' experience with individual co-operation projects; Chapter IV of Part B (pp. 103-122) assesses the experience of 15 western firms from the machine-tool industry, which together have a total of 18 co-operation agreements with enterprises located in five CMEA countries. The five case-histories follow the same basic format, which for each set of partners has the same headings: motives; contents of the agreement, including payment arrangements, marketing and trademark arrangements, training and technical assistance, quality control; and mutual information (including provisions for joint R and D); preparation and implementation of the agreement; and assessment of the project.

72. In terms of the results obtained by each of the western firms from the project examined in the case-study, three of the contracts were of comparatively recent origin so the projects had not yet become fully operational. The two other contracts had produced the results expected by the western firm. These included increased penetration of eastern markets through sub-contracting arrangements and a larger share of the local market through a joint venture. The subsidiary benefits expected by the western firm had, however, been largely realized, including the opening of new markets for their technology and equipment, the development of new sources of products for their western marketing networks and more favourable access to other east European markets.

73. The survey of 15 western firms from the machine-tool sector disclosed that the co-operation agreements signed by nine of these firms were considered by them to be an important part of their trade with the partner countries, for three principal reasons:

- the machines manufactured under licence in eastern Europe have permitted the western firms to retain their market shares, besides opening new markets for western-made parts and components used in the licensed equipment;
- the eastern partner now serves as the exclusive source for one or more of their models; and
- the licences sold represent an additional source of income.

C. The role of technology transfer and financing arrangements, including counter-trade, in the development of east-west industrial co-operation

74. The two most important elements of any industrial co-operation agreement - and the most crucial to its ultimate success - are its contractual arrangements for technology transfer and financing deliveries of equipment and components from west to east. In recent years there has been a marked trend in the reliance on various forms of counter-trade as a means of financing industrial co-operation projects, particularly deliveries of large-scale turnkey plants.

Technology transfer arrangements

75. Before assessing the relative importance of various types of technology transfer arrangements in specific types of co-operation, the principal elements of technology transfer, as they apply to industrial co-operation, are examined. 1/ Transfer of technology may be defined as the process whereby a technology, consisting of either equipment, a manufacturing process or a method of organization and management, which has been developed and perhaps applied by an enterprise, is used for production purposes by another enterprise.

76. The transfer process involves carrying out several closely-linked operations which can be divided into three major categories:

- transfer of information,
- transfer of knowledge and technical know-how, and
- transfer of the means of production.

1/ This section summarizes the ECE study "Industrial co-operation and transfer of technology between ECE member countries - Analysis of recent developments" (TRADE/AC.3/R.9).

77. An analysis of available data discloses that the performance of these operations is an extremely long process, which may extend over several years in the case of technology transfer made between countries with different economic and social systems. According to a Polish study published in 1973, the period required to bring a 10-year licence into use is, on average, 6 years. These periods, which are, on average, 2 years in the case of a 4-year licence, are often exceeded in the case of operations involved in the establishment of large industrial works.

78. The modalities adopted for transfer of technology in industrial co-operation projects are inevitably dictated by contractual provisions agreed upon by the partners, which vary considerably from one type of co-operation agreement to another. The technology transfer element in each form of co-operation generally has unique characteristics, as can be seen in the following brief descriptions: 1/

(a) Granting of licences

79. Except in the case of 'disembodied' licences, which involve only the grant of a patent and the provision of technical assistance, the granting of a licence often includes clauses that provide for close co-operation between the parties in the marketing of the products under the licence. Whereas relatively simple when the agreements merely defines the markets, the modalities of co-operation become more complicated when, as in the case of industrial co-operation contracts, payment for the licence is made wholly or partly in the products manufactured or when the royalties, instead of being a fixed figure, are calculated as a percentage of the sales by the recipient of the technology.

(b) Supply of complete plants and production lines against payment in resultant products

80. The supplier generally undertakes not only to deliver the machinery and to assemble it, but also to provide plans for the work to be carried out by the purchaser, to train the latter's staff and to help in the start-up and early stages of operations of the plant. The co-operation often extends beyond this phase and includes the exchange of technical data, joint research to improve products and manufacturing processes, and joint marketing.

(c) Co-production and specialization

81. Co-operation of this type covers a wide variety of operations, from the most simple to the most complex. Production co-operation accounts for an appreciable proportion of eastern exports of industrial products. In its simplest form the eastern partner manufactures according to specifications furnished by the supplier of technology, which may also provide some machinery. Sometimes called sub-contracting, this type of co-operation can take place under either short- or long-term agreements and is usually a precursor of more complex forms of production co-operation.

1/ A detailed description of transfer mechanisms commonly used in industrial co-operation in the chemicals sector can be found in TRADE/R.409, paras. 97-120.

82. Co-production and specialization consists of the partners jointly determining the manufacturing site of the components of a final product, drawing up specifications for these components and distributing their production among the co-operating enterprises, each partner periodically specifying the volume and nature of its needs in components. Under such arrangements the partners can specialize in and share the manufacture of components and finished products so as to produce in larger series, facilitate supply of materials and acquire greater skill in the manufacture of the range of products assigned to each. Experience has shown that the conclusion of agreements with a high degree of specialization is a long-term process which is often difficult to carry out.

(d) Joint projects in third countries

83. This form of co-operation calls for a very high degree of co-ordination between the partners, especially in combining various technical elements, including machinery and equipment, industrial processes, management methods, etc. which often encounter technical problems in harmonizing the transfer of these elements to third countries. The co-operation methods which lead to the formulation of a fully integrated project are outlined in the ECE Guide on drawing up international contracts on industrial co-operation (ECE/TRADE/124, paras. 32 and 33).

84. Each of the five case-histories of western enterprises experienced in specific industrial co-operation projects, contained in ECE/TRADE 132, pp. 85-102, covers the essential elements of the firms' technology transfer arrangements, including quality control procedures, trademark usage, exchange of information (including provisions for joint R and D and training provisions). The cases cover licensing with payment in resultant products, supply of plant and equipment with payment in resultant products, sub-contracting, co-operation in production and marketing, and a joint venture.

Financing arrangements, including counter-trade

85. Many types of industrial co-operation were originally conceived to assist the eastern partner earn foreign exchange through the enhanced capabilities for exporting to western markets. Deliveries of licences, know-how, components and machinery by the western partner were generally against payment in convertible currency, except in the case of plant and equipment supplied under buy-back arrangements for the resultant products. The western partner generally had the responsibility of arranging supplier or buyer credits and attending to the various procedures characteristic of commercial finance. 1/

86. As the scale of industrial co-operation projects increased during the latter part of the 1970s, and the supply of plants and equipment against payment in resultant products became the predominant form of east-west co-operation, partner enterprises increasingly turned to various forms of counter-trade as means of financing their projects. 2/

1/ Financing arrangements for industrial co-operation projects in the late 1960s and early 1970s are outlined in the Analytical report on industrial co-operation among ECE countries, Annex II, pp. 100-108.

2/ Two recent ECE studies, both supplied as accompanying material, assess the scope of counter-trade in east-west trade and co-operation and classify the various forms practiced. See "Counter-trade practices in the ECE region" (TRADE/R.385); and "A quantitative survey of the development of east-west industrial co-operation" (TRADE/R.408).

37. The accompanying set of tables present eastern and western terminology common used to describe the main types of counter-trade transactions (Table 5), and the main categories of transactions covered by the concept of counter-trade (Table 6). An attempt has been made to relate the various forms of industrial co-operation to the types of counter-trade transactions listed in Table 7; the resulting correlations are examined in greater depth in TRADE/R.408.

88. Sections II and III of the ECE document TRADE/R.385 review the policies and institutions relating to counter-trade in both socialist and western countries, at both the governmental and enterprise levels. How these policies and institutions impinge on a particular industrial sector, in this case the chemicals industry in east-west trade, are examined in TRADE/R.410, which reviews the corporate experience of major western transnational corporations in this sector.

89. Both documents present the major problems encountered in counter-trade, from both eastern and western sides. For example, it is recognized in eastern countries that counter-trade arrangements not directly linked to industrial co-operation may :

- have an adverse effect on the price offers made by exporters and importers
- lessen the interest taken by foreign trade enterprises in market exploration and marketing, and even create difficulties for the marketing channels already established in those markets;
- lessen the attraction of trading with eastern countries for certain western enterprises; and
- encourage foreign undertakings to pass off purchases they would have made in any case under the heading 'counter-trade'. ^{1/}

90. One of the chief means adopted by eastern and western trading partners to overcome the foregoing disadvantages inherent in the commercial type of counter-trade has been the development of a comprehensive co-production arrangement in which the value of the western deliveries equals that of eastern counter-deliveries, with financial flows cancelling each other in both directions. Co-production agreements of this type account for a substantial share of east-west trade conducted in such sectors as automotive manufacture, machine tools and other branches of the engineering industry. ^{2/}

91. Although the buy-back form of counter-trade has been usually encountered in the supply of major plants for basic industries, including raw materials processing, it occurs with increasing frequency in the manufacturing sector, particularly in the framework of industrial co-operation. Two recent ECE studies on this aspect of industrial co-operation have examined buy-back and other forms of counter-trade in the automotive and chemicals sectors. ^{3/}

^{1/} TRADE/R.385, para. 91.

^{2/} For a detailed analysis of co-production and specialization arrangement in the machine tool sector, see Chapter IV of Part B, ECE/TRADE/132, which examines both the technology transfer and financing aspects of inter-enterprise contracts.

^{3/} TRADE/R.385/Add.1 and TRADE/R.410.

92. Several major problems are encountered by western enterprises in buy-back arrangements that are common to these two sectors. These include the obstacles that confront the western enterprises in trying to dispose of many of the products they are obliged to take in payment, the consequences of sub-standard quality and late deliveries of such products and integrating their own production facilities with those of the eastern partner so as to transform buy-back obligations into long-term sourcing arrangements. How some western firms have successfully contended with these and other problems resulting from buy-back obligations is recounted in the two studies cited.

