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INSTITUTIONAL MECHANISMS FOR ECONOMIC AND
INDUSTRIAL CO-OPERATION AMONG MEMBER COUNTRIES OF THE
COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE *

Prepared by the

International Centre for Industrial Studies

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INTRODUCTION

The Lima Declaration and Plan of Action on Industrial Development and Co-operation paid special attention to developing regional and subregional economic co-operation as one of the means of promoting industrialisation and the establishment of a new international economic order.

Taking into consideration the growing interest in the development of economic and industrial co-operation as well as the complications faced by countries initiating regional or subregional co-operation schemes, a comprehensive analysis of the related problems based on the review of experience already accumulated by existing regional groupings would be of great importance. In this connexion, the Ad Hoc Committee on Long-Range Strategy for UNIDO in its report endorsed by the Industrial Development Board (Resolution 42 (VIII), Section A, para. 1) recommended undertaking studies of "existing schemes and possible models for economic co-operation at the subregional and regional level, which would include the experiences of countries with different economic and social systems, with a view to identifying opportunities to develop industries, and to avoiding overlapping of efforts" (ID/B/142, Para. 26(b)).

Following this recommendation, the International Centre for Industrial Studies has prepared within the framework of its work programme a study, the purpose of which is to provide basic information on the institutions established by countries with centrally-planned economies to promote the development of economic and industrial co-operation. The study concentrates mainly on institutional mechanisms, forms and methods elaborated by the participants in the Council for Mutual Economic Assistance (CMEA) to develop co-operation among countries with diverse levels of industrial development, varying territorial and population size, and unequal natural resource endowment.

The development of multilateral economic co-operation among countries with centrally-planned economies began in 1949 when the representatives of Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Union of Soviet Socialist Republics agreed to establish the Council for Mutual Economic Assistance and proclaimed it an open organisation which could be joined by other countries willing to participate in economic co-operation with the Council's member countries. With the admission of the German Democratic

Republic (1950), Mongolia (1962) and Cuba (1972) to CMEA membership, the Council for Mutual Economic Assistance has grown into an international community embracing countries with a total population of 360 million, which accounts for 9.5 per cent of world population. At the same time, CMEA countries' share in world industrial production had increased to 27.7 per cent by 1975. The increase was based primarily on accelerated growth rates of industrial production in CMEA countries, which during the period of 1960-1975 was 8.6 per cent, whereas the same indicator for world industrial production was about 6.1 per cent.*

Having started with the promotion of post-war economic recovery through reciprocal deliveries of raw materials, food supplies, machinery and equipment, CMEA member countries have gradually turned to a more diversified form of co-operation in economic planning, capital investments and to co-production in various industrial sectors, on the basis of specialization and complementarity. Along with the changing scope of co-operation, its initial institutional mechanisms, as formulated in the constituent documents, have received further elaboration.

The formation and development of the mechanisms for economic and industrial co-operation among the CMEA member countries was a gradual process evolving throughout the years of their existence. By the late 1960s the institutional co-operation structure had taken on definite shape: the different organs of the Council for Mutual Assistance acting as the main policy-making bodies, the bilateral intergovernmental commissions and specialized industrial co-operation agencies as action-oriented organizations. All these components are equally important, complementary institutions within the system of balanced organization of economic co-operation, although each of them uses its own resources and methods in its own sphere to promote the co-ordinated development of co-operation in different sectors of the economy.

In accordance with the existing institutional co-operation structure, the study deals with the functions and performance of the organs of the CMEA; with the structures and work of specialized economic co-operation agencies established by the CMEA countries; and with the organizational aspects of bilateral economic co-operation between the countries. A special

*UNIDO estimates based on data communicated by UNSO.

chapter is devoted to the functioning of international financial agencies and the multilateral system of payments established by the CMEA to promote economic co-operation among the countries and the operations of the respective international organizations.

The present study is based on official documents issued by the CMEA Secretariat and specialized agencies of the CMEA countries, and on findings published by scholars studying the problems of economic and industrial co-operation among the CMEA countries.

Chapter I

ORGANIZATIONAL MECHANISMS OF THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE

General principles and methods of international co-operation

Economic co-operation among the member countries of the Council for Mutual Economic Assistance is based on a number of general principles and guidelines which express the common character of economic development of the participating countries, as well as their common political and social goals. At the same time, these principles take into consideration the different levels of economic and industrial development of the CMEA countries and, hence, specific development problems faced by them, diverse territorial and population sizes, unequal natural resource endowment, and varying historical and cultural backgrounds.

The fundamental principles of economic co-operation elaborated by the CMEA countries during the first years of co-operation are set forth in the Charter of the CMEA (adopted in 1960 and subsequently amended in 1962 and 1974) and in the Basic Principles of the International Socialist Division of Labour (adopted in 1962). The most essential of these principles are the following:

- Full equality and respect for the sovereignty and national interests of each member state;
- Interest-free economic assistance specifically aimed at evening out the levels of industrial development of the less advanced members of the community;
- Unification or co-ordination of the efforts of several countries to tackle common problems of industrial development;
- Combination of diversified and specialized patterns of economic development of each member country, depending on its natural resource endowment, geographical and socio-economic factors;
- Multilateral co-ordination of economic plans and co-operation in the field of economic forecasting;
- Accelerated growth of industrial output in the member countries with minimized production costs resulting from efficient international co-operation.

Based on these principles CMEA countries were able to establish adequate organisational mechanisms for economic and industrial co-operation allowing them to promote mutual assistance, specialization in production and accelerated industrial growth in the less advanced member countries of the community. Equally important was the fact that the application of the agreed principles of co-operation made it possible for the CMEA countries to take further steps towards strengthening economic ties since by the beginning of the 1970s their increased national economic and industrial potential would call for more diversified schemes of international economic co-operation.

Bearing this in mind, the Governments of the CMEA countries, in co-operation with the organs of the CMEA, formulated a programme for further co-operation, which after its adoption in 1971 was named Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member Countries. The programme has: set out a large package of interconnected measures for joint economic activities of the CMEA countries; established stages and deadlines; described the economic, institutional and legal mechanisms for their realisation through the joint efforts of the CMEA countries; and elaborated further on the principles of co-operation.

In this respect, the main specifications made in the Comprehensive Programme relate to a more selective application of the principle of an interest-free economic assistance which places greater emphasis on assistance to Mongolia and Cuba, and to a detailed clarification of the approach to the problem of national sovereignty in the course of economic co-operation. According to the Comprehensive Programme,^{1/} co-operation among CMEA countries does not entail the establishment of supranational bodies, and it cannot affect domestic planning, autonomous economic accounting and financial systems etc. Another important specification is that the absence of supranational bodies offers favourable opportunities for any non-member country to participate, fully or partially, in all types of CMEA activities.

^{1/} See "Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member Countries", Progress Publishers, Moscow, 1971, page 15.

Following the experience accumulated, CMEA countries have formulated in the Comprehensive Programme a general concept for economic integration of centrally-planned economies. Its main aspects provide that the development of economic integration is a process regulated in a conscious and planned manner by the Governments of the member countries so as to form deep and lasting links among the countries in the basic branches of economy, science and technology, to broaden the national markets of the member countries, and to facilitate the flow of goods and services among them. The final goals of integration are the creation of favourable conditions for a more effective use of natural and human resources of the member countries, the formation of a modern, flexible structure of each of the national economies, and the gradual convergence of the economies while ensuring the maintenance of independent, original paths of economic development.

In the Comprehensive Programme the following points are declared to be the basic methods of further perfecting co-operation and developing economic integration:

- (a) Conducting multilateral and bilateral mutual consultations in the sphere of basic economic problems;
- (b) Perfecting the system of multilateral and bilateral co-operation in the field of planning country activities, including co-operation in economic forecasting, the co-ordination of both five-year plans and of longer-term plans in the key branches of national industry, joint planning by interested countries of individual types of production, and the sharing of experience in the field of directing national economy;
- (c) Planning the development of industrial co-operation on the basis of specialisation and complementarity in the fields of production, science and technology, the uniting of efforts by the parties concerned with the aim of jointly prospecting for, and exploiting, usable resources, building of industrial enterprises, and conducting scientific research projects;
- (d) Expanding mutual trade turnover coupled with upgrading its national effectiveness, perfecting its organisational forms based upon state monopoly, and further developing an independent price system in foreign trade within the CMEA;

- (e) Promoting direct contacts between ministries, central agencies and other state organs, economic, research and development and construction organisations of member countries of the CMEA;
- (f) Developing existing international specialised organisations and the establishment of new ones by interested countries;
- (g) Elaborating legal aspects of economic, scientific and technological co-operation, improving its international legal foundations with particular attention to the financial responsibility of the parties involved in mutual commitments.

With a view to enabling non-member countries to expand their co-operation with the CMEA, the Programme has also formulated some general guidelines which provide for flexible ways and means of achieving such co-operation.^{2/}

Since it is planned to realize the Comprehensive Programme within 15 to 20 years, the Governments of the CMEA countries have recognized the feasibility of breaking it down into several stages corresponding to the five-year plan periods. The Comprehensive Programme as such has given new impetus to the development of multilateral schemes of co-operation. As a result the CMEA countries adopted in 1975 the Concerted Plan for Multilateral Integration Measures for 1976-1980 which grouped together the major economic co-operation projects for joint implementation and specified forms, stages and methods of handling.

The Concerted Plan deals broadly with three different tasks. First it contains outlines regarding the material, financial and, in some cases, labour transfers for the joint projects which started before 1976. Secondly, a number of multilateral specialisation and co-operation agreements in the engineering and chemical sectors are detailed and co-ordinated with the activities of the relevant specialised CMEA agencies. Thirdly, scientific and technical co-operation projects are included in the integration plan, particularly in order to improve and extend new sources of fuels and energy.

The real significance of the Concerted Plan for the promotion of economic and industrial co-operation lies not only in its comprehensiveness,

^{2/} Ibid., p. 98.

but also in the fact that each CMEA country has incorporated the obligations arising therefrom in its national medium-term and annual plans. Since the obligations entered into deal with crucial components of regional co-operation and trade, it is hoped that during 1976-1980 significant intra-regional capital flows will be generated.

Another important feature of the Concerted Plan is a flexible application of the principle of multilateral co-ordination of national economic plans in the sphere of joint industrial production. Although the centrally-planned nature of the CMEA economies permits the development of co-operation through direct control in the production sphere and, hence, the co-ordination of national economic plans will remain the key instrument in forging ahead with the integration of production, market-type instruments will also be allotted an important role in implementing integration measures, especially in the formulation of tasks on the basis of cost-benefit analysis and in regulating co-operation between industrial enterprises involved in joint industrial production schemes.

Taking this into consideration, the Concerted Plan, as was recommended in the Comprehensive Programme, has also outlined some changes that might be made in specific monetary and financial instruments, as well as revisions in the associated institutional mechanisms.