93. In brief, western firms with a long experience of counter-trade increasingly find it possible to make flexible buy-back arrangements, under which they are not obliged to purchase only the products resulting from their technology or equipment but related and even unrelated products as well. 1/ Some firms have found it possible to transform their buy-back obligations into sub-contracting arrangements, which gives them wider scope for establishing quality standards and delivery schedules. In the chemicals sector, by comparison western suppliers of plant, equipment and technology regularly include the right to dispose of their buy-back obligations to third parties or even on third markets through intermediaries. Some arrangements give the western supplier the right to substitute related products for buy-back obligations and still dispose of them through third parties, which considerably enhances the position of the western firm. 2/

D. Arrangements at the governmental level

94. Apart from trade policy and related measures, discussed in the next section, governmental arrangements are probably the most decisive factor in establishing a sound framework for the development of industrial co-operation at the enterprise level. Such arrangements fall into two main categories: long-term arrangements of various types and institutional approaches. In view of the importance of these instruments, each of their various aspects is examined closely below.

Long-term agreements on economic co-operation and trade

95. Beginning in the early 1970s, east-west trade in general and industrial co-operation in particular have both experienced rapid development. The signing of global and long-term trade agreements in connexion with the expansion of this trade has contributed to greater stability in trade between contracting states. 3/

(a) Historical development

96. The first long-term agreements concluded between western and eastern countries in late 1950s and early 1960s were essentially long-term trade agreements accompanied by a smaller number of agreements on economic co-operation. Whereas the co-operation agreements were of unspecified duration, the trade agreements were concluded for periods of three- to five-years. Some of these trade agreements were subsequently supplemented by separate scientific and technical co-operation agreements intended to promote co-operation in research and development.

1/ Examples from the automotive sector are given in paras. 127-130 of TRADE/R.385/Add.1.

2/ These and other approaches to resolving problems encountered in buy-back arrangements in the chemicals sector are related in paras. 94-104 of TRADE/R.410.

3/ TRADE/R.351, para. 47.

97. Towards the end of 1960s, clauses relating to industrial co-operation became increasingly common in trade agreements, the duration of which was generally five years. In the early 1970s, largely as a consequence of the development of industrial co-operation, agreements of a new type appeared. These agreements, which were no longer open-ended but covered five-to-ten year periods, covered economic, industrial, scientific and technical co-operation. They aroused growing interest among ECE member States, which concluded an increasing number of such agreements.

98. A more recent stage has been the conclusion since 1975 of several agreements on economic, industrial, scientific and technical co-operation in the form of co-operation programme agreements. These agreements embody detailed lists of industrial and economic sectors which offer the greatest potential for co-operation. Such agreements are important because they provide businessmen with more detailed information on the intentions of their Governments 1/

(b) Motivations of governments in respect of long-term agreements

99. The tendency for the ECE member States to show a growing preference for long-term agreements of the type increasingly signed since the early 1970s, and especially since 1975, may be attributed to two factors: first, the rapid development of such co-operation in east-west relations during recent years; and second, the fact that the bilateral trade agreements concluded with the States that are members of the European Economic Community expired on 31 December 1974; as from 1 January the Community as such has had a sole competence for conducting common trade policy. Long-term co-operation agreements constitute a new form of contractual framework for co-operation between East and West. 2/

(c) Forms of co-operation covered by agreements

100. All east-west industrial co-operation agreements of the intergovernmental type concluded since 1974 include provisions that define the forms of co-operation which are of particular interest to the contracting States. These forms generally include the following:

- The construction of new industrial installations which meet mutual economic interests and the extension and modernization of existing industrial enterprises;
- The joint use of production capacity;
- The exchange of know-how, documentation and technical information, the granting of patents and licences, the application and improvement of technical processes, the communication of joint research results and the training of cadres, including the exchange of specialists and trainees and the joint organization of expert consultations and conferences;
- The establishment of joint production and marketing enterprises in one of the contracting countries and, on some agreements, in third countries;

1/ TRADE/R.351, para. 5.

2/ TRADE/R.351, para. 6.

- Co-production and/or joint marketing in the markets of the contracting countries or of third countries; and
- The organization of fairs, exhibitions and symposia in the territory of two contracting States with a view to promoting a better mutual understanding of the opportunities offered for the development of co-operation.

101. Some agreements also contain a clause stipulating that the Governments will support and facilitate the continuous development of co-operation between the enterprises and organizations of the two countries, in particular with a view to establishing new production enterprises and to marketing the products of these enterprises jointly in the two countries concerned and in other markets. Other provisions may take form of a commitment under which the two parties agree to encourage and promote the conclusion of long-term agreements between the participants, with a view to developing the production capacity of the two countries. 1/

(d) Contents of trade and industrial co-operation agreements

102. Whereas trade agreements are more concerned with trade policy objectives and economic relations between the contracting States, industrial co-operation agreements generally contain provisions for the implementation of co-operation promoting measures.

103. Earlier long-term trade agreements were limited to relatively general provisions relating to the trade policy objectives to be attained; more recent agreements make reference to questions concerning the economic relations between the contracting States. They often contain a provision emphasizing the need to diversify the structure of trade in both directions by increasing exports of traditional as well as new products. In this respect the provisions vary considerably. In some cases the agreements emphasize the need to promote reciprocal trade in industrial products, particularly machinery and equipment. More frequently, the agreements indicate the desire of the east European country to increase the proportion of machinery and equipment in its total exports to its west European partner. 2/

104. Industrial co-operation agreements, on the other hand, include a declaration of intent by the contracting parties to (i) develop, facilitate and diversify their relations and co-operation to the fullest extent possible in a spirit of equality and mutual benefit, in particular in order to permit the maximum use of the possibilities deriving from their economies; (ii) contribute to the conclusion and implementation of contracts and agreements relating to co-operation projects; and (iii) for this purpose, to create, to the extent of their legislative possibilities, the necessary facilities for the implementation of co-operation. 3/

105. The two contracting States increasingly undertake to facilitate initiative aimed at the conclusion of contracts between the enterprises, companies and economic organizations involved in the co-operation projects. Such provisions

1/ TRADE/R.351, para. 24.

2/ TRADE/R.351, para. 9.

3/ TRADE/R.351, para. 11.

also are designed to assist in the execution of such contracts within the context of the agreement in question. Nevertheless, some agreements emphasize that the decision to participate in co-operation projects and the contractual benefits deriving from their implementation shall be the responsibility of the participants. 1/

106. Payments provisions embodied in these agreements generally stipulate that the payments resulting from the operations carried out under the agreement shall be effected in the currency of the western partner or in freely convertible currencies of other countries, in accordance with the legislation in force in each contracting State. In some cases, payments are to be made in accordance with an agreement existing between the national banks of the two parties. 2/ Many recent agreements provide that payments resulting from co-operation contracts may be effected either through the export of goods which are to be produced as a result of the implementation of the co-operation projects, or, alternatively by means of other goods which are of interest to the participants. 3/

107. The contracting parties generally undertake to accord the most favourable financing and credit facilities possible, within the context of the legislation in force in the two States. 4/ On the other hand, provisions concerning the fixing of prices do not appear in industrial co-operation agreements.

108. Examination of recent agreements reveals the increasing awareness of State of the need to intensify and expand the flow of information, which is reflected in the numerous provisions concerning the transfer of information that are becoming more and more detailed, in addition to the increased priority given to exchanges of experts. A 1976 agreement between Romania and the United States, for example, specifies the type of information and mentions the supply to the participants of economic, trade and statistical data useful in developing marketing forecasts and in economic, industrial and technological co-operation.

(e) Economic sectors covered by co-operation agreements

109. Generally a clause mentions the sectors in which there are particularly favourable opportunities for mutually advantageous co-operation. In some cases the joint commission established with a view to the implementation of the agreement is also entrusted with responsibility for determining those branches of production and fields of research whose development would be of particular interest to the contracting parties. 6/

1/ TRADE/R.351, paras. 19-20.

2/ TRADE/R.351, para. 28.

3/ TRADE/R.351, para. 29.

4/ TRADE/R.351, para. 30.

5/ TRADE/R.351, para. 40.

6/ TRADE/R.351, para. 26.

110. In recent agreements the task of selecting areas of co-operation has been the subject of agreements concluded in the form of joint co-operation programmes. Such agreements embody detailed lists of the branches of production and sectors of the economy which offer the greatest attraction for co-operation. 1/

(f) Other aspects^{2/}

111. Duration - The recent trend has been for the contracting parties to sign five- or ten-year agreements.

Renewal provisions - All agreements surveyed by the secretariat specify tacit renewal for successive periods of one year, unless they are terminated in writing by one or other of the contracting parties with prior notice of six or three months. Some agreements simply stipulate that, six months prior to expiry of the initial term or expiry of the first five years, the parties will agree on the provisions to be considered in order to ensure the development of economic, industrial, scientific and technological co-operation.

Settlement of disputes - Specific provisions relating to the settlement of disputes arising from the implementation of co-operation agreements are not common, such matters usually being left for solution to the joint commissions established by the agreements. Sometimes an agreement may recommend that disputes be settled according to the rules of the International Chamber of Commerce Court of Arbitration. In the case of disputes concerning investments, the use of the conciliation or arbitration procedure laid down in the Convention on the Settlement of Investment Disputes between States and Nationals of Other States is suggested.

E. The role of intergovernmental joint commissions

112. All long-term industrial co-operation agreements provide for the establishment of an intergovernmental joint commission, whose main task is to ensure the implementation of the agreements. Member Governments of the ECE have informed the secretariat of the importance of the work of these joint commissions for the expansion of east-west industrial co-operation. They have stated that these commissions have proved to be a high-level forum for exploring and discussing various key problems of economic co-operation. 3/

113. In the case of some agreements, no explicit provision is made for the establishment of joint commissions. However, it is stipulated that representatives of the two States shall meet annually to monitor the implementation of the agreement. Other agreements, however, concluded for the purpose of defining more precisely the framework of co-operation, provide for an annual meeting of representatives of the two States. They must report on their activities to the joint commission which has already been in existence since the conclusion of the initial co-operation agreement, or responsible for supervising the implementation of the new agreement. 4/

1/ TRADE/R.351, para. 5.

2// TRADE/R.351, paras. 41-43.

3/ TRADE/AC.3/R.3, para. 5.

4/ TRADE/R.351, paras. 32-33.

Historical development

114. In the late 1960s and the early 1970s, when the first commissions were established, they primarily represented administrative organs in the contracting States. They were intended to study and resolve problems arising out of the implementation of trade or co-operation agreements. 1/

115. Beginning in the mid-1970s these commissions have become organs which frequently involve in their work the participation of representatives of business circles and the enterprises concerned. More recently, the principal function of these commissions has been to create conditions which will favour the realization of co-operation projects, and to prepare measures for the development of co-operation. 2/

Terms of reference

116. The responsibilities and organization of joint commissions are frequently defined in a separate agreement or protocol linked to the trade or co-operation agreement in cases where these contain no specific provisions for that purpose. The responsibilities of the joint commissions generally consist in ensuring that the agreement is implemented and all necessary measures are taken for this purpose. These may include any or all of the following:

- Examining proposals for the development of co-operation;
- Supervising the execution of the agreement, submitting any proposals that are likely to promote its objectives and holding exchanges of views on the possibilities of further developments;
- Defining the most favourable areas of co-operation; and
- Seeking solutions for any problems and difficulties that might arise in the course of the implementation of the agreement. 3/

Organization and work procedures

117. Both are generally defined in a separate agreement linked with the agreement on co-operation, which indicates

- the basis on which the joint commission has been created,
- the scope of its activities, and
- the possibilities of creating, under the auspices of the commission, working groups of experts to examine specific problems or projects of co-operation.

This separate agreement may also determine the order for convening sessions of the commission, besides ways of making contacts in the periods between sessions and the financing of administrative and other expenses connected with its functioning. 4/

1/ COOP. IND/2.

2/ TRADE/R.351.

3/ TRADE/R.351, para. 34.

4/ TRADE/AC.3/R.3, para. 6.

118. The meetings of the joint commission generally take place each year and are held alternatively at each of the two capitals. Some agreements also make provision for special sessions to be held whenever one of the contracting States so requests. Some agreements also provide for problems concerning mutual relations to be submitted to delegations between sessions of the joint commissions so that they can be analysed through direct contacts or an exchange of correspondence between the heads of the delegations. 1/

119. The average number of members in each national delegation is five to six persons; in the Soviet-French Commission, however, there are fifteen to twenty persons. All members of delegations are nominated by the respective governments. If a government wishes, it may appoint a permanent secretary to its delegation. He is entrusted with the preparation of background materials for the work of the commission and with the maintenance of contacts between delegations. 2/

Functions

120. Generally, all the fields of co-operation defined and enumerated in bilateral intergovernmental agreements are within the competence of the joint commissions. The commissions usually review the current status of bilateral economic relations in all these fields. They often explore and promote new possibilities for co-operation between partner countries. Their conclusions usually take the form of concrete suggestions submitted to the governments concerned for their consideration.

Working and advisory groups within joint commissions

121. The working groups constituted by joint commissions as temporary or permanent working organs are an integral part of the commissions through which they implement the main part of activities in specific fields of economic and industrial co-operation. These groups are designed to facilitate the fulfilment of the tasks of the commissions. They carry out the greatest part of the practical work upon which many of the actual decisions of the commissions are based and deal with specific tasks entrusted to them by the commissions.

122. Working groups are usually created to cover various fields of co-operation between two countries, such as industrial and commercial, scientific and technical, planning and financial. Some groups are set up to deal with co-operation problems between two countries in one particular industrial branch, e.g. mining, engineering, chemicals or textiles. As economic co-operation between two countries intensifies, an increasing number of working groups is set up by the commissions. For example, by mid-1976 14 working groups had been set up by the joint Franco-Soviet intergovernmental commission for economic and scientific-technical co-operation. 3/

1/ TRADE/R.351, para. 38.

2/ TRADE/AC.3/R.3, para. 7.

3/ TRADE/AC.3/R.3, para. 9.

123. Many working groups are set up as permanent bodies; others may be of an ad hoc character for the sole purpose of carrying out a single project. For example, a working group was established in connexion with the participation of USSR enterprises in the construction of a metallurgical plant at Foss-sur-Mer in France. 1/

124. Some agreements also provide for the setting up of advisory groups, which consider matters of particular interest for the implementation of the agreement in question. 2/

Overall assessment

125. Replies received by the secretariat from the ECE member Governments in 1977 expressed the common opinion that joint commissions have in many cases achieved practical and concrete results in promoting the conclusion of particular co-operation arrangements. This has been achieved, inter alia, by means of establishing contacts between firms. State enterprises and institutions in particular countries, arranging mutual visits by experts and study groups, elaborating mutual programmes of activities by working groups, exchanging technical information material, etc. 3/

F. Trade policy and related measures

126. In view of the divergent nature of trade-policy measures and other facilities designed to promote industrial co-operation, which reflect the basic differences in the organization and practice of trade found in countries with different economic and social systems, such measures will be discussed separately for each group of countries, with a third section being devoted to Yugoslavia.

Role of trade policy and related measures in western countries on the promotion and development of east-west industrial co-operation 4/

127. The interest of governments of western countries in the promotion of industrial co-operation through trade policy, administrative and related measures during the mid-1970s was reflected in the encouragement which they gave their enterprises to develop industrial co-operation with the eastern countries, which took the following forms:

- conclusion of numerous agreements on economic, industrial, scientific and technical co-operation with eastern countries and active participation in the work of intergovernmental joint commissions;
- invitations extended to representatives of business circles to participate in the work of these commissions;
- granting facilities for business contacts, trade missions and the transfer of economic and trade information;

1/ TRADE/AC.3/R.3.

2/ TRADE/R.351, para. 8.

3/ TRADE/AC.3/R.3, para. 20.

4/ For further details, see The Kennedy Round estimated effects on tariff barriers, Report by the Secretary-General of UNCTAD, United Nations, New York, 1969, p. 61.

- assistance in the negotiation and conclusion of large industrial co-operation contracts with the eastern countries;
- an active credit policy in several western countries in favour of industrial co-operation with the eastern countries; and
- the efforts by a few western countries to find possibilities for granting, under existing legislation, certain facilities for such co-operation.

128. With regard to the latter point the treatment of industrial co-operation in the Customs field and the use of quantitative quotas in connexion with industrial co-operation with the eastern countries, it should be recalled that, as a result of the various negotiations which have been held within GATT, such as the Kennedy Round, the level of Customs duties has declined considerably in western countries, which has had a favourable effect on the development of east-west industrial co-operation. ^{1/}

(a) Facilities in existing Customs legislation

129. Although preferential treatment for industrial co-operation has not been introduced in any western country in the field of Customs duties, existing legislation in a number of cases nevertheless provides a means of offering certain facilities for such co-operation which may contribute to its development.

130. In fact, provision is frequently made for the granting of facilities, albeit unspecified, in the agreements on economic, industrial, scientific and technical co-operation referred to earlier. Such facilities include provisions concerning exemption and relief from Customs duties, temporary admission and drawback procedures and outward processing traffic. Each of these provisions, as they relate to industrial co-operation, is examined briefly.

(i) Exemption and relief from Customs duties

131. In certain countries Customs legislation provides that the competent authorities may grant total or partial exemption from Customs duties to specific imported products. In some countries partial or total exemption may be granted in respect of products whose importation is considered useful for the proper supply of the national market. Exemption is often granted to goods which may be stored, packed and displayed, processed or manufactured in free zones and free ports, which may be so granted for the development of industrial co-operation with a view to the subsequent export of the goods thus produced.

(ii) Temporary admission of imported goods

132. Applied solely to goods imported for a specific purpose, which must be re-exported within a specific period, either in their original form or after having undergone processing, this provision is very broadly applied by the western countries. In particular, it may be used for the promotion of industrial co-operation which involves inward processing or leasing operations, in the latter case only with regard to deliveries of specific goods from eastern countries. If certain restrictions on the temporary admission procedures could be alleviated, the development of industrial co-operation would receive a new stimulus.

^{1/} TRADE/AC.3/R.5, paras. 1-29.

(iii) Drawback procedures

133. A Customs procedure which provides for a total or partial refund to be made in respect of the import duties and taxes charged on the exported goods, or on materials contained in them or used-up in their production, the drawback system is used on a fairly wide scale in the western countries. However, it obliges the exporter to mobilize his financial resources for a certain time, which he may not have to do in the case of temporary admission; hence drawback procedures have a less favourable effect on industrial co-operation.

(iv) Outward processing traffic

134. Temporary admission and drawback procedures cover only the case of inward processing traffic. Outward processing traffic also plays a role in the economic relations between the eastern and western countries, which obliges enterprises shipping goods abroad for processing to inform their competent authorities in advance. In all the western countries the principle of the physical identity of the exported and re-imported products is applied.

135. The global value of the re-imported products, including the value of the products exported for processing, as applied in certain countries for Customs clearance purposes, is compared to the practice in other countries of only taking the value added by the processing into consideration. The global value system has the effect of increasing the Customs duties to a certain extent.

136. If two key changes were made in outward processing traffic procedures in many countries, industrial co-operation would be further developed: broadening the scope of the value-added system and simplifying the formalities related to outward processing procedures.

(b) Quantitative quota systems

137. Previously imposed by the western countries on imports from the eastern countries, these restrictions have been very largely eliminated in recent years. Moreover, in several instances the letters exchanged on the occasion of the conclusion of trade agreements or agreements on economic, industrial, scientific and technical co-operation provide that, in cases where the quantitative restrictions have been maintained, deliveries of the products originating from the agreement in question shall not be subject to the existing quantitative quotas.

Policies of the eastern countries with regard to industrial co-operation with the western countries 1/

Introduction

138. The interest on the part of the eastern countries in the development of industrial co-operation with the western countries has been reflected in the following ways:

1/ TRADE/AC.3/R.5, para. 20-46.

- the introduction of various measures intended to ensure the attainment of the productive capacity necessary for the development of industrial co-operation with the west;
- the encouragement of enterprises and economic organizations that are instrumental in such development;
- the granting of favourable treatment for such co-operation in the planning of production and foreign trade; ^{1/}
- the numerous initiatives taken vis-à-vis the western countries with a view to introducing industrial co-operation in specific projects; and
- the introduction of certain facilities for business contacts and the transfer of economic, trade, scientific and technical information; in order to promote such contacts, permission is now granted to foreign firms to establish permanent offices in the territory of the eastern countries.

Legislation concerning industrial co-operation in CMEA countries

139. Legislation of this kind has been promulgated in all eastern countries, with the exception of the USSR, which, however, has introduced certain changes in the organization of industrial co-operation. Most of this legislation has been of a 'global' nature and is directly aimed at co-operation with the western countries. Selected examples of such legislation promulgated in recent years are briefly summarized below.