Main organs

The realisation of the agreement signed in 1949 by the CMEA countries required a complex and reliable mechanism which could provide the Governments with a forum for multilateral discussions and consultations in order to initiate measures to encourage economic, scientific and technological co-operation among the member countries, to serve as a co-ordination centre for the national economic institutions of the CMEA countries, to assist the countries in the preparation, co-ordination and implementation of joint programmes in various economic sectors, to promote the decision-making process and to prepare various studies and documents for discussion.

In compliance with these tasks the structure of the Council for Mutual Economic Assistance includes the following organs: the Session of the Council,

the Executive Committee, the CMEA Committees and Standing Commissions, as well as the Conferences of the heads of departments of the member countries, research institutes and the CMEA Secretariat. Their functional relationship can be seen in the diagram on page 7.

The Session of the Council is the highest organ of the CMEA and is comprised of delegations of all the member countries. National delegations to the meetings of the Sessions of the Council were initially led by the Deputy Prime Ministers of the member countries in charge of economic affairs; however, from 1970 onwards and in order to upgrade this organ's importance, delegations have been headed by the Prime Ministers themselves. The composition of delegations is determined by the Governments of the respective countries.

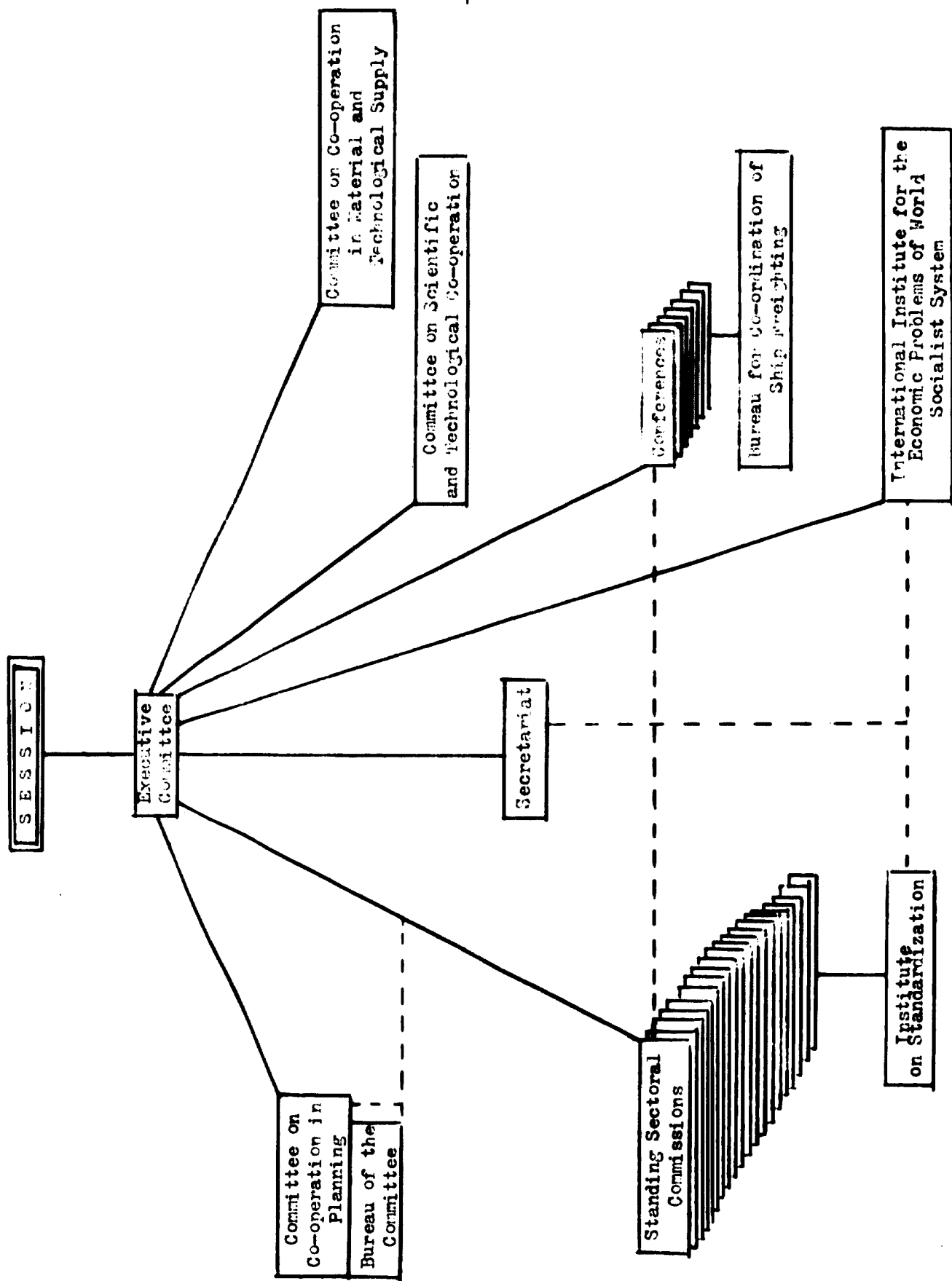
According to the CMEA Charter, the Session is empowered to discuss all questions falling within the competence of the Council and to adopt recommendations and decisions. The Session considers the main questions concerning co-operation in the field of economy, science and technology, and determines the main trends of the activities of the Council. The Session of the Council has the power to establish such bodies of the CMEA as it deems necessary to carry out the functions of the Council.

As a rule regular meetings of the Session are convened once a year on a rotation basis in the capitals of the member countries under the chairmanship of the head of the delegation of the host country. An extraordinary meeting of the Session may be called at the request, or with the consent, of not less than one-third of the CMEA member countries. A total of 31 meetings of the CMEA Session had taken place by 1978.

Immediately following the Session is the Executive Committee which is the main executive organ of the CMEA. It is comprised of representatives of all the CMEA member countries at the level of deputy heads of Government with one representative from each country. In accordance with the Charter of the Council, the Executive Committee has the right within its terms of reference to make recommendations and decisions and also to submit proposals to the Session for consideration.

The Executive Committee is in charge of the entire range of activities related to the implementation of tasks facing the Council in compliance

Diagram I
General Structure of the Council for Mutual Economic Assistance



with the decisions of the CMEA Sessions and is also in charge of the activities of the Council's Committees and Standing Commissions and other CMEA organs and defines the basic guidelines and trends of these organs' activities. As a rule, the meetings of the Executive Committee are held once every quarter, with a total of 82 meetings having taken place by the end of 1977.

The CMEA Specialized Committees were added to the initial structure of the Council during 1971-1974. Altogether there are three such Committees: the CMEA Committee on Co-operation in Planning (set up in 1971) is comprised of representatives of the CMEA countries at the level of chairmen of the central planning bodies. The Committee promotes the expansion of co-operation in the field of planning activities, and the further development and extension of economic co-operation among the CMEA member countries. The Committee's Bureau on Co-operation in Planning is a standing working body of the Committee and is comprised of representatives of all the CMEA countries at the level of deputy chairmen of the central planning bodies. As a rule, meetings of the Committee are convened at least twice a year.

The CMEA Committee on Scientific and Technological Co-operation (set up in 1971) is comprised of representatives of the CMEA countries at the level of either chairmen, ministers or heads of agencies dealing with science and technology. Usually this Committee meets twice a year. It has initiated multilateral scientific and technical co-operation among the CMEA member countries to use more effectively the scientific and technological potential of the countries concerned and has enhanced the acceleration of scientific and technical progress in the CMEA group on the basis of co-ordination and joint scientific and technological research. The Committee also promotes the development of multilateral and bilateral technological co-operation between its members.

The CMEA Committee on Co-operation in Material and Technological Supply (set up in 1974) is comprised of the heads of the central agencies, the terms of reference of which cover material and technical supply. The purpose of the Committee is to promote the extension of co-operation among CMEA countries in the field of organisational matters related to the supply of machinery, equipment and raw materials. This Committee also convenes twice a year.

All three Committees of the Council adopt recommendations and decisions within their competence and may also submit appropriate proposals for

consideration by the CMEA Executive Committee and by the Session of the Council.

The CMEA Standing Sectoral Commissions are established by the Session of the Council for the purpose of promoting closer ties at the sectoral level among the CMEA countries and organizing multilateral economic, scientific and technological co-operation in various branches of the national economy. The Standing Commissions are composed of delegations appointed by the member countries of the Council. They are empowered to make recommendations and decisions within their terms of reference. They may also submit proposals for consideration by the Executive Committee, by the Session and by the other organs of the Council.

The first Standing Sectoral Commissions were put into operation in 1956. To date their number has reached 22, covering practically all sectors of CMEA economies. There are Standing Commissions on: agriculture, the chemical industry, the coal industry, construction, monetary and financial matters, electric power, the ferrous metal industry, the food industry, foreign trade, geology, light industry, machine-building, the non-ferrous metal industry, the oil and gas industry, post and telecommunications, radio-engineering and electronics industry, standardisation, statistics, transport, and the peaceful use of nuclear atomic energy. Recently Standing Commissions were established for civil aviation and medical problems.

Unlike the other organs of the CMEA, the headquarters of the Standing Commissions are situated in the capitals of different member states depending on the importance which a country attaches to a given sector of co-operation and on its relative share in the country's economy. Of 22 Standing Commissions, 2 are in Sofia, 3 in Berlin, 2 in Prague, 3 in Budapest, 7 in Moscow, 2 in Warsaw, 2 in Bucharest and one in Ulan Bator. The chairmen of these organs are the respective ministers of the Governments in the capital cities of which the individual Standing Commissions are located (e.g. the Polish Minister of Transport in the case of the CMEA Standing Commission for Transport, etc.). In those Standing Sectoral Commissions in which co-operation is being developed in different fields, sections or standing groups are created. Normally, each of the Standing Commissions has one or two meetings every year.

Although the powers of these Commissions are limited to a definite range of matters pertaining to co-operation in concrete branches of economy

or other spheres of activity, it should be emphasized that since the countries' delegations usually have top-ranking executives of economic branches as their members, this facilitates the elaboration and adoption of weighty recommendations and decisions as well as their subsequent implementation. Another important factor is that the Standing Commissions have an effective means of thoroughly going into problems: based on their own rules of procedure they can form working organs and convene international action-oriented meetings and scientific conferences.

In addition to Standing Sectoral Commissions, another type of organ called Conferences was established in 1974 with the main task of organizing the exchange of experience and multilateral co-operation among the respective ministries and agencies in non-industrial sectors. The following seven Conferences are included in the CMEA structure as standing bodies: the Conference of Ministers of Internal Trade, the Conference of Representatives of the CMEA Member Countries on Legal Matters, the Conference of Heads of Pricing Agencies, the Conference of Heads of Water Resources Authorities, the Conference of Heads of Labour Authorities, and the Conference of Heads of Patent and Invention Agencies. The Conference of Representatives of the Freight and Shipping Organizations also operates within the CMEA framework.