(i) Bulgaria

140. A 1974 decree concerning economic, industrial, scientific and technical co-operation with foreign countries stipulates that the development of such co-operation shall be encouraged through appropriate facilities in the fields of credit, Customs duties, finance, planning and guarantees for the execution of contractual obligations. In addition to defining the forms of co-operation which are to be encouraged, the decree also describes the objectives and procedures to be pursued by Bulgarian organizations in their co-operation with foreign countries.

141. In order to establish appropriate conditions for the co-operation, a committee on external economic relations, attached to the Council of Ministers and having ministerial rank, was established in the same year.

(ii) Czechoslovakia

142. A 1975 decision of the Council of Ministers established the following principles to be followed in economic and industrial co-operation with foreign countries:

- conditions established for exports and imports originating from co-operation shall be no less favourable than those established for traditional exports and imports;

^{1/} Imports and exports resulting from industrial co-operation contracts, are in practice, automatically included in foreign trade plans.

- a special form of bonus will be introduced as a means of promoting the development of the more profitable transactions effected under industrial co-operation agreements; and
- a system of economic preferences and exceptions to existing regulations will be established for cases in which the conclusion of co-operation contracts is required by the general social interest.

143. A special organization, FINCOM, responsible for promoting industrial co-operation, was established in 1972 under a directive issued by the Minister of Foreign Trade.

(iii) Hungary

144. Under various laws and regulations, Hungarian enterprises engaged in industrial co-operation may receive preferential treatment from the authorities. For example, these enterprises:

- may receive general authorization to import the products necessary for the execution of the co-operation contracts which they have concluded with foreign countries;
- may obtain investment credits on preferential terms, as well as authorization to accelerate the depreciation of their fixed capital;
- are exempted from the quantitative import quotas that may be in force.

145. The interministerial committee on co-operation with foreign countries that was established in 1967 is responsible for exercising general supervision over the development of economic and industrial co-operation besides examining enterprises plans for such co-operation. This committee also takes the initiative in large-scale and complex co-operation projects on behalf of the Hungarian authorities.

146. In 1971 the organization INTERCOOPERATION was established with the responsibility for promoting the development of industrial co-operation. A year later the Ministry of Finance promulgated a decree that provides for the possibility of establishing joint ventures in Hungary with the participation of Hungarian and foreign enterprises.

(iv) Poland

147. A 1971 decision by the Council of Ministers determined which forms and areas of co-operation were to be authorized. It provides certain facilities for the preparation and execution of enterprise plans for such co-operation, their supplies of raw materials and capital goods, the financing of their investments and imports, the bonuses to be granted to workers, etc. This decision considerably increased the powers of production enterprises in the negotiation, conclusion and execution of industrial co-operation contracts.

148. A 1976 regulation issued by the Council of Ministers enabled foreign national or legal persons to undertake, in Polish territory, economic activities in the spheres of small-scale industry, internal trade, the hotel trade and other services.

(v) German Democratic Republic

149. A 1973 decision by the Council of Ministers established an interministerial committee similar to that created in Hungary, already described above, which was supplemented in 1976 by a law regulating the establishment of joint ventures.

(vi) Romania

150. Legislation concerning industrial co-operation was introduced in 1971, entitled 'Law relating to the foreign trade and economic, technical and scientific co-operation of the Socialist Republic of Romania'. Besides specifying essential principles and the main forms of such co-operation, it provides for the establishment of joint ventures with the minority participation of western enterprises in Romanian territory, subsequently spelt out in a 1972 decree.

(vii) USSR

151. Although no specific legislation concerning industrial co-operation with foreign countries has been introduced, certain administrative changes have been made with a view to facilitating such co-operation. For instance, a Vice-Minister for industrial co-operation matters has been appointed in the Ministry of Foreign Trade, together with the creation of a special division, although in this instance co-operation includes counter-trade matters.

Legislative treatment of industrial co-operation in Yugoslavia

152. Yugoslav legislation in industrial co-operation provides special treatment in respect of import licensing, Customs, Foreign exchange, taxation and business representation for the four main forms of co-operation, including licensing, business-technical co-operation, long-term production co-operation and joint ventures. Each type of special treatment is summarized below. 1/

(a) Import licensing

153. The Yugoslav partner of a foreign firm in a local joint venture has special facilities for the use of cash invested by the foreign partner when importing equipment, raw materials and intermediate goods. The local partner is also not subject to commodity and foreign-exchange quotas or licensing for such imports, providing that the authorities concerned give their consent. Moreover, if a domestic enterprise purchases a foreign licence, it is not required to issue a tender for imports related to the licence if they are not worth more than US\$40,000.

(b) Customs treatment

154. Goods exchanged under long-term production co-operation contracts in specified industrial sectors are granted special Customs preferences in the form of either annual tariff contingents or reduction of imports duties, which amount to 10 per cent. Fixed assets can be temporarily imported or exported for use in the production process or in the rendering of services, generally for a two-year period and subject to a bank guarantee or deposit of the regular Customs duty.

155. Temporary imports of raw materials and semi-manufactures are permitted, provided that they are re-exported with a fixed time limit, either in the same or in a changed condition. Equipment imported by Yugoslav enterprises located in Customs-free zones and owned by the foreign partner is treated as a temporary import for the duration of the joint venture.

1/TRADE/AC.3/R.5 para. 47-57

(c) Foreign exchange treatment

156. The domestic manufacturer which is either party to long-term production co-operation or a joint venture agreement may use 100 per cent of the hard currency earnings generated by its exports to pay for the items it imports under the same agreement. Local joint venture partners also receive an additional allowance from export sales for the transfer of the foreign partner's profit share and the repatriation of foreign-invested capital.

(d) Taxation treatment

157. The Yugoslav income tax liability of the foreign joint venture partner is reduced below the standard rates if the business site of the enterprise is located on the territory of an undeveloped republic or province, if the foreign partner re-invests a certain percentage of its profits or if he banks a portion of its profit. Moreover, no tax is levied on the sales price of foreign industrial property or on royalty payments made to the foreign licensor.

(e) Business representation treatment

158. Yugoslav enterprises may act as local agents of foreign manufacturing firms. Foreign firms that are a party to contracts for joint ventures, business-technical co-operation, long-term production co-operation, and other contracts of not less than five years and that increase exports of Yugoslav goods, may be allowed to establish their own representative office in Yugoslavia. These offices must comply with national legal requirements although they are not obliged to pay the statutory fixed deposit.

G. The role of small- and medium-sized enterprises

159. An important area of growth in east-west industrial co-operation is the small- and medium-size enterprises sector, which, owing to various promotional measures in some ECE member countries, has increased its share of east-west trade. Vis-à-vis the eastern markets these enterprises are in an unfavourable position compared with large enterprises; they lack the necessary export sales structure, have limited access to market information and are saddled with high marketing costs.

160. On the other hand, small- and medium-size enterprises have many characteristics which favour their participation in east-west industrial co-operation. In Hungary, for example, it is considered that such enterprises may achieve better profitability than large enterprises in certain sectors. In April 1979 the Central Committee of the Polish Unified Workers' Party devoted a special session to increasing the role of these enterprises in the national economy, including foreign trade. 1/

161. Certain sectors of industry do not readily lend themselves to industrial co-operation between small- and medium-sized enterprises, as in the chemicals industry in which the minimum requirements for the conclusion of a co-operation contract are so high that only large enterprises are in a position to participate. On the other hand, other sectors may lend themselves to co-operation between smaller enterprises in east and west, such as the electronics and precision engineering sectors in particular and light industry in general. 2/

1/ TRADE/R.383/Add.1, paras. 54 and 55.

2/ Ibid., para. 53.

162. In recent years joint action has been taken at the international level in order to increase the participation of small- and medium-sized enterprises in east-west trade. For example, France and Poland concluded an agreement with this stated aim in September 1977. The two parties agreed to seek ways and means of co-operation applicable to smaller enterprises, such as by providing information on financing to those interested, by encouraging specialization and sales agreements, by facilitating and encouraging contacts between trading partners and by co-ordinating promotion which may result from the agreement. A similar agreement was signed between Poland and Italy in 1977 that calls for the expansion of such co-operation, particularly in the field of consumer goods. 1/

III. RECENT TRENDS IN EAST-WEST INDUSTRIAL CO-OPERATION

163. The main development at the legislative, institutional and enterprise levels that have occurred in east-west industrial co-operation during the past few years are briefly summarized here. Further details can be found in the ECE documents referred to.

A. Legislative measures

164. Certain new features have been introduced in recent years in the regulations governing industrial co-operation and in their application, particularly in Hungary, Poland, Yugoslavia and, more recently, Bulgaria. Each of these countries' recent legislation in this field is reviewed briefly.

Bulgaria

165. The principal new legislation promulgated recently in eastern Europe was Ordinance No. 535 of the Bulgarian Council of State, whose purpose is "to encourage economic co-operation between Bulgarian legal entities and foreign legal entities and individuals by establishing conditions, with regard to legal, financial, credit, customs and other aspects, favourable for organizing an economic activity on the basis of mutual profit" 2/

166. Contractual activities may under this law involve industrial co-operation or joint ventures and may be both in Bulgaria and in other countries. They may concern scientific and technical matters, production, project engineering, applied research and testing, and merchandising, and may cover industry, agriculture and building construction, as well as trade, transport, services and tourism. 3/

Hungary

167. Since 1977 a series of decrees and regulations concerning the formation and operation of joint ventures with foreign partners has been issued, the most recent one dating from 1979. The principal elements of this legislation are summarized in Table 7.

1/ TRADE/R.383/Add.1, para. 30 and 37.

2/ Published in the Official Bulletin, No. 25, of 28 March 1980.

3/ Further details about this legislation may be found in ECE/TRADE/R.401, para. 43.

Poland

168. During 1979 decrees and regulations concerning joint ventures with foreign partners were issued by the Council of Ministers, the Minister of Labour and the Minister of Finance. The main provisions of this body of legislation are summarized in Table 7.

Yugoslavia

169. No less than six separate decisions, decrees and regulations have been issued since 1977 concerning joint ventures with foreign partners. The principal elements of this legislation are summarized in Table 7.

* * *

170. Apart from Bulgaria, the legislation referred to above in the three other countries reflects a consolidation of earlier measures. ^{1/} For example, the present legislation of Hungary and Poland provides for the formation of a new separate entity in the classic form of a registered operative company with standard corporate structures. Although these are considered to be domestic enterprises, the joint venture companies enjoy, in certain aspects of their operations, different treatment governed by special legislation. In addition, in Poland foreign private capital may also establish itself in the form of a wholly-owned foreign subsidiary or independent foreign company.

171. The situation in Yugoslavia is somewhat different. A foreign investor invests in his Yugoslav partner; the joint investment is 'housed' within a Yugoslav 'Organization of Associated Labour', whose founders may be Yugoslavs only, i.e. either the domestic venture or other domestic bodies. Thus, foreign capital cannot establish itself in Yugoslavia: there are no foreign subsidiaries, whether wholly or partly owned.

B. Trade and operation agreements

172. The main trend in the field of long-term economic and trade agreements between countries having different economic and social systems has been towards the further extension of the network of such agreements. According to the Register of such agreements maintained by the secretariat, 284 long-term trade and economic, industrial and industrial co-operation agreements were in force at the end of August 1980. The majority of them, or 169 agreements, relate to economic, industrial and technical co-operation. Trade relations among the region's countries are at present governed by 95 agreements. In addition, there are 20 other agreements covering both economic co-operation and trade. Some of the more significant agreements, which represent a departure from the earlier general type of agreement, are summarized below. ^{2/}

Long-term agreements in specific fields

173. A 20-year agreement has been signed by Austria and Poland concerning coal supplies. In 1979 France and the USSR signed an agreement on industrial, scientific and technical co-operation in the field of advanced technology and electronics. Poland and the Belgo-Luxemburg Economic Union signed an agreement in 1979 on the expansion of industrial co-operation in third markets.

^{1/} Details about these countries' legislation, plus that of Romania, can be found in TRADE/AC.14/R.2.

^{2/} TRADE/R.401, para. 44-51.

Promotion and mutual protection of capital investment

174. Such an agreement has recently been concluded between the Federal Republic of Germany and Romania. Its purpose is to establish a legal framework for investments by the two parties and to guarantee freedom of capital and profit transfers.

Agreements with the European Economic Community

175. During 1980 the EEC has signed various co-operation agreements with Romania and Yugoslavia. The first, signed on 2 April 1980, of unspecified duration, relates in principal to economic and technical co-operation in industry, energy, science and technology, agriculture, transport, finance and trade. The provisions relating to trade, which have an initial duration of five years, are designed to promote trade between the two parties and take into consideration the need to achieve a better trade balance and improved access of Yugoslav products to EEC markets.

176. Of the two agreements signed by the EEC with Romania on 28 July 1980, the first - of five-year duration - relates to trade in industrial products other than textiles and iron and steel, for which separate arrangements have already been concluded. The second, concluded for an indeterminate period, provides for the establishment of a Joint Commission whose main task will be to ensure the application of existing agreements between the two parties and to review various aspects of trends in their reciprocal trade.

C. Intergovernmental joint commissions

177. In connexion with the conclusion of long-term agreements on economic, industrial and scientific and technical co-operation, the joint commissions are increasingly entrusted with the elaboration of programmes for the development of mutual co-operation in these fields. These programmes are a new type of intergovernmental agreement: they give precise details of the future co-operation plans of both sides and determine main directions, and even specify objectives, of industrial and technical co-operation. The programmes are elaborated and agreed upon by joint commissions - usually for a period of ten years, although examples have occurred of two countries wishing to maintain a mutual programme of economic and industrial co-operation for a longer period. 1/

178. Since 1977 there has been an increasing trend towards the inclusion of a clause stipulating that representatives of the participants may be invited to take part in the work of the joint commission, or that they shall be full members of the commission. Some agreements provide for the possibility of governmental representatives being assisted by experts. The Governments of the ECE member countries have increasingly recognized that the participation of groups of businessmen has enhanced the effectiveness of the work done and has made it possible to achieve practical results, provided that the negotiations are suitably prepared. 2/

1/ TRADE/AC.3/R.3, para. 24.

2/ TRADE/R351, para. 35.

179. Clauses are now to be found that provide for the possibility of establishing working groups which report to the joint commission on their activities and which may be entrusted with the responsibility for specific co-operation problems. 1/

180. For reasons of efficiency, the increasingly frequent insertion of provisions concerning the establishment of working groups responsible for practical execution of the tasks of the joint commissions, with scope for establishing sub-groups in important fields, seems destined to become more widespread. 2/

181. As economic co-operation between two countries intensifies, an increasing number of working groups is set up by the commissions. For example, by mid-1976 14 working groups have been set up by the joint Franco-Soviet intergovernmental commission for economic and scientific-technical co-operation. 3/

D. Joint projects, tripartite co-operation and third-market co-operation

182. East-west co-operation in third markets, whatever form it might take, has expanded rapidly during the past few years. The largest increase, in terms of individual undertakings, has been in the joint venture category, of which more than 200 now exist. 4/ Tripartite co-operation projects have also been increasing rapidly, as can be seen in the secretariat's sample of such contracts, which have increased from 2.7 per cent to the total in 1979 to 9.1 per cent in 1980. 5/

183. Three main factors are responsible for the growth in co-operation in this markets, which vary in importance according to the particular type of co-operation concerned. In the case of east-west joint ventures in third countries, a principal consideration is the increased access to new markets through existing marketing facilities. In the case of joint tendering and joint projects, the two main motivations concern the possibility of one partner gaining market entry through the established presence of the other partner and the savings afford both partners through joint preparation of the project tender. 6/

184. Tripartite co-operation, on the other hand, is of growing interest because it often permits western firms to dispose of their counter-trade obligations by joining together with an eastern enterprise on a third market. In other words, many western firms have signed industrial co-operation agreements with eastern countries under which the deliveries of the western firm to a joint project in a third country are counted as compensatory purchases from the eastern country whose enterprise is the partner of the western firm in the third country. 7/

1/ TRADE/R.351, para. 36.

2/ Ibid., para. 37.

3/ TRADE/AC.3/R.3, para. 9.

4/ TRADE/R.408, para. 47.

5/ Table 12.

6/ TRADE/AC.14/R.1, paras. 18-26.

7/ TRADE/132, para. 16.

185. Other motives increasingly cited by eastern enterprises include the desire to respond to demands of developing countries in fulfilment of co-operation treaties, the need to obtain complementary western technology and/or special equipment and the ability to take advantage of western equipment and services if they prove to be either cheaper or of a superior technical capability. This form of co-operation also provides eastern enterprises with new sources of finance. 1/

E. Counter-trade

186. An increasing number of industrial co-operation contracts in recent years have been for large-scale projects in basic industries, in which the sale of plant and equipment is financed, in whole or in part, by resultant products, which are often raw materials. Such projects have been increasingly encountered in key sectors such as coal, oil, basic chemicals and ferrous and non-ferrous metals. Although this type of co-operation accounts for less than one-fifth of the number of contracts cited by the secretariat in its 1980 sample of east-west industrial co-operation, summarized in Tables 10-12, its share in trade is infinitely higher, owing to the magnitude of these projects. 2/

187. Whereas the buy-back form of co-operation has become of growing importance for the financing of projects in basic industries in recent years, counter-trade arrangements of other types, including counter-purchase and linked deals, have become a feature of co-operation in several other manufacturing sectors. For example, in the chemicals sector the trend towards greater differentiation between the individual forms of counter-trade has led to significant innovations in the terms of contractual forms, the inter-linking of counter-trade and industrial co-operation arrangements and increased reliance on joint ventures. 3/

188. A key sector of east-west trade, the automotive industry, has developed a variety of counter-trade practices in recent years, many of which are linked to large-scale co-production arrangements. Both the buy-back and counter-purchase forms of counter-trade are practised widely by western firms active in eastern Europe, which has led to their increasing reliance on counter-deliveries of parts, components, sub-assemblies and complete vehicles from their eastern co-operation partners. 4/

189. Many western firms trading with eastern Europe that regularly practise counter-trade have increasingly turned to intermediaries as a means of disposing of their purchase obligations. Several of these firms often dispose of products obtained through industrial co-operation arrangements through such intermediaries, which include specialized trading houses and trading subsidiaries of large transnational corporations. In some western countries, notably in Austria, France and certain Scandinavian countries, public and private sector groups have set up central clearing houses at the national level in recent years which assist member firms to find buyers for counter-trade products. 5/

1/ TRADE/132, para. 17.

2/ ECE/TRADE/R.408. paras. 5-7.

3/ ECE/TRADE/R.410, para. 157.

4/ TRADE/R.385/Add.1.

5/ TRADE/R.385/Add.3.

TABLE 1
Western deliveries to eastern Europe, 1968-1978
in the framework of large-scale co-operation projects

	Total value of contracts signed between 1968 and 1978 (millions of dollars)	Breakdown of the contracts (percentage)
Gas	3 500	20.9
Oil	250	1.5
Coal	1 250	7.5
Timber, paper pulp	750	4.5
Chemical products	8 000	47.7
Ferrous metals	2 500	14.9
Non-ferrous metals	500	3.0
TOTAL	16 750	100.0

Source: TRADE/R.408, para. 10.

TABLE 2

A. Breakdown of contracts by supply countries
(percentages)

Sector Country	Natural gas	Oil	Coal	Chemical Products	Timber cellulose, paper pulp	Ferrous metals	Non-ferrous metals	TOTAL
Germany, Federal Republic of	42.8	-	64	21	-	50	50	32.6
France	8.5	-	-	32	10.5	-	50	18.9
Italy	45.7	-	-	19	-	10	-	20.0
Japan	-	100	36	8	89.5	-	-	12.0
Other Countries	3.0	-	-	20	-	40	-	16.5
TOTAL	100	100	100	100	100	100	100	100

B. Breakdown of contracts by host country
(percentages)

<u>Country</u>								
USSR	100	100	36	80	100	90	50	82.7
Other countries	-	-	64	20	-	10	50	17.3
<u>of which:</u>								
Poland	-	-	64	11	-	-	50	11.5
TOTAL	100	100	100	100	100	100	100	100

Source: TRADE/R.403.