The Secretariat of the CMEA is an executive and administrative organ of the Council. It is comprised of the Secretary of the Council, his deputies and international staff as required for the performance of the functions assigned to the Secretariat. The chief administrative officer of the Council is the Secretary who is appointed by the Session of the Council. He represents the Council in relations with officials and organizations of the members of the CMEA and other countries as well as with international organizations. Deputy-Secretaries of the Council are appointed by the CMEA Executive Committee. According to the status of the CMEA Secretariat, the Secretary, his deputies and international staff are appointed for terms of four years with a possibility of extension.

The Secretariat of the Council organizes or helps to prepare and hold meetings and conferences of the CMEA organs within the framework of the Council. It also prepares or contributes to the preparation of necessary documents for meetings of the Council bodies. The Secretariat compiles economic surveys and conducts economic research based on the data provided by the Council's member

countries. The Secretariat drafts proposals on separate questions relating to the Council's work for consideration by the corresponding organs of the CMEA. The Secretariat is also responsible for the co-ordination of activities of Standing Sectoral Commissions and Conferences.

Six times a year the Secretariat issues the information bulletin Economic Co-operation of the CMEA Member Countries published in the languages of the CMEA countries. The official languages of the Secretariat as well as of the other CMEA organs are the languages of nine member countries, whereas the working language is Russian. The Headquarters of the Secretariat are in Moscow (USSR). The structure of the Secretariat is shown in Diagram II.

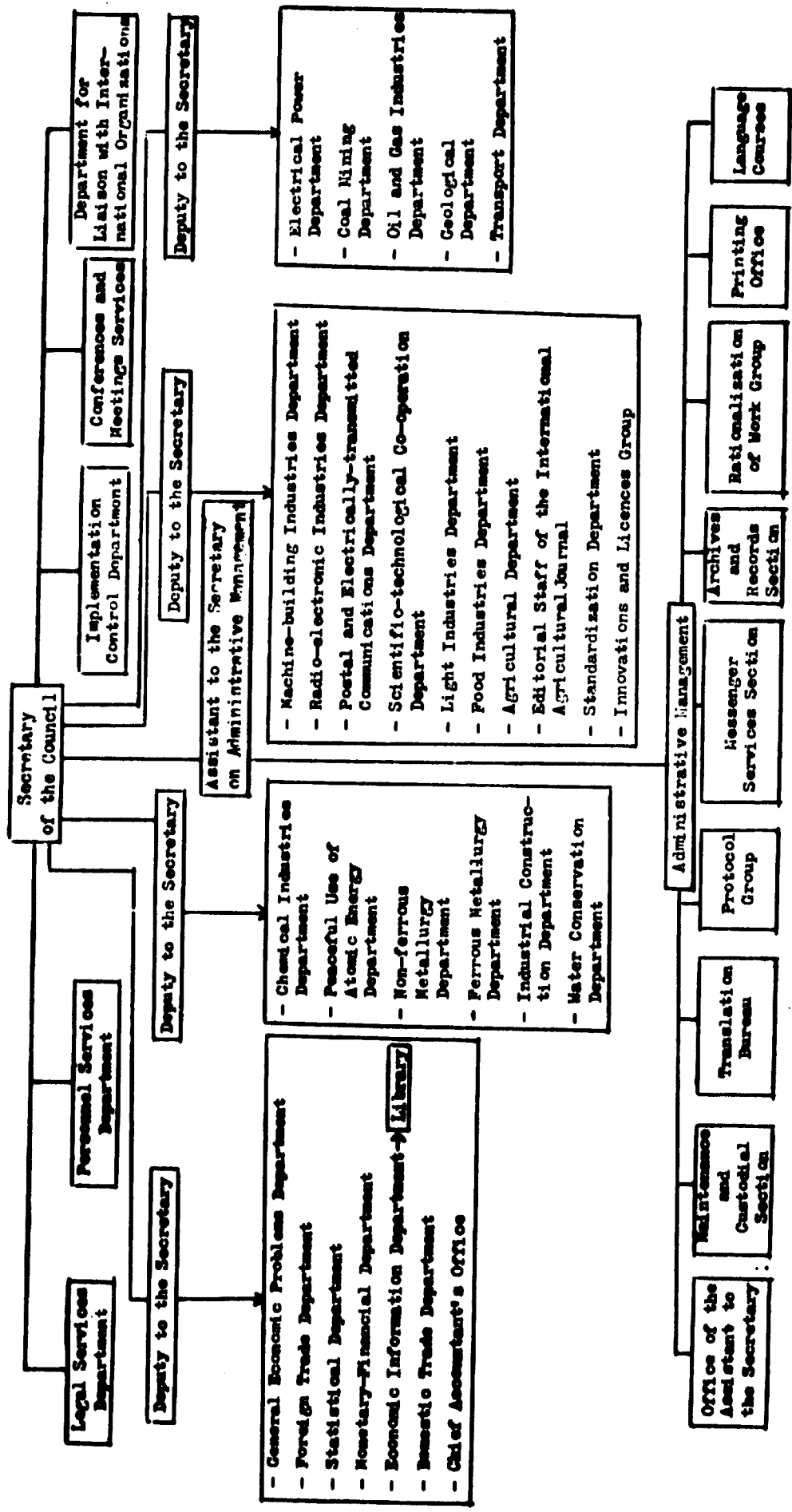
A few words may be said about the difference in personnel recruitment between the CMEA Secretariat and other regional and international organizations of the world. In the case of the CMEA, professional "tenured" international civil service does not exist. Although appointments are granted for a period of not less than four years (which period may also be extended), an appointee may be recalled at any time by his or her national government.

When recruiting professionals, emphasis is placed on their vast practical experience in that sector of economy or industry which is handled by the section of the Secretariat for which the expert will work.

Among the Council's organs there are also three semi-autonomous ones: the CMEA Institute of Standardization, the Bureau for the Co-ordination of Ship Freighting, and the International Institute for the Economic Problems of the World Socialist System.

The CMEA Institute of Standardisation (set up in 1962) conducts studies and drafts proposals for the unification of existing and the development of new standards with a view to facilitating the development of standardization in the member countries of the CMEA. Its main activities are concentrated on theoretical and experimental research concerning the solution of scientific and technical problems in setting up international standards for machinery and equipment manufactured in the CMEA region and are aimed at the preparation of relevant recommendations for the competent organs of the Council (especially for the Standing Commission on Standardisation). Headed by a Director and his deputies, the Institute is staffed by international experts, technical and auxiliary personnel, and has an advisory council. The Director

Diagram II
Structure of the CMEA Secretariat (1973)



and his deputies are appointed by the Executive Board of the CMEA after their names have been put forward by the Secretary of the CMEA Secretariat and agreed upon with the Standing Commission on Standardization. The Institute is located in Moscow, USSR.

The International Institute for the Economic Problems of the World Socialist System (set up in 1970) is called upon to carry out theoretical, methodological and applied studies of economic problems faced by CMEA countries. It also co-ordinates the activities of national economic research organisations and undertakes studies on different aspects of economic co-operation and integration in the CMEA region. The Institute, which is directly subordinate to the Executive Committee, has a Scientific Council presided over by the Director of the Institute which meets as often as necessary but not less frequently than twice a year. The Director and his deputies are appointed by the Executive Committee, after their names have been put forward to the Secretary of the CMEA on the basis of recommendations made by the member countries. In selecting the Director and his deputies, the Executive Board adheres to the criteria of academic competence and takes into consideration potential proposals concerning the order of priority in the filling of these positions, while ensuring that the individual countries are equally represented. The staff of the Institute consists mainly of research scholars from different CMEA countries specialized in general problems of economic and industrial development. The Institute is located in Moscow; its working language is Russian.

Finally, the Bureau for the Co-ordination of Ship Freighting was created in 1962 by the decision of the Executive Committee of the CMEA. The Bureau is in fact the permanent executive organ of the Conference of Representatives of the Freight and Shipping Organisations of the CMEA countries which meets within the framework of its Standing Commission on Transport. The aim of the Bureau is the improvement of co-operation among its participants in the field of shipping with a view to a more rational use of their respective capabilities and the co-ordination of activities in the use of world freight services. The Bureau has a relatively small staff consisting of the Director, some experts and technical personnel. The essential part of its activities is connected with providing national shipping organisations of the CMEA countries with up-to-date information on changes in the world freight market.

Procedural aspects

According to the Charter of the CMEA all member countries enjoy equal representation in all the organs of the Council. Following the principle of equality, the resolutions of the CMEA can enter into effect only after their having been approved by all member countries. There are two basic types of resolutions adopted by the majority of the CMEA organs: recommendations and decisions. At the same time, it should be mentioned that there are also other forms of legal activity of the various organs of the Organisation. Thus the Executive Committee may present proposals to the Session of the Council; similarly, the Committees and the Standing Commissions may submit proposals to the Session and to the Executive Committee.

As far as recommendations and decisions are concerned, the Charter provides that recommendations can be adopted on matters related to fundamental problems of economic, scientific and technical co-operation, whereas decisions can be taken on organisational and procedural matters.

Recommendations are not immediately binding. They are adopted ad referendum because, after having been passed in the respective CMEA organ, they have to be presented to the member countries for final acceptance or rejection. Within 60 days from the date on which the minutes of the pertinent meeting of the respective CMEA organ are signed, national decisions are supposed to be communicated to the Secretary of the Council or - in the case of the recommendations of the Standing Commissions - to the head of the respective department of the Council's Secretariat.

Decisions, on the other hand, enter into force, unless otherwise provided in the decisions themselves or as follows from the nature of the decision, as of the date on which the minutes of the meeting of the respective organ of the CMEA are signed.

Closely connected with the question of resolutions, their types and legal effects, is the problem of voting and the number of votes required to have a resolution passed. In the case of the CMEA, the relevant provisions of its Charter stipulate that all recommendations and decisions can be adopted only with the agreement of the member countries interested, each country being authorized to declare interest in any question dealt with by

the Organisation. Recommendations and decisions do not apply to countries which declare their lack of interest in a given question. However, each of these countries may later accede to recommendations and decisions adopted by the other member countries.

The basic idea of consensus among all interested countries implies that a country declaring its lack of interest cannot block the adoption of any resolution suitable for the other countries. At the same time, the adoption of such a resolution provides a guarantee that the resolution will not be applied to a country which has not participated in the entire procedure. A country claiming not to be interested in some matters under consideration in the Council is entitled to receive the information on the process of implementation of relevant resolutions, and nothing can prevent it from joining at any time the resolutions adopted by the interested countries. It is thus ensured that the CMEA may not adopt recommendations or decisions that are either detrimental to the interests of some countries or purely governed by the unilateral privileges of certain member countries.