TABLE 3

Impact of contracts on east-west trade
(percentage of exports or imports)

	Lowest assumption	Intermediate assumption	Highest assumption
A. Share of deliveries under contracts in western exports to the east European countries			
1. Total exports:			
1.1 Western countries as a whole	3	6	9
1.2 Four main suppliers (France; Germany, Federal Republic of; Italy; Japan)	6	12	17
2. Exports of capital goods			
2.1 Western countries as a whole	8	16	24
2.2 Four main suppliers	13	26	39
B. Share of deliveries under contracts in east European imports from the Western countries			
1. Total imports:			
1.1 East European countries as a whole	3	6	9
1.2 USSR	6	13	19
2. Imports of capital goods			
2.1 East European countries as a whole	8	16	24
2.2 USSR	16	31	47

Source: Economic Bulletin for Europe, Vol 30, No. 1, Tables 3.4 and 3.9, for data relating to east-west trade as a whole; and OECD, Statistics of Foreign Trade, Series B, Trade by Commodities (Analytical Abstracts), January-December 1977, for data relating to the trade of market-economy countries. (Compiled for TRADE/R.408.)

TABLE 4

Share of export trade of east European countries conducted through joint marketing organization

	Estimated from Western sources	Estimates from Eastern Sources
	%	%
Bulgaria	10-15	...
Hungary	21	27
Poland	29	...
German Democratic Republic	9	...
Romania	10-15	...
Czechoslovakia	10-15	...
USSR	13	4.5-5.5
Average	14	...

TABLE 5

Counter-trade terminology used in eastern and western countries

Category of transaction \ Terms	Terms used in eastern countries	Terms used in western countries
1. Direct exchange of goods	Barter, compensation (total or partial), compensatory transactions, product exchange, exchange of market surpluses	1. Barter, compensation (total or partial)
2. Linked purchases 2.1 Prior to sale of products 2.2 Concomitant with or after sale of product 2.2.1 As part of individual transaction 2.2.2 As part of global arrangement	<p><u>Junktim</u></p> <p>Counter-purchase, parallel transaction, reciprocal transaction, linked transaction (or purchase), counter-part operation (or delivery)</p> <p>Framework agreement, long-term commercial co-operation framework agreement</p>	<p>2.1 Linked deal, linkage deal, pre-compensation, <u>junktim</u></p> <p>Counter-purchase, parallel transaction, reciprocal purchase, counter-part purchase (or transaction)</p> <p>Framework agreement, product exchange agreement, gentlemen's agreement</p>
3. Purchase of resultant products	Long-term agreement (or arrangement) on a compensatory basis, product buy-back arrangement, self-financed transaction, purchase on a self-financing basis, payment in kind, payment in products	Product buy-back agreement, buy-back agreement, pay-as-you-earn arrangement
4. Mutual deliveries of product, in the framework of an industrial co-operation agreement	Industrial co-operation, co-operation in the field of production; co-production; sub-contracting	Sub-contracting, contract manufacturing, joint production, co-production, etc. - depending on the nature of the operation
5. Co-operation in marketing as a means of meeting a counter-trade obligation	Co-operation on third markets	Marketing agreement, co-operation on third markets, joint venture in marketing, etc., depending on the nature of the operation

TABLE 6

Main categories of counter-trade transactions and
their role in industrial co-operation

Type of counter-trade transaction (and form of industrial co-operation)	Nature of the counter-trade delivery
<p>1. Direct exchange of products (Barter - no link to industrial co-operation)</p>	<p>1.1 Delivery of products in total settlement of the transaction 1.2 Delivery of products in partial settlement of the transaction</p>
<p>2. Purchase of products by the seller (or a person designated by him) from the buyer (or an accepted third party) up to a given percentage of the initial transaction</p>	<p>2.1 Purchase prior to the sale of products 2.2 Purchase concomitant with sale of products or within a specified time-period</p>
<p>3. Purchase of products manufactured on the basis of technology and/or by means of equipments or installations supplied to the partner (May occur under licensing arrangements, or short- and long-term sub-contracting)</p>	<p>3.1 Purchase exclusively of resultant products 3.2 Purchase of resultant and non-resultant products</p>
<p>4. Reciprocal deliveries as part of industrial co-operation (sub-contracting, co-production and specialization)</p>	<p>4.1 Deliveries of manufactured products on the basis of instructions provided by the seller 4.2 Deliveries of products in the framework of a jointly-agreed or jointly co-ordinated manufacturing programme</p>
<p>5. Co-operation in marketing (Often an integral part of co-production and specialization arrangements)</p>	<p>5.1 Sales of products on the partner's markets up to a given percentage of the initial transaction 5.2 Sales of products on third markets up to a given percentage of the initial transaction</p>

Source: TRADE/R.385, p.7.

NOTE.- Terminology used in ECE member countries for the above categories is given in Table 5.

TABLE 7

TRANS/AC.14/1.2
Annex

STATES OF JOINT-VENTURE ENTERPRISES AND RIGHTS OF FOREIGN PARTNER: A COMPARATIVE STUDY

Parameters	Hungary	Poland	Romania	Yugoslavia
Parties	A joint venture may consist of more than one Hungarian, and more than one foreign partner. The foreign partner should possess firm capital resources.	No express provision.	No express provision; in practice, similar to Hungarian practice.	If the contract is concluded, a MO or an amalgamated OAI, one or several EOALs, shall be designated as bearer(s) of rights and duties.
Duration	The partners are requested by law to specify minimum duration of the joint venture.	Up to fifteen years.	To be determined by the partners in their contract.	Contracts for an indefinite period of time as long as allowed.
Form of business organization	Unlimited liability partnership, company limited by shares (joint-stock company), limited liability company and joint enterprise.	Joint-stock company and limited liability company.	Joint-stock company and limited liability company.	Organization of associated labour (OAI).
Sphere of activity	Production, trading or servicing activities.	Crafts, domestic trade, hotels and restaurants, other services, and production in certain industries.	Industry, agriculture, construction, tourism and transport.	Any economic activity, except insurance, commerce and social services.
Magnitude of investments and property relations	In the form of shares; generally, the foreign partner may not contribute more than 49% Property of the economic association.	In the form of shares; maximum foreign partner 49% Property of partnership. Joint capital must amount to 5 million dinars.	In the form of shares; foreign equity not to exceed 49%.	In the form of deposit. As a rule, foreign partner's share is neither equal to nor higher than the domestic one. Social property. Foreign partner may reserve property rights.
Nature of invested assets	Cash, kind, intellectual property. Invested notables subject to import duties.	All kinds of tangibles and intellectual property.	Cash, goods, intellectual property, and other rights.	Cash, goods(?), rights, equipment, intermediary goods, intellectual property.
Profits, distribution of profits and transfer	Distributable profits divided between all parties in proportion to equity ratio. Transfer permitted.	Upper limit in the transfers: 50% of the surplus of export income over expenditures on the dinars account.	Same as in Hungary; 10% to be paid in tax.	Calling on annual profit transfers. May not exceed 50% of total foreign exchange earned from exports.
Management	In accordance with the joint-venture contract.	Composition, powers and decision-making of the managerial board in accordance with the contract. Polish citizens should control the board.	The Law authorizes the parties to settle the management question in the statutes of the company.	In accordance with the joint-venture contract subject to the peremptory norms of Yugoslav Law.
Financial aspects	All financial operations in accordance with regulations applying to Hungarian enterprises. The joint venture may raise credits.	Two current accounts, 50% of profits in foreign exchange goes to foreign-exchange account.	Two accounts. All transactions dealt with at the non-commercial rate of exchange. Interest to be paid.	As for all other Yugoslav OAI.
Currency system	Application of Yugoslav law; conversion into convertible currency (calculation system).	Same as in Hungary (application of Polish law).	According to agreement; as a rule convertible currency (calculation system).	Incorporation in the currency system of Yugoslavia (integration system).
Planning system	The joint-venture company adopts its economic plans.	The commodity turnover of the joint-venture company subordinate to the country's annual and five-year Plans.	The joint venture company draws up economic and financial programmes requiring approval. Less dependent on State Plans.	The recipient OAI or EOAL adopts its working plans.
Operation (foreign trade system)	The joint-venture company has the right to engage directly in foreign trade. Sale of goods for domestic use only through other Hungarian enterprises.	The joint-venture company has no foreign trade rights.	The joint-venture has the right to sell and buy abroad directly; may also act through the country's FTOs.	Right directly to engage in foreign trade.
Labour	Data not available.	Foreign personnel may be employed. Both Polish and foreign personnel are paid in dinars. Right to transfer 50% of earnings abroad.	Similar to that in Poland.	Foreign personnel may be engaged. They are paid in dinars under individual contracts.
Taxation	40% of the profits.	50% of the profits.	50% of the profits.	According to fiscal regulations of member Republics and provinces; in Croatia, of communes. Generally 35%.
Investment incentives and reinvestment	If taxed profits are reinvested in the same joint venture, a part of the taxes may be refunded.	A joint venture may be exempt from paying taxes during 3 years from setting up or launching of joint production.	In case of reinvestment, the tax rate is reduced (20% instead of 50%).	Lower rates in cases of reinvestment and/or deposit of profits with a Yugoslav bank.
Approval procedure	Negotiation and approval of the contract comprise three stages.	Two stages, starting with the application to sign the contract.	The constitution of each joint-venture company, including its contract of association and statutes, enacted in law (decree signed by the Head of State).	One stage only, with very detailed requirements.
Selling of interest	For the parties to settle in the contract.	Permitted on specified conditions and subject to the priority right to the Polish partner.	No express provisions in legislation.	Permitted, subject to the right of first refusal in favour of Yugoslav partner.
Winding up	The joint-venture company shall be wound up in cases specified by law.	Same as in Hungary.	Cases of dissolution of the company shall be established in the statutes. Dissolution recorded by Government and announced officially.	The joint-venture contract can be rescinded prior to its expiration in four cases as specified by law.
Repatriation of investment	On meeting all liabilities, the remaining foreign invested assets may be transferred.	Same as in Hungary.	Permitted subject to the statutes of the joint-venture company.	The value of foreign-invested assets may be paid out in dinars or through export of products.
Nationalisation	Permitted.	No express provisions.	No express provisions.	Foreign-invested assets may be nationalised in the public interest, subject to the payment of just compensation.
Guarantees	Two kinds: guarantee of compensation for damages resulting from acts of State; guarantee of obligations of joint-venture towards its foreign members.	Two kinds: guarantee of the transfer of profits; guarantee of repatriation of investment; upon termination of the joint venture.	Three kinds: functioning of joint venture in Romania; transfer of foreign partner's profits; transfer of original investment.	The rights of foreign partners as stated in the contract should not subsequently be diminished. If the law changes, the contract and the legislation valid at the time of establishment, will be applied, except to same other losses and contributions.

TABLE 8

Changes in the value and in the structure of western exports to and imports from eastern Europe and the Soviet Union, 1965 to 1974

SITC Section ^{a/}	Value in \$ million average 1971-1974		Compound growth per cent per year				Trend growth rate		Per cent of total			
			1965-1968 to 1968-1971		1965-1968 to 1971-1974		1965 to 1974		1965 - 1968		1971 - 1974	
	Total ^{b/}	Soviet Union	Total	Soviet Union	Total	Soviet Union	Total	Soviet Union	Total	Soviet Union	Total	Soviet Union
	<u>Exports</u>											
0	1 572	778	-4	-15	18	22	16	18	12.8	13.4	12.0	15.0
1	104	35	4	5	8	7	8	8	1.4	1.3	0.8	0.7
2	760	182	3	1	12	9	11	9	8.5	6.2	5.8	3.5
3	112	12	53	56	39	47	36	42	0.3	0.1	0.9	0.2
4	54	6	-4	-44	9	-12	8	-9	0.7	0.7	0.4	0.1
5	1 627	478	12	13	20	16	19	16	12.0	11.1	12.4	9.2
6	3 882	1 657	17	24	25	29	24	28	22.4	20.0	29.4	32.0
7	4 211	1 641	12	16	17	17	18	17	35.0	36.7	32.0	31.7
8	742	365	15	13	17	13	18	16	6.3	10.1	5.7	7.0
9	80	29	11	13	19	20	19	19	0.6	0.4	0.6	0.6
0-9	13 144	5 183	11	13	19	20	19	19	100.0	100.0	100.0	100.0
	<u>Imports</u>											
0	1 527	145	5	8	10	2	10	3	17.6	5.7	13.1	2.9
1	65	8	6	9	10	17	10	16	0.7	0.1	0.6	0.2
2	2 142	1 466	6	6	12	13	12	13	22.0	32.0	18.3	29.0
3	2 850	2 007	9	9	19	19	18	18	20.0	31.1	24.3	39.6
4	163	82	10	3	15	11	16	12	1.5	2.0	1.4	1.6
5	642	180	10	10	16	19	16	18	5.2	2.9	5.5	3.6
6	2 315	882	10	5	15	11	15	11	20.5	21.0	19.8	17.4
7	1 055	217	15	12	20	17	19	17	7.2	3.8	9.0	4.3
8	852	40	18	10	25	16	24	17	4.6	0.7	7.3	0.8
9	77	28	9	7	15	15	15	14	0.7	0.7	0.7	0.6
0-9	11 688	5 055	9	7	15	15	15	14	100.0	100.0	100.0	100.0

TABLE 8 (continued)

Source: United Nations trade statistics.

a/ SITC groups:

- 0 = Food and live animals;
- 1 = Beverages and tobacco;
- 2 = Crude materials, inedible, except fuels;
- 3 = Mineral fuels, lubricants and related materials;
- 4 = Animal and vegetable oils and fats;
- 5 = Chemicals;
- 6 = Manufactured goods classified chiefly by material;
- 7 = Machinery and transport equipment;
- 8 = Miscellaneous manufactured articles;
- 9 = Commodities and transactions not classified according to kind;
- 0-9 = Total.

b/ Eastern Europe including the Soviet Union.

TABLE 9

The growth of east-west trade
(percentage change over the same period of the previous year)

	Western exports				Western imports			
	1977	1978	1979	Jan.-May 1980	1977	1978	1979	Jan.-May 1980
<u>Eastern Europe and the Soviet Union</u>								
Value (US dollars)	0.7	13.0	18.0	17.0	10.7	14.0	35.0	37.0
Prices	8.1	7.2	11.2	15.0	7.2	9.8	37.9	25.0
Volume	-6.8	10.0	6.1	1.8	3.2	3.8	-2.1	9.6
<u>which:</u>								
<u>Soviet Union</u>								
Value (US dollars)	-3.0	16.0	20.0	12.0	14.0	14.0	43.0	47.0
Prices	9.8	0.0	18.8	15.0	9.7	10.1	56.4	35.0
Volume	-11.7	16.0	1.0	-2.6	3.9	3.5	-8.5	8.8

Sources: United Nations trade data; OECD, Statistics of Foreign Trade, Series A, Paris; IMF, Direction of Trade and International Financial Statistics, Washington, D.C. national statistics.

NOTE.- For derivation of price and volume indices, see Economic Bulletin for Europe, Vol. 31, No. 1, p.60.

TABLE 10

Cumulative total of east-west industrial co-operation agreements
by country of origin of eastern partners, 1972, 1978-1980

	1972	1978	1979	1980
Total number of agreements in the seven CMEA countries (cumulative)	202 ^{a/}	314	540	569
Percentage of total signed by enterprises in the seven countries, of which:		100.0	100.0	100.0
Bulgaria	-	3.5	2.6	3.3
Hungary	-	24.2	34.0	35.7
Poland	-	17.2	16.5	16.3
German Democratic Republic	-	2.2	3.0	3.9
Romania	-	8.9	6.5	6.3
Czechoslovakia	-	2.9	8.0	7.0
USSR	-	41.1	29.4	27.4
Total number of agreements including Yugoslavia (cumulative)	581	444	593	737
Total signed by enterprises in the seven countries and Yugoslavia	100.0	100.0	100.0	100.0
of which: Yugoslavia	65.2	29.3	22.1	22.8

Sources: Economic Commission for Europe, Analytical report on industrial co-operation among ECE countries, Geneva, 1973, 117 pp., pp. 4-5, 67; and "A Statistical Outline of Recent Trends in Industrial Co-operation", for the years 1978 (TRADE/R.373/Add.5, 1979 (TRADE/R.392), 1980 (TRADE/R.407)

^{a/} Sample with sectoral breakdown available to the secretariat, not including agreements with Yugoslav enterprises: the total number of agreements in force in 1973 was estimated by the secretariat to be about three times this number.

TABLE II

Cumulative total of east-west industrial co-operation agreements
by industrial sector, 1972, 1978-1980

	1972	1978	1979	1980
Total number of agreements (cumulative)	202 ^{a/}	444	693	737
Percentage of total signed by enterprises in:				
Chemicals industry	19.3	24.5	23.6	23.7
Metallurgy	-	7.7	7.1	7.2
Transport equipment	17.3	11.3	12.6	14.1
Machine tools	8.4	3.6	4.0	3.8
Mechanical engineering	22.3	16.0	13.7	11.4
Electronics)	16.3	8.8	8.5	7.9
Electrical equipment)		9.2	11.1	9.9
Food and agriculture)		5.2	5.5	6.5
Light industry)	16.4 ^{b/}	9.9	9.7	10.0
Other branches)		3.8	4.2	5.4
TOTAL		100.0	100.0	100.0

Sources: Economic Commission for Europe, Analytical report on industrial co-operation among ECE countries, Geneva, 1973, 117 pp., pp. 4-5, 67; and "A Statistical Outline of Recent Trends in Industrial Co-operation", for the years 1978 (TRADE/R.373/Add.5), 1979 (TRADE/R.392), 1980 (TRADE/R.407).

a/ Sample with sectoral breakdown available to the secretariat, not including agreements with Yugoslav enterprises; the total number of agreements in force in 1973 was estimated by the secretariat to be about three times this number.

b/ Includes metallurgy.

TABLE 12

Cumulative total of east-west industrial co-operation agreements
by type of contracts*, 1972, 1978-1980

	1972	1978	1979	1980
Total number of agreements (cumulative)	202 ^{a/}	444	693	737
Percent of total accounted for by:				
A.1		4.7	10.5	10.4
A.2		1.4	2.7	3.0
A.1 + A.2	28.2	6.1	13.3	13.4
B.1		11.3	15.0	14.8
B.2		1.8	1.4	1.6
B.3		0.2	0.1	-
B.1 + B.2 + B.3	11.9	13.3	16.6	16.4
C.1		20.5	22.1	23.5
C.2		2.7	3.2	3.1
C.3		14.4	9.7	7.7
C.1 + C.2 + C.3	37.1	37.6	34.9	34.3
D.1		1.6	1.9	1.6
D.2		1.1	0.7	0.4
D.1 + D.2	7.9	2.7	2.6	2.0
E.1		6.1	4.6	4.5
E.2		25.2	19.5	19.5
E.1 + E.2	14.9	31.3	24.1	24.0
F.1		2.0	2.7	9.1
F.2		1.1	0.7	0.7
F.1 + F.2	-	3.1	3.5	9.8
H.1	-	5.9	5.0	-
TOTAL	100.0%	100.0%	100.0%	100.0%