The manner in which CMEA resolutions are adopted closely corresponds to that of their implementation. Since CMEA countries reject the concept of a supranational body adopting legally-binding decisions, which can affect the autonomous economic development of its members, all the CMEA resolutions (recommendations in particular) are materialized through national channels. The resolutions of the Council are implemented only after a national Government has decided thereupon or authorized another competent national body to take a decision. In reality CMEA recommendations are materialized by the Governments through the proper re-distribution of resources within the framework of a national economic development plan and through the system of bilateral intergovernmental commissions on economic co-operation and bilateral foreign trade agreements. Starting in the late 1960s an ever-increasing role in the realisation of the Council's resolutions has been played by specialised economic and industrial co-operation agencies established by the interested CMEA countries.

Chapter II

SPECIALIZED ECONOMIC AND INDUSTRIAL CO-OPERATION
AGENCIES ESTABLISHED BY CMEA COUNTRIES

Classification and functions of the specialised agencies

Co-operation experience within the framework of the CMEA organs has shown that, in addition to this type of co-operation, it is advisable and beneficial for CMEA countries to pool their efforts within the framework of various types of action-oriented specialised agencies. Following this idea, the CMEA countries began during the mid-1960s to establish a number of specialised international co-operation agencies in different sectors of economy and industry. This process continues as new agencies come into being almost every year.

The majority of specialised agencies for international co-operation set up by the CMEA countries are active in the field of industrial production, although some international agencies deal with scientific research and development or with commercial and financial matters. All these organisations are based on the same general principles of co-operation as those of the CMEA organs, and they employ more or less similar procedures and methods. Nevertheless, there are distinct specific features in the forms of activity, performance and structure of these specialised agencies, depending on the sphere of co-operation in question. There is also a numerical difference in the membership. For instance, the majority of the CMEA countries belong to the Organisation of the Co-operation in Electric and Postal Communications and to the International Investment Bank, whereas only a few belong to Intermetal. Moreover, only two countries belong to such joint-stock companies as the Polish-Hungarian Haldex, and the Bulgarian-Hungarian Intransmash.

Some specialised agencies have been set up pursuant to direct recommendations by the corresponding CMEA organs (the Council, as a rule, works out draft documents for their establishment). Others have been set up independently by the countries concerned, although CMEA organs receive information on their activities. In this connexion, a few words should be said about relations between specialised agencies set up by CMEA countries and the organs of the CMEA.

As the Comprehensive Programme stipulates, the activities of both existing and newly-formed organizations for international co-operation, set up by the CMEA countries interested, are supposed to be properly co-ordinated with the activities of the Council. Since such organizations are autonomous bodies with their own responsibilities, financial resources, machinery and procedure, the most suitable way for such co-ordination is the conclusion of agreements and protocols signed by the heads of the agencies concerned and the head of the CMEA Secretariat. The agreements usually stipulate that the agencies will co-operate with the organs of the CMEA as specialized organizations. When creating specialized agencies, the CMEA member countries normally introduce into the constituent documents of these organizations provisions necessary for the establishment of their relations with the CMEA Secretariat. But the fact that specialized agencies are set up by the member countries of the CMEA does not mean that these organizations are subordinate to, or to be identified with, the organs of the Council as an international organization. On the whole, it can be claimed that an analogy with the United Nations "family" (the United Nations itself and its specialized agencies) would be fairly consistent.

As regards their nature, functions and legal status, the specialized agencies for economic and industrial co-operation in the CMEA countries are classified into two broad categories: interstate economic organizations and international associations.

The main distinctive feature of interstate economic organizations is a rather co-ordinative/regulatory character of their activities; they are usually founded on the basis of interstate agreements. The states are represented in such agencies through their respective ministries, state committees, boards, chief administrations, etc. There are three general types of interstate economic organizations: agencies co-ordinating activities in the field of industrial production, agencies acting as international control boards, and agencies dealing with financial and banking matters.

As far as international associations are concerned, they can be characterized by the fact that they function on a self-financing basis and that the countries are represented in such agencies by their national economic or industrial units and/or organizations (industrial enterprises, trusts, associations, combines, research institutes, design offices, etc.) subject to civil law. The participants in these agencies retain their full

independence as regards property, organisation and legal status. One can single out within this category of agencies international joint enterprises or joint-stock companies.

A general scheme classifying all the specialized agencies established by the CMEA countries is given on page 19. It should be noted, however, that some of the agencies included in the scheme do not fit entirely within the framework of the categories mentioned above. For instance, INSA (International Ship Owners Association) and the International Laboratory of Strong Magnetic Fields and Low Temperatures are not composed of governmental bodies as are the other interstate organisations. The participants are the respective transportation and research organisations from a number of countries, but, unlike the international associations, they do not function on a self-financing basis. In other words, they occupy an intermediate position between the two categories of specialised agencies.

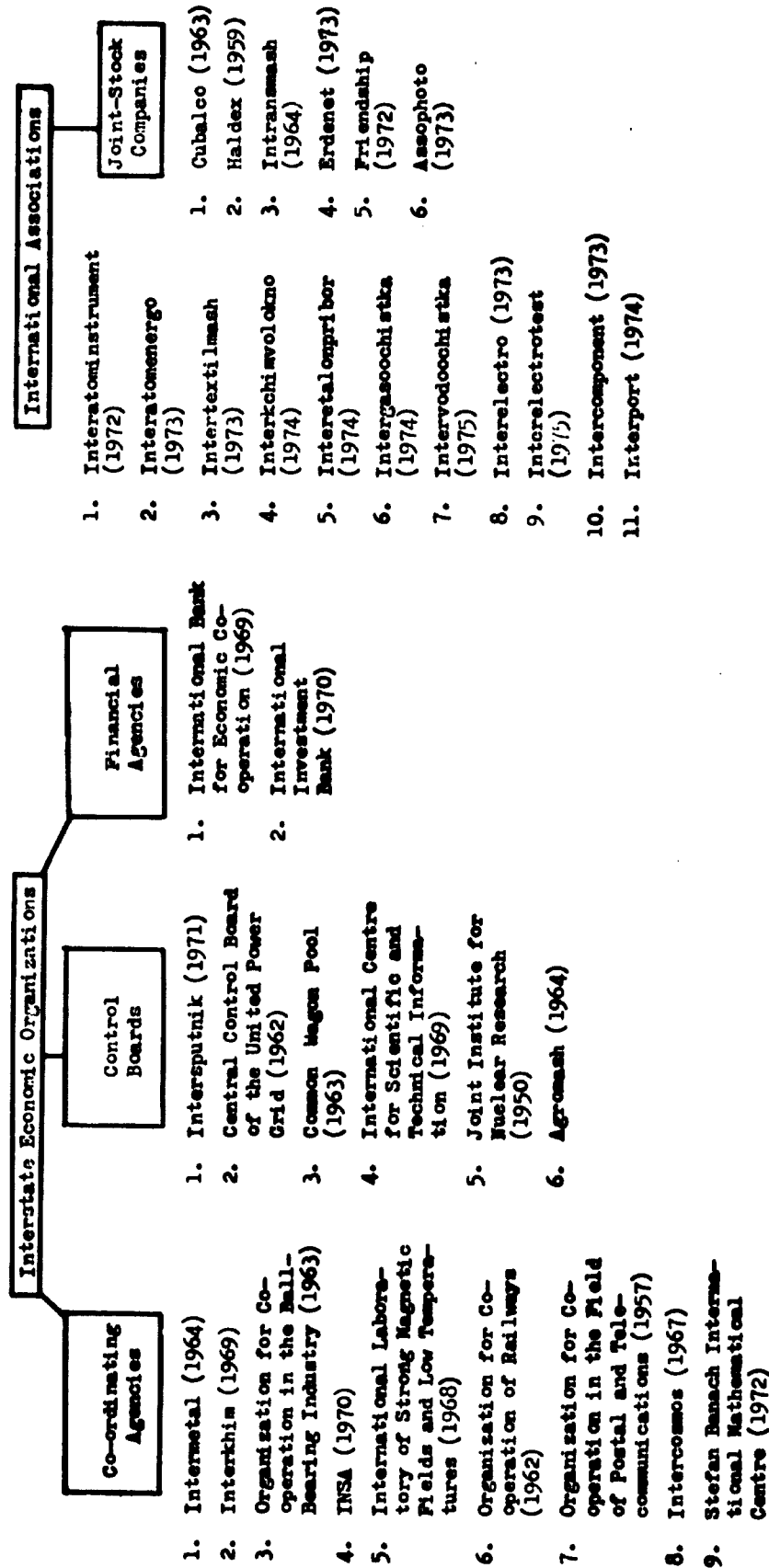
The main objective of the specialised agencies, irrespective of their differences in legal status and sphere of activity, is to co-ordinate the efforts of the participating countries aimed at co-operation and joint economic activity in specific fields of economy, science and technology, specific industrial sectors, sub-sectors, and individual lines of production.

In the case of interstate economic organisations this means that the following general functions are performed:

- (a) Joint or co-ordinated elaboration of forecasts of the development of science, technology, production sales, etc.;
- (b) Co-ordination of the technological and economic development of the respective sectors of industrial production;
- (c) Organisation of joint or co-ordinated research and design work;
- (d) Exchange of technical and economic information and mutual consultations;
- (e) Preparation of technical data needed for the elaboration of standards primarily for complementary and specialised products;
- (f) Working out appropriate measures to improve the quality of products;
- (g) Co-ordination of the planned targets of industrial production and the joint planning of the respective industrial sectors, separate lines and items of production;

Diagram III.

Specialized Economic and Industrial Co-operation Agencies of the CMEA Countries^{a/}



^{a/} The year of establishment is given in brackets.

- (h) Long-term and current co-ordination of capital investments and the expansion of industrial capacities;
- (i) Elaboration of co-ordinated measures on the utilisation of idle industrial capacities in the participating countries;
- (j) Elaboration of agreed terms for mutual deliveries (product mix, quantities, time schedules and deadlines) with the subsequent formalisation of arrangements in trade agreements and contracts;
- (k) Regular exchange of information on goods in stock with a view to a better utilization of existing reserves and systematic supplies of components and spare parts.

Depending upon the existing conditions and the needs of participating countries, the functions listed above may be narrowed down or extended.

The majority of interstate economic organizations are more or less similar in structure; a decision-making body made up of representatives of the participating countries and an executive body (secretariat, bureau, etc.).

Decisions on key questions, important to the existence of interstate economic organizations and determining the principal trends in their activities, are adopted in accordance with the principle of unanimity by the representatives of the participating countries. The range of such questions is usually defined when the organization in question is founded. Decisions on other questions within the competence of the managing body are adopted with the consent of the interested members, and the lack of interest of any member country does not prevent the other countries from carrying out measures agreed upon by them. Decisions are not valid for countries which declare a lack of interest in any given question.

To implement the decisions of the managing body, the respective administrative organs of the countries usually sign so-called "agreements on implementation".

The budgets of interstate economic organizations are financed from annual contributions of the participating countries. The total amount of these contributions is fixed by a special agreement between the participants.

As a rule the constituent documents of interstate economic organizations contain articles providing non-member countries with the opportunity to co-operate or to join.

Unlike interstate economic organizations, international production associations operate on a self-financing basis and cover their expenses out of their own incomes; but sometimes, especially in the initial stage of their work, their expenses are covered out of the contributions made by the participants in accordance with arrangements agreed upon between them. The agreement on the foundation of an international production association along with the articles stating that its income is to be based on the results of its activity usually contains paragraphs providing for the financing of the organization from contributions of the participants.

Being a relatively new phenomenon in the field of industrial co-operation among CMEA countries, international production associations, as practice has shown, operate in a narrow, highly-specialized industrial sector or sub-sector, such as the production of textile machinery, synthetic fibres, etc. Sometimes they handle problems concerned with co-operation in all stages of production and marketing—research, design, industrial production, sales, technical servicing, and transportation. Sometimes they deal with a limited individual sphere: for example, the sphere of research or sales, or the production of an item which is in short supply. Depending on the sphere of their activity, international associations may assume such forms as production associations, institutes, research and development offices, mixed companies, and trading or servicing centres.

Some of the functions of international associations resemble those of interstate economic organizations, but are performed at the level of industrial enterprises; research and development institutes, sales and services centres; the other functions are concerned with joint economic activity and co-production in individual spheres of technology, applied research and development, foreign trade and services. Such functions usually include:

- (a) Mutual production of machinery and equipment on the basis of horizontal and/or vertical specialization;
- (b) Organization and carrying out of construction works on contract, supplies of equipment for enterprises, applied research and design work;
- (c) Co-ordination and organization of the manufacture of products in short supply;
- (d) Co-ordination of marketing activities;

- (e) Organization of services;
- (f) Technical assistance to third countries.

In any event, the functions of international associations are closely tied up with the national economic plans of the countries concerned. They can be extended or narrowed down in accordance with conditions prevailing in a given sphere of the activity of any association.

The organizational structures of international associations are usually determined by the concrete tasks of each association. In cases where the associations are carrying out extensive co-ordinating functions and handling a wide range of matters, they include a managing body, consisting of representatives of all the members of the association, and an executive body, the task of which is to implement the directives of the managing body.

The managing body effects the general management of the association on the basis of the principle of unanimity on the decisive questions of the association's activity, the range of which is defined in the agreement on the establishment of a given association. The executive body, working in accordance with the authority vested in it by the managing body, carries out the current activities of the association. As a rule, the constituent documents of international associations stipulate that their managing and executive bodies should maintain close co-operation with the respective national planning and foreign trade offices of the participating countries.

In cases where international associations are set up to handle a narrow sphere of activity, their structure may be simpler depending on the tasks defined in the agreement on their foundation.

The fact that the proliferation and development of specialized co-operation agencies has been most rapid indicates the importance attached by CMEA countries to this form of industrial and economic co-operation, as being complementary to the activities within the framework of the CMEA organs. Although many of these organizations had to overcome different complications at the initial stage of their activities, a useful experience was accumulated, and optimal methods of practical work were gradually worked out, as can be seen from the description of some selected specialised agencies operating in different spheres of economic and industrial co-operation.

Central Control Board of the United Power Grid

The agreement concerning this Organization was signed in 1962. The electric power systems of Poland, the German Democratic Republic, Czechoslovakia, Hungary, the Byelorussian Soviet Socialist Republic, and the western part of the Ukrainian Soviet Socialist Republic which were already combined at the beginning of the 1960s were joined later by Romania and, in 1967, by Bulgaria. The Organization has as its task the co-ordination of the operations of these combined power systems, called "Mir" (peace), especially the exchange of energy. Its headquarters are in Prague, Czechoslovakia.

The highest organ of the Organization is the Council composed of one representative from each participating country. The Council discusses all aspects of the Organization's work and makes pertinent decisions with the unanimous agreement of the representatives of the countries concerned. The Council determines the expenses incurred and each participant contributes an equal share. The routine functioning of the Organization is handled by its administrative body, the management being headed by the Director who is appointed by the Council. The principle of one-man management is observed as it enables the Organization both to ensure its effective operation and to take into account the interests of all participants.

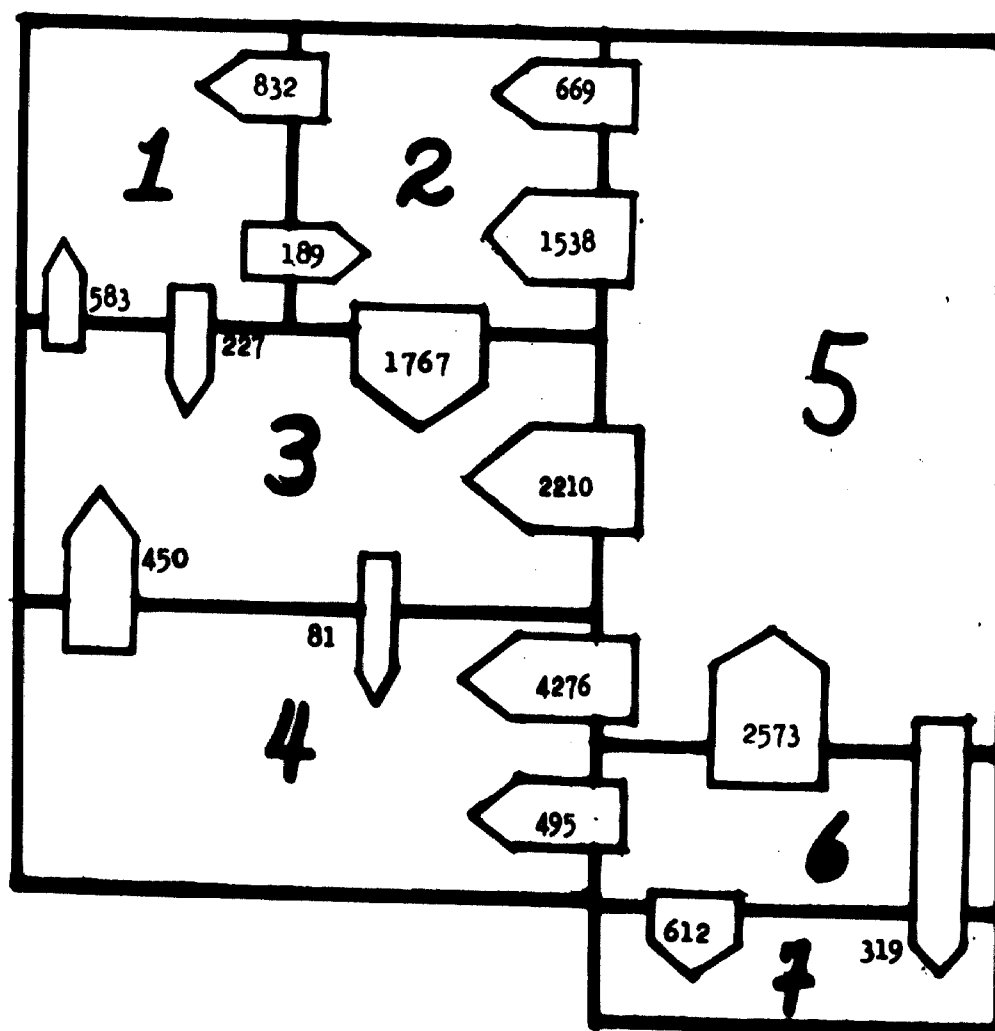
In order to ensure the uninterrupted functioning of the united power grids and current operation of the state distribution boards, the power grids of the participating countries have been linked via 24 110-400 kilovolt inter-grid power transmission lines. The installed capacity of the electric power stations working parallel has exceeded 76 million kilowatts, an increase of 39 per cent over 1971-1975. The mutual supplies of electricity in 1971-1975 reached 80,000 million kilowatt-hours, including electricity supplies in cases of emergency. ^{3/} Diagram IV demonstrates the breakdown of electricity deliveries among the member countries.

Co-operation in energy supply is being extended through the construction of 400-kilovolt and 750-kilovolt power transmission lines and 3 substations (Vinnitsa in the western part of the Ukrainian SSR, and Albertirsa in Hungary) by the countries concerned. Their total transmission capacity will be about 2,000 megawatts. Once commissioned in 1980, they will permit

^{3/} See "Foreign Trade", No. 7, 1977.

Diagram IV

Mutual deliveries of electricity in 1972 (kWh)^{a/}



1. German Democratic Republic
2. Poland
3. Czechoslovakia
4. Hungary
5. USSR
6. Romania
7. Bulgaria

^{a/} Source: CMRA Co-operation in Electricity Generating, R. Cilek, member of the Council of the Central Control Board of the United Power Grid.

the parallel operation of the CMEA power grids with an aggregate capacity of 205,000 megawatts. The USSR will supply through these facilities 6,400 million kilowatt-hours of electricity to Hungary, the German Democratic Republic and Czechoslovakia. When the lines are put into operation, the CMEA countries will save 1.6 million kilowatts at power stations by rendering mutual assistance during peak load periods which differ in each country.^{4/}

Organization for Co-operation
in the Ball-Bearing Industry

The agreement on the creation of the Organization for Co-operation in the Ball-Bearing Industry was signed in 1964 initially by Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary and Poland. Later Romania and the USSR acceded to it. The general aim of the Organisation is to ensure a faster development of the ball-bearing industries, to improve their quality, and to satisfy as fully as possible the ball-bearing requirements of the participating countries.

The headquarters of the Organization are in Warsaw, Poland. The main organ is the Directorate, composed of one representative from each member country. The Directorate may pass decisions, which are taken only with the consent of all contracting parties. The decisions enter into effect only if there is no rejection of them within the following 30 days by the competent ministries of the parties concerned. The executive organ is the Secretariat of the Directorate, composed of the Director of the Secretariat, his deputies and the requisite number of specialists and technical personnel.

The main duty of the Organisation is to regulate specialisation, and co-operation, in production and to maintain an international contingency reserve of ball bearings of different types. Before the Organization was set up, the majority of CMEA countries had to manufacture anti-friction bearings in small quantities, although it is a known fact that only mass production is economically feasible. Moreover, several countries were manufacturing anti-friction bearings of the same type and size, although they could not produce adequate quantities of other types and sizes of bearings. In addition, the demand for certain types and sizes of bearings

^{4/} Ibid.

in some of the countries is extremely high, whereas demand for other bearings is low (a few hundred, for instance). In order to eliminate existing discrepancies, the Organization had to concentrate, during the first years of its work, on the rationalization of production programmes with a view to diminishing the number of countries producing anti-friction bearings of similar types.

At present, the member countries of the Organization only duplicate the production of bearings that are needed in vast quantities, since the concentration of the manufacture of these bearings in one country would be unfeasible. Of the total amount of the anti-friction bearings used in the member countries, 98 per cent are produced in specialized plants distributed throughout the countries.

By the mid 1970s, the efforts of the Organization resulted in a considerable increase in output. In 1970-1974 the output of anti-friction bearings increased at a rate of 6 per cent per year as compared with an average world rate of 4.2 per cent for approximately the same period of time. Expanded output and mutual deliveries have helped to meet more satisfactorily the demand of CMEA countries for bearings. In 1964 the mutual deliveries of anti-friction bearings amounted to 17.6 million pieces, in 1975 they soared to about 54 million and in 1980 they are expected to top 71 million pieces. Compared with the 1975 level, mutual deliveries of anti-friction bearings by the members of the Organization will show an increase of about 31 per cent.^{5/}

Intermetal

This specialized agency was established by Czechoslovakia, Hungary and Poland in 1964; a year later they were joined by the German Democratic Republic, Bulgaria and the USSR. Yugoslavia and Romania signed an agreement on co-operation with Intermetal, in 1968 and 1970 respectively.

The main purpose of Intermetal is to improve the use of existing and future metal-making capacities and the exchange in certain types of rolled stock. The agency's activities are important in advancing co-operation among the CMEA countries in the iron and steel industry. Intermetal also drafts

^{5/} Ibid.

proposals and elaborates measures for product specialization and co-ordination of production programmes, submits proposals on co-ordination of capital construction and joint capital investment, and promotes mutual deliveries of metal products.

Intermetal is located in Budapest, Hungary. The highest organ of the Organization is its Council. Member countries are represented by delegations composed of three representatives, each delegation having one vote. The Council passes two types of resolutions: decisions and recommendations, which are carried out by the parties concerned in accordance with the decisions of the competent authorities of the various countries. The chiefs of the delegations of the member countries have to inform the Council about the progress towards realizing the resolutions adopted by the Council. Intermetal's executive organ is a bureau composed of a Director, his deputies, experts, and administrative and technical staff.

With the establishment of this Organization, rolled stock and other metal products have been exchanged by agreement on planned deliveries through quarterly wholesale exchanges. The Intermetal's bureau assists in arranging talks between representatives of participating countries, at which bilateral protocols are signed on the range and the quantity of products to be exchanged in the forthcoming quarter. This system enables the metal-makers to realize their surpluses of semi-finished and finished products quickly and to utilize temporarily idle production capacities. The consumers, on the other hand, can receive the types of rolled stock they lack from other countries in approximately the same time as they would need to place the order in their country.

As a result of Intermetal's efforts in the field of expansion of iron and steel industries, the mutual deliveries of ferrous products (rolled stock, pipes, pig iron, steel ingots, etc.) rose from 780,000 tons in 1964 to approximately 3 million tons in 1975,^{6/} and the countries have made much better use of their rolling mills.

Intermetal has contributed to the conclusion of an agreement between the USSR and Bulgaria, under which the Kremikovtei iron and steel works

^{6/} See "Foreign Trade", No. 8, 1976.

deliver 900,000 tons of bar stock to the USSR every year in exchange for metal products. Agreements on the specialisation of pipe production have been passed through Intermetal involving Bulgaria, the German Democratic Republic and Poland, as well as between Czechoslovakia and the German Democratic Republic.

At the beginning of the five-year-plan period for 1976-1980, Intermetal drafted a number of recommendations on the joint construction of metallurgical production capacities by interested member countries in order to expand the output of certain types of products, which are at present in short supply. In accordance with these recommendations, Czechoslovakia, Poland and the USSR will increase their deliveries of transformer sheet steel to Bulgaria, the German Democratic Republic and Hungary. Bulgaria, in turn, is expected to start the production of hot-rolled stainless steel coils to meet the needs of other countries. The German Democratic Republic intends to begin construction of a mill for the production of cold-rolled, stainless and acid-resistant steel plates, while Poland will start building a production line for tinning and chrome-plating steel strip to deliver canning metal sheets to Czechoslovakia, the German Democratic Republic and Hungary.

Agromash

The Organisation was set up in 1964 as a joint Bulgarian-Hungarian company; in 1968 the Soviet Union joined Agromash, followed ten years later by Czechoslovakia.

The Organisation's headquarters are in Budapest, Hungary, with branches in the capitals of the other three countries. It is financed directly by equal contributions from the participating countries. The income derived from the sale of agricultural machinery and equipment (with the deduction of a certain portion in compensation for Agromash's overheads) is shared equally by the participants. As far as Agromash's organisational structure is concerned, it has a Board composed of the representatives of the participating countries. The decisions taken by the Board enter into effect after they have been accepted unanimously by the participants. The executive organ of the Board is the Bureau, headed by the Director, who is supported by two deputies, some experts and technical personnel.

The main purpose of Agromash is to co-ordinate the technological development, production and sales of machinery used in vegetable, fruit and grape cultivation. Its tasks also include the co-ordination of research and development activities carried out by pertinent national organizations and the promotion of specialized production and co-operation among the countries in producing agricultural machinery.

One of the initial problems of Agromash was to eliminate duplication in the production of farm machinery. During the late 1960s some 60 per cent of this production was duplicated in each member country, thus making large-scale production unfeasible and preventing enterprises from introducing technological improvements. Serious efforts were made by Agromash to promote the redistribution of production programmes among the participants and, at present, some 50 types of machines are being produced by specialized manufacturers, thus helping to reduce duplication to 25 per cent.^{1/}

Efforts in this direction will be continued. The Agromash member countries have concluded agreements on specialization in the production and mutual delivery of 62 types of machines from 1976 to 1980. If compared with the preceding five-year-plan period, the expected result will be a three-fold increase in mutual deliveries of agricultural machines. Agromash is to pay greater attention to the development of efficient standardized machines for the cultivation of vegetables, stone-fruit, nuts and grapes. Separate standardized units and components of farm machines are intended for large-scale manufacture in large series for use in sets for the cultivation of vegetables, fruit and grapes. In the current five-year plan period the countries concerned will continue joint work on six problems covering 37 research topics. Bulgaria will act as co-ordinator for nine topics while Hungary and the USSR will co-ordinate the work on thirteen and seven topics, respectively.

At the present time, as a result of the work carried out by Agromash, some sets of machines have been developed, including tomato harvesters, a line for harvesting and sorting carrots, a line for harvesting cucumbers, a combine harvester for picking peas, and grape harvesters. The introduction of these machines has helped mechanize horticulture and the production

^{1/} See "Foreign Trade", No. 7, 1977.

of vegetables, thus raising considerably labour productivity. For instance, the use of a power-driven tomato harvester has increased labour productivity five times over that of hand picking procedures; the use of a carrot harvester and a cabbage harvester, some twelve and five times, respectively.

Interkchim

The agreement on the creation of an international organisation for co-operation in the field of small tonnage chemical production, Interkchim, was signed in 1969. The original members were six CMEA countries; Romania acceded in 1970, and Yugoslavia in 1973.

The purpose of Interkchim is to promote the co-ordination of plans for production, specialization and co-operation, the more rational use of productive capacities already in operation and of those under construction, the further development of mutual deliveries and full supply of the member countries in this particular field. It specializes in such products as synthetic dyestuffs, chemical materials for the textile, leather and paper industries, plant protecting chemicals, admixtures for polymeric materials, etc.

Interkchim's headquarters are in Halle/Saale, the German Democratic Republic. It has as its main organ a Council in which each member country is represented by a delegation composed of up to three members, each delegation having one vote. The Council of the Organisation can take decisions only with the agreement of contracting parties which declare their interest in solving a given problem. Decisions of the Council from which obligations may result for the contracting countries enter into effect (automatically) 50 days from the signing of the minutes of the pertinent meeting of the Council, if during that period no objection has been raised by a contracting country. This notwithstanding, such a decision enters into force only in relation to the rest of the interested countries.

The executive organ of the Organisation is the Directorate, with a Director, his deputies, specialists, and administrative personnel.

During the first years of its existence, Interkchim concentrated mainly on the elaboration of long-term programmes for the production of

chemical materials, as well as on the promotion of multi- and bilateral talks concerning the construction of new plants and mutual deliveries among participating countries. One of the results of Interkchim's activity was the elaboration of a long-term programme for the development of pesticides. In the current five-year-plan period, the Interkchim member countries will build 61 operational plants for the production of pesticides and reconstruct 13 plants. It is assumed that the resulting output of pesticides by 1980 will show an increase of approximately 50 per cent, reaching about half a million tons.^{8/}

Within the framework of Interkchim, a number of agreements was drafted for 1976-1980 and up to 1990 on the construction of new plants and the expansion of existing ones for the production of synthetic dyes and organic semi-fabricates, auxiliaries for the textile industry and admixtures for polymeric material. The parties concerned have already signed a multi-lateral agreement on the construction of new plants for the production of synthetic dyes and organic semi-fabricates. It is estimated that by 1980 the fulfilment of the agreement would bring about an almost five-fold increase in the delivery of dyes and auxiliaries to the textile industries in the COMECON countries in comparison with 1970.

Organization of the Common Wagon Pool

The agreement on the establishment and joint exploitation of the Common Wagon Pool came into effect in 1964. Members of the Pool are Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR. The purpose of the organization is to reduce the circulation of empty freight cars in international traffic among the COMECON member countries, to accelerate the return of these cars, and thus to increase the turnover and economic efficiency of their exploitation. Another purpose is to make greater use of the international railway lines.

The Common Wagon Pool is located in Prague, Czechoslovakia. Its main organ is a Council composed of representatives of each of the member countries. Decisions are the only type of resolution passed by the Council.

^{8/} Ibid., p. 33.

They are adopted only with the consent of all the contracting parties. The functions of a secretariat are executed by the Bureau for the Exploitation of the Common Wagon Pool, composed of a Director, his deputy and the necessary number of specialists, supported by technical and services personnel.

The Pool was created through contributions by the participating countries. Initially it had about 95,000 freight cars. At the beginning of 1976, however, the Pool had more than 270,000 units (bi-axial freight cars), an increase of 180 per cent.^{2/} In 1967 the ratio of empty cars returned within the Pool was 35 per cent, whereas by the mid-1970s it had decreased to 10 per cent. In the last decade, the freight carried by the cars of the Pool has doubled to 4,500 million tons. The Pool has helped considerably to reduce empty runs and to accelerate freight-car turnover. It has eased tension on the lines and has enabled the countries to rationalise frontier reloading on international lines. This is of especial importance to CMEA countries since up to 60 per cent of their foreign trade shipments are transported by rail.

Haldez

Haldez was established in 1959 in Katowice, Poland, in order to process slag heaps on the basis of a licence developed by Hungarian specialists. Slag heaps in Poland contain a large percentage of coal (from 10 to 20 per cent) and other economically valuable raw materials. Hungarian experts have invented an effective method of extracting coal from such dumps, using the remaining rock to produce cement and construction materials. After negotiations between the two countries, an agreement was signed on the establishment of a joint-stock company. Each side put up 50 per cent of the capital, and thus share property and profits equally. The enterprise is governed by the general meeting of the shareholders, its Control Commission and the management. Representatives of both sides take part in all these bodies on an equal footing. The Control Committee and the management are made up of an equal number of Hungarian and Polish representatives. Since it is located in Poland, Haldez is governed by

^{2/} Ibid., p. 35

Polish laws and enjoys the same rights as a Polish mining enterprise. Decisions in Haldex bodies are adopted unanimously by the representatives of the two sides. Should the parties not be able to come to an agreement, matters are submitted to a bilateral Hungarian-Polish intergovernmental commission on economic, scientific and technological co-operation.

Since the start of its operations, Haldex has processed 25.2 million tons of coal waste, extracting about four million tons of coal therefrom. In addition, it has produced materials which are used to refill the pits.

Today the activities of Haldex have taken on one more important aspect: its enterprises play an essential role in the conservation of the environment and in the reclamation of land in the coal-mining areas of Poland.

Intertextilmash

Intertextilmash is one of the international associations more recently founded by COMECON countries. The agreement on its establishment was signed in 1973 by the representatives from Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR.

Its main purpose is to keep the member countries as fully supplied as possible with high-quality textile machinery, equipment, components and spare parts. To that end, its tasks include the promotion of co-operation in production based on horizontal and vertical specialization, common research and design work, marketing and the organization of joint technical maintenance and servicing.

The head office is located in Moscow. The Association encompasses about 15 national production associations in the field of the textile machinery industry, as well as a number of major production units and design bureaux of the participating countries. Several subsidiaries responsible for technical maintenance have been established in the COMECON countries. All the Association's members function under the national legislation of their respective countries, on their own behalf and on their own responsibility. While participating in the Association they retain their property, structural and legal independence.

The Association's governing body is the Council composed of the representatives of national economic organizations. Each country has one vote irrespective of the number of national organizations represented in the Council. The operational functioning of the Association is handled by the General Director who is appointed by the Council. The General Director performs his duties based on the principle of one-man management and in accordance with the terms of reference defined by the statutes of the Association and the decisions of the Council. The General Director is supported by several deputies and the chiefs of the subsidiaries. The work of the management of the Association is controlled by a special auditing commission, the members of which are assigned to it by the Council.

The Association as an economic entity operates on a self-financing basis. The Association's authorized fund (5 million transferable roubles in 1976^{10/}) is used to support its economic activities. The members from each country make equal contributions to the fund. The size of the authorized fund may be increased with due regard for the experience gained and the prospects for developing the Association and its branches. The Association may also be financed by using bank credits extended by the banks of individual member countries or CMEA international banks (IBEC, IIB). The income of the Association is mostly composed of receipts from its direct economic activities, including those from servicing subsidiaries as well as from its research and development activities. The Association can sell the products manufactured by its participants on the markets of third countries.

Since the Association started its operations only recently, tangible results of its activities will become more apparent by the end of the current five-year-plan period, although a considerable amount of work has been accomplished to date.

For instance, Intertextilmash has prepared programmes for the construction of a plant to manufacture needles and needle plates for knitting machines, as well as a factory for the manufacture of components for spinning frames and looms. The planned annual output of the latter is estimated at 25-30 million transferable roubles. Within its framework the Association

^{10/} See "Economic Co-operation of the CMEA Countries", No.6, 1976, p. 84.

has developed a multilateral co-operation scheme in the manufacture of pneumatic and rapier looms. The introduction of ATRP rapier looms coupled with the reconstruction of the weaving shed of the mill at Neugersdorf, GDR, has helped to double labour productivity and to lower production costs.

International Shipowners Association

The International Shipowners Association (INSA) was set up in 1970. Its membership includes the shipowners agencies and organizations of Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Poland, the USSR and Yugoslavia, as well as India (since 1974).

The entry of the Indian National Association of Shipowners into the INSA is the first case of a developing country being accorded membership in an international specialized agency of the COMECON countries. Upon joining INSA, the Indian Association was granted a 50 per cent discount on its membership dues. The same discount is to be granted to other developing countries willing to join INSA, thus creating favourable opportunities to increase the participation of developing countries in world shipping.

During the six-year period of the Association's activities, the overall tonnage of its merchant fleet has increased from 7 million tons dead weight to more than 22 million tons dead weight. At the beginning of 1976, three national shipowners associations and seven companies from nine countries were co-operating within the framework of INSA. The breakdown of the dead weight tonnage can be seen in Table 1.

The main purpose of the Association is to promote the co-operation of its members and to secure their interests in world shipping, in particular, in the field of technical, operational, juridical and general commercial problems. One of the important tasks of INSA is the preparation of various kinds of shipping documentation.

The headquarters of INSA are located in Gdynia, Poland. Its main organ is the General Meeting called once every two years. The General Meeting sums up the results of the work of the Association, outlines work programmes for the following period, elects the President of the

Table 1. INSA: Breakdown of dead weight tonnage

Companies/Shipowners' Associations (country)	Dead weight tonnage (in thousand tons)	Dead weight tonnage (per cent)
1. Bulgarian merchant fleet (Bulgaria)	497.5	2.2
2. Empresa de navegación mambisa (Cuba)	323.1	1.5
3. Československé námořní plavba (Czechoslovakia)	146.2	0.6
4. Hungarian Steamship Lines (Hungary)	47.9	0.2
5. Deutchfracht/Seereederei (German Democratic Republic)	1,212.5	5.5
6. Indian National Association of Shipowners (India)	4,092.8	18.4
7. Polska linie oceaniczne (Poland)	725.1	3.3
8. Polska segluga moraka (Poland)	1,760.2	7.9
9. Association of Soviet Shipowners (USSR)	11,518.7	51.8
10. Yugoslavian Association of Shipowners (Yugoslavia)	<u>1,901.7</u>	<u>8.6</u>
Total	22,225.7	100.0

Source: "Economic Co-operation of CMEA Countries", No.1, 1977, p.91.

Association and his two vice-presidents. It also elects the chairman of the standing commission, the chairman and the members of the auditing commission. The executive organ of the Association is the Council, which functions during the period between the two General Meetings. The Secretary-General of the Council together with the members are appointed by the President of the Association. The Council considers the results of the standing commission's activities and approves their recommendations. Each shipping organization participating in the work of the Association has the right to occupy one place in the Council.

The main operational organs of the Association are the six standing commissions (on documentation, on containers, on legal problems, on liquid and dry cargoes, etc.). Each member of INSA has the right to appoint only one expert to support the work of each commission. The work of the commissions as well as the financial operations of the Council are supervised by the auditing commission on the basis of annual inspections.

International Centre for Scientific and Technological Information

The agreement on the creation of the International Centre was signed by the COMECON countries in 1969 during the second meeting of the Heads of Committees and Ministers of Science and Technology of the respective countries.

The basic tasks of the Centre may be summarized as follows:

- (a) Working out an international system of scientific and technological information;
- (b) Supplying countries participating in the Centre with information, primarily in respect of scientific and technological problems of great importance to the national economy;
- (c) Issuing informative publications;
- (d) Conducting research in the field of theory and practice of scientific and technological information, in particular, the working out of forms, methods and organization of information;
- (e) Lending, upon demand, organizational, methodological and technical aid to members of the Centre;
- (f) Co-operating in the formation and perfecting of skills of personnel for national bodies dealing with scientific and technological information.

The organization is located in Moscow, USSR. Its policy-making organ is the Committee of Plenipotentiaries composed of representatives of each member country, each having one vote. The Committee meets at least once a year. These sessions are chaired by the countries' representatives in turn. The Committee approves the Centre's work programmes and budget, and appoints the Director and his deputies.

Decisions adopted by the Committee with regard to the functioning of the Centre come into effect the day the protocol on the respective proceedings is signed.

In deciding upon matters pertaining to the Centre's activity and upon recommendations connected with co-operation among national scientific information bodies, any country which is not interested in the matter under discussion can make an appropriate statement and thus not be bound by the decision taken.

The Director runs the Centre and represents it in its relations with other institutions. He sees that the Centre operates according to its work programme, co-ordinates its activities and supervises the work of the Centre's Academic Council. The Director is empowered to issue orders and endorse standards defining the Centre's activities. His deputies are responsible for definite fields of work according to the Centre's organizational structure.

Under the Director, the Academic Council acts as a consultative body. It reviews plans for research work, considers matters related to the publication of scientific papers, decides on research projects carried out by the Centre and makes proposals on co-ordinating the activity of the Centre with other institutions.

The Centre is financed from annual contributions on the part of the participating countries (they are defined in a separate protocol) and from revenue received by the Centre for services rendered. In the budget the necessary sums may be allocated in transferable roubles and in convertible currency for purchases and other expenditures. Revenue accruing from research and development work conducted by the Centre in accordance with jointly-financed programmes is shared by participating countries. Other services provided by the Centre are paid for at the rates set by the Committee with a view to making the Centre a profitable undertaking. The Committee also sees to the protection and the use of inventions made at the Centre in the course of joint research work, to giving bonuses and awards to authors, as well as to other matters in connexion with joint inventions.

During the first year of its activities the Centre established contacts with other international organisations. It now maintains close

relations with OMSA specialized agencies as well as with some members of the United Nations family, such as ECE, UNESCO, WHO, FAO, etc., keeping them informed as to the Centre's programmes and methods of work.

Chapter III

BILATERAL ECONOMIC AND INDUSTRIAL CO-OPERATION BETWEEN CMEA COUNTRIES

Multilateral methods of co-operation within the framework of the CMEA are closely connected with the system of bilateral ties between the economies of the CMEA member countries. Historically, bilateral economic co-operation was the first form of co-operation between the CMEA countries: in the course of time, this was supplemented by the system of multilateral connexions, and now both forms are complementary. Both are based on the same principles of co-operation and mutual assistance and pursue the same goals.

In general, the whole system of economic and industrial co-operation within the CMEA is based on combining bilateral and multilateral aspects of co-operation. For instance, recommendations adopted by the Council are applied by countries along bilateral lines: the countries implement these recommendations by concluding bilateral trade and other economic agreements on reciprocal deliveries of goods, co-operating in the expansion of raw material and fuel outputs, or by introducing vertical and horizontal specialization in the production of machines and equipment. At the same time, practice has shown that the implementation of bilateral agreements is not without its problems. These cannot be solved within the framework of bilateral intergovernmental commission, but they are effectively overcome within the framework of the CMEA organs or multilateral specialized agencies. Constant interaction between the two forms of co-operation raises the efficiency of the whole system of international economic and industrial co-operation within the CMEA.

At present, the main role in respect of bilateral co-operation among the CMEA countries is played by intergovernmental bilateral commissions on economic, scientific and technological co-operation: these are standing bodies and embrace almost all CMEA countries. The majority of these commissions were set up between 1963 and 1970, and their number has since increased to more than forty.

The main task of intergovernmental bilateral commissions (and occasionally of the committees) is to derive and exploit to the full all the potentials

offered by the division of labour and economic co-operation between the two countries involved, and to help them to draw closer to each other in economic terms. To this end, bilateral intergovernmental commissions examine questions of co-operation which arise in the course of co-ordinating national economic plans, and they chart the most acceptable ways of improving the machinery of mutual co-operation so as to ensure stable and mutually beneficial specialization and complementarity in industrial production. They also explore opportunities for increasing trade turnover and exchange of services between both parties as well as for promoting scientific and technological co-operation.

As a rule, governments conclude a special agreement on setting up a bilateral commission in which the competence, tasks, structure and procedures of a given commission are stipulated. To ensure that the work of the commission is linked with overall multilateral co-operation among CMEA countries, the agreements contain paragraphs which provide that bilateral commissions will take into account recommendations and decisions of the CMEA organs.

The composition and procedures of the bilateral commissions established by CMEA countries vary greatly according to the intentions and concrete economic conditions of the parties involved. However, despite the absence of standards in organizational set-up and decision-making power of bilateral commissions, it should be noted that, as a rule, bilateral commissions are chaired by two co-chairmen (one from each country) whose rank is not less than that of the Deputy of the Prime Minister. Within the framework of these commissions, the two participating countries exchange liaison groups attached to national economic planning bodies and other administrative organs dealing with industrial development and foreign trade. The decisions of bilateral commissions are considered to be adopted when both parties agree thereto; they enter into effect on the day that the protocol of the commission meeting is signed, provided it does not contain any special reservations. For instance, either party can stipulate that a decision is to be approved by pertinent national bodies. In that case, the decision comes into effect only after such approval has been secured. Either party can refuse at its own discretion to participate in the commission, provided it gives the other party at least six months notice thereof.

As already mentioned, one of the important functions of bilateral commissions is the co-ordination of national economic plans. Usually bi-

bilateral commissions handle the co-ordination of five-year economic plans and that of annual plans for industrial production, especially in sectors which export their products within the framework of bilateral trade agreements. A relatively new sphere of bilateral commissions' activities is the so-called joint planning of industrial production.

As far as the co-ordination of five-year plans is concerned, the machinery for conducting this work functions along the following lines. Within the framework of the Council, CMEA countries agree on the time period for their five-year plans and on their co-ordination with the CMEA organs. In accordance with these arrangements, a co-ordination programme covering the plans for the period in question is elaborated and approved by the bilateral intergovernmental commissions. This provides for the main kinds of work, methods, forms and terms of its implementation. It should be noted that the specific contents and details of the bilateral co-ordination programmes are agreed upon directly by the central planning authorities of the countries involved.

The subsequent work is carried out in two stages. During the first stage, the central planning authorities, jointly with the ministries and other agencies, determine and agree upon principal areas of co-operation and define ways for the acceptable solution of the problems faced in the course of economic development. They ascertain tentatively the possibilities for the mutual delivery of goods and formulate proposals for specialization and co-operation in production. During the second stage, these organizations work out specific terms and conditions of co-operation for a five-year period, including terms of trade, product-mix, deadlines for mutual deliveries of goods, etc. In accordance with draft five-year economic development plans, targets are tentatively planned for the production of export items (raw materials, machines, equipment, components, fuel, foodstuffs, etc.).

The results of this plan co-ordination on a bilateral basis are formalised, by the heads of the central planning agencies, in protocols, on the basis of which foreign trade ministries conclude trade agreements for the period co-ordinated.

In the course of this plan co-ordination and upon its completion, the understanding reached by the members of a bilateral commission is formally incorporated in the conclusion of agreements and treaties. Depending on

the character of the problems, these agreements may be concluded at the governmental level or between competent economic or industrial organizations.

In order to solve the most complicated problems of economic co-operation, CMEA bilateral intergovernmental commissions started to experiment at the beginning of the 1970s with joint planning methods in selected industrial sectors and, sometimes, selected lines of production. Joint planning is carried out on the basis of the provisions of the Comprehensive Programme for the further extension and development of economic integration among CMEA member countries, whereby the countries retain national sovereignty over their respective productive capacities and resources. Thus, the independence of internal economic planning is assured.

The objectives of the joint planning carried out by the bilateral commissions is to combine the partners' efforts so as: to achieve, as quickly as possible, advanced scientific and technological results; to increase labour productivity; to ensure favourable conditions on the world market; and to meet the partners' demand for products in short supply in selected industrial sectors and production lines.

These objectives are achieved through the comprehensive solution of problems which encompasses the joint planning and preparation of production, the establishment of respective industrial capacities and, finally, the guaranteed sales of products.

In this connexion, the main emphasis in joint planning is placed on the joint conduct of research and development, the co-ordination of technological policy principles, the combination of efforts and resources of both partners in developing production on a modern technological basis, and the preparation of agreed production programmes for the joint manufacture of planned products, and the establishment of quantities and terms of delivery for the items produced.

Joint planning can be undertaken for any period of time that can be economically justified and agreed upon by the partners; it can vary in the different sectors and production lines selected.

Over the past few years, the bilateral intergovernmental commissions have concluded a number of agreements on joint planning for certain types of machine tools (in particular digital-control programming equipment), container systems, computers, ball-bearings, and chemical products. The planning bodies of the CMEA countries working in bilateral commissions have acquired considerable experience in joint planning, thus enabling them to improve the practical application of this method and, in particular, to test more flexible forms of co-operation at the enterprise-to-enterprise level.

Another important function of the bilateral intergovernmental commissions is their promotion of long-term trade agreements concluded by commission partners.

Since a centrally-planned economy determines the organisational form of the CMEA countries' foreign trade (which is based on the principle of state monopoly), long-term agreements are concluded on the basis of co-ordinated national economic plans and are closely interlinked with these plans.

In the main, trade agreements stipulate the range and quantities of goods for mutual delivery and the obligations of both parties to deliver certain quantities of goods by specified deadlines. Lists of goods appended to the trade agreements are updated in annual protocols on the mutual delivery of goods. On the basis of long-term agreements and annual protocols, foreign trade organisations in the respective countries conclude commercial deals and contracts from which stem mutual obligations and financial responsibility governing the delivery of goods.

In this connexion, the competence of bilateral intergovernmental commissions is to draft such agreements and to submit them to the respective Governments for approval. In the course of the implementation of these agreements, the bilateral commissions supervise how the parties fulfil their obligations (especially those stemming from annual protocols on mutual deliveries) and promote on-the-spot solution of any problems which may arise. In this respect, a great amount of work is done by liaison groups, which maintain constant links with foreign trade organisations and industrial ministries responsible for the realisation of commodity contracts.

In carrying out their tasks, the bilateral intergovernmental commissions resort to a number of legal documents prepared on a multilateral basis within the framework of the CMEA organs (in particular, within the CMEA Standing Commission for Foreign Trade). Among these documents a major place is occupied by the General Conditions Governing Delivery of Goods among Organisations of CMEA Member Countries, which unifies the main terms of foreign trade purchase and sale deals, lays a legal basis for settling disputes between the two sides, and provides guidelines for concluding commercial contracts. Closely linked with the General Conditions of Deliveries are the main provisions of more specialised documents, such as the General Conditions Governing the Technical Maintenance of Machines, Equipment and other Goods Delivered among Organisations of the Countries of the CMEA Authorised to Make Foreign Trade Transactions, the General Conditions Governing Assembly and other Technical Services Connected with the Delivery of Machines and Equipment among the Organisations of the CMEA Member Countries, and the General Principles Governing Supply of Spare Parts for Machines and Equipment Delivered in Mutual Trade among CMEA Member Countries and Yugoslavia.

Besides the CMEA documents pertaining to bilateral co-operation among the countries, bilateral relations are combined with multilateral ones in one other sector: international financial institutions established by CMEA countries and the multilateral system of payments.

Chapter IV

INTERNATIONAL FINANCIAL AGENCIES OF THE CMEA COUNTRIES

International Bank for Economic Co-operation

Before 1949, the year in which the Council for Mutual Economic Assistance was established, settlements among the centrally-planned economies of Eastern Europe were effected through bilateral clearing accounts in various currencies. At the beginning of the 1950s these countries switched to long-term trade agreements and, in the sphere of settlements, to bilateral clearing in roubles. This system of settlements enabled the countries to clear their mutual requirements without utilizing convertible currencies or gold. However, in the course of expanding their mutual trade, the CMEA countries encountered difficulties with regard to the balancing of bilateral settlements. Since the clearing currency could, as a rule, only be used for bilateral settlements, the positive balance achieved in transactions with one country would not be used to repay a negative balance incurred with another country.

In order to counter these restraints, the CMEA member countries concluded the Agreement on Multilateral Clearing in 1957. Under this agreement, the settlements for goods, delivered over and above bilateral trade agreements, were carried out through a special clearing house on a multilateral basis. However, as the payments for a greater part of the mutual trade were still effected through bilateral clearing accounts, the difficulties encountered in settling those accounts were not significantly reduced. In 1963, in order to improve the situation, the Governments of Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Poland, Romania and the USSR concluded an agreement concerning multilateral settlements in transferable roubles and the establishment of an International Bank for Economic Co-operation (IBEC). Cuba joined the Bank in 1974.

IBEC has been entrusted with the following tasks:

- (a) To undertake multilateral settlements in transferable roubles;
- (b) To advance credits for financing foreign trade and other operations of the member countries of the Bank;

- (c) To attract and keep non-committed funds in transferable roubles;
- (d) To attract gold, freely convertible and other currencies from the member countries of the Bank, as well as from other countries, and perform other operations with gold, convertible and other currencies;
- (e) To perform other banking operations corresponding to the aims and tasks of the Bank.

The authorized capital of IBEC is established at 301.4 million transferable roubles.^{11/} The subscription quotas of the member countries in this capital are determined in proportion to the specific weight of each country's export volume in the trade of these countries, and are established as follows:

Table 2. Subscription quotas of IBEC member countries

Country	Million transferable roubles
Bulgaria	17.0
Cuba	4.4
Czechoslovakia	45.0
German Democratic Republic	55.0
Hungary	21.0
Mongolia	3.0
Poland	27.0
Romania	16.0
USSR	116.0

By 31 December 1976, the paid-up part of the authorized capital of the Bank constituted 40 per cent of the subscription quotas, 20 per cent being in transferable roubles and 20 per cent in convertible currencies and gold.^{12/}

^{11/} The official rate of exchange: 1 US dollar = 0.754 transferable roubles.

^{12/} See Multilateral System of Payments in Transferable