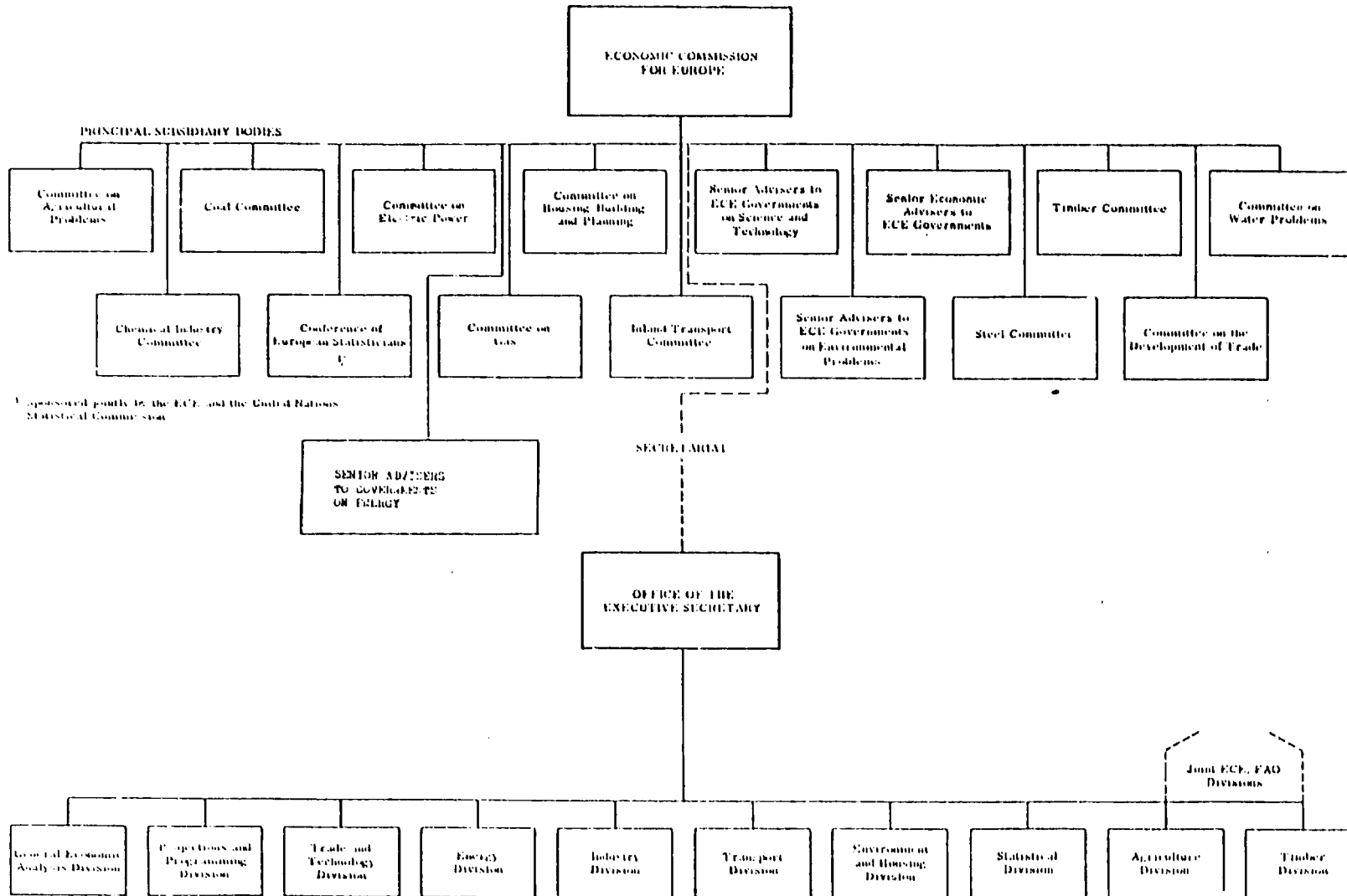
Sources: Economic Commission for Europe, Analytical report on industrial co-operation among ECE countries, Geneva, 1973, 117 pp., pp. 4-5, 67; and "A Statistical Outline of Recent Trends in Industrial Co-operation", for the years 1978 (TRADE/R.373/Add.5), 1979 (TRADE/R.392), 1980 (TRADE/R.407).

* For definitions see Appendix.

a/ Sample with sectoral breakdown available to the secretariat, not including agreements with Yugoslav enterprises; the total number of agreements in force in 1973 was estimated by the secretariat to be about three times this number.

FIGURE 1

Structure and main subsidiary bodies of the Economic Commission for Europe



Sponsored jointly by the ECE and the Central Russian Statistical Committee

SECRETARIAL

OFFICE OF THE EXECUTIVE SECRETARY

Joint ECE-FAO Divisions

ANNEX I

TYPES OF AGREEMENTS

LICENSING

- A0 Supply of licences in exchange for other licences.
- A1 Supply of licences and/or know-how (sometimes also some special equipment) in exchange - at least partially - for products or components.
- A2 Same as A1, but the supply also includes parts in varying percentages of the final product in exchange for produce or components.

DELIVERY OF PLANT OR EQUIPMENT

- B1 Supply of plant or equipment, including the appertaining technology, in exchange for produce or components (at least partially).
- B2 For the exploitation of natural resources, same as B1, plus studies of the availability and accessibility of the resources and research connected with the application of technology to particular circumstances.
- B3 Same as B1, but leasing instead of supply of equipment.

CO-PRODUCTION AND SPECIALIZATION

- C0 Co-operation involving sales and/or other services (no production).
- C1 Co-operation, including or excluding sales, in which each party manufactures parts, components or entities belonging to a final product, the technology coming from one of the parties or from both.
- C2 Co-operation in which each party specializes in part of the manufacturing programme and then exchanges units in order to complete each other's range of products.
- C3 Co-operation involving R and D only.

SUB-CONTRACTING

- D1 Short-term agreements providing for the delivery of an agreed quantity of finished or semi-manufactured goods produced through the use of documentation and know-how (and sometimes parts, machinery and equipment) provided by the contractor (which do not necessarily have a repetitive character).
- D2 Long-term agreements providing for the delivery on a continuing basis (same as above).

JOINT VENTURES

- E1 Joint ventures involving marketing only.
- E2 Joint ventures involving production, marketing and R and D.
- E3 Joint ventures involving R and D only.
- E4 Joint ventures involving R and D, their connected services and commercial activities.

JOINT TENDERING OR JOINT PROJECTS

- F1 Customer located in a third country.
- F2 Customer located in one of the countries.

TRIPARTITE CO-OPERATION: H1

ANNEX I (continued)

BRANCHES OF INDUSTRY

- 1 Food and agricultural industry (including beverages)
- 2 Chemical industry (including pharmaceuticals)
- 3 Metallurgy (including mining)
- 4 Transport equipment, including aircraft, automobiles, lorries, tractors (even for agriculture), rolling stock, earth-moving equipment, diesel engines including stationary).
- 5 Machine tools
- 6 Mechanical engineering (all other non-electrical engineering)
- 7 Electronics (computers and other office equipment, radio and television sets, communications equipment)
- 8 Electrical equipment (all other, including electrical locomotives and household appliances)
- 9 Light industry (textiles, footwear, rubber, glass, furniture, consumer goods)
- 0 Other, such as construction, hotel management, tourism, etc.

LIST OF DOCUMENTS CITED

<u>Title</u>	<u>Reference</u>
ANALYTICAL REPORT ON INDUSTRIAL CO-OPERATION AMONG ECE COUNTRIES	E/ECE/844/Rev.1
GUIDE ON DRAWING UP INTERNATIONAL CONTRACTS ON INDUSTRIAL CO-OPERATION	ECE/TRADE/124
THE WORK OF THE ECONOMIC COMMISSION FOR EUROPE 1947-1972	E/ECE/831
THREE DECADES OF THE UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE	E/ECE/962
EAST-WEST INDUSTRIAL CO-OPERATION	ECE/TRADE/132
PRACTICAL MEASURES TO REMOVE OBSTACLES TO INTRA- REGIONAL TRADE AND TO PROMOTE AND DIVERSIFY TRADE; LONG-TERM AGREEMENTS ON ECONOMIC CO-OPERATION AND TRADE (Note by the secretariat)	TRADE/R.351
SOME MEANS TO IMPROVE THE FINANCING OF EAST-WEST INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/R.355
PROMOTION OF TRADE THROUGH INDUSTRIAL CO-OPERATION; STATISTICAL OUTLINE OF RECENT TRENDS IN INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/R.373/Add.5
THE ROLE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN INTRA-REGIONAL TRADE (Note by the Secretariat)	TRADE/R.383/Add.1
COUNTER-TRADE PRACTICES IN THE ECE REGION (Note by the secretariat)	TRADE/R.385
EAST-WEST CO-OPERATION IN THE AUTOMOTIVE SECTOR AND COUNTER-TRADE ARRANGEMENTS (Note by the secretariat)	TRADE/R.385/Add.1
INSTITUTIONAL ARRANGEMENTS AT THE NATIONAL LEVEL FOR COUNTER-TRADE IN SELECTED WESTERN COUNTRIES (Note by the secretariat)	TRADE/R.385/Add.3
PROMOTION OF TRADE THROUGH INDUSTRIAL CO-OPERATION STATISTICAL OUTLINE OF RECENT TRENDS IN INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/R.392
REVIEW OF RECENT TRENDS, POLICIES AND PROBLEMS IN INTRA-REGIONAL TRADE (Note by the secretariat)	TRADE/R.401
PRACTICAL MEASURES TO REMOVE OBSTACLES TO INTRA- REGIONAL TRADE AND TO PROMOTE AND DIVERSIFY TRADE; REGISTER OF LONG-TERM AGREEMENTS ON ECONOMIC CO-OPERATION AND TRADE (Note by the secretariat)	TRADE/R.405
A QUANTITATIVE SURVEY OF THE DEVELOPMENT OF EAST- WEST INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/R.408

ANNEX II (continued)

<u>Title</u>	<u>Reference</u>
EAST-WEST INDUSTRIAL CO-OPERATION AND TECHNOLOGY TRANSFER IN THE CHEMICALS INDUSTRY (Note by the secretariat)	TRADE/R.409
COUNTER-TRADE PRACTICES IN THE CHEMICALS INDUSTRY; THE EXPERIENCE OF SELECTED WESTERN CHEMICALS/ PRODUCERS AND PLANT CONTRACTORS IN EAST-WEST TRADE (Note by the secretariat)	TRADE/R.410
EAST-WEST INDUSTRIAL CO-OPERATION IN THE AUTOMOTIVE SECTOR; A REVIEW OF THE EXPERIENCE OF WESTERN PARTNERS (Note by the secretariat)	TRADE/R.417
PROMOTION OF TRADE THROUGH INDUSTRIAL CO-OPERATION; PROPOSED ESTABLISHMENT OF AN ECE INFORMATION CENTRE ON INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/R.418
THE WORK OF THE INTERGOVERNMENTAL JOINT COMMISSIONS IN THE FIELD OF EAST-WEST INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/AC.3/R.3
ECONOMIC AND TRADE POLICY OF THE ECE COUNTRIES WITH REGARD TO INDUSTRIAL CO-OPERATION (Note by the secretariat)	TRADE/AC.3/R.5
RECENT DEVELOPMENT IN INDUSTRIAL CO-OPERATION: CO-OPERATION IN THIRD MARKETS (Note by the secretariat)	TRADE/AC.14/R.1
JOINT VENTURE LEGISLATION IN EASTERN EUROPE AND YUGOSLAVIA: A SURVEY OF RECENT DEVELOPMENTS, 1977-1979 (Note by the secretariat)	TRADE/AC.14/R.2



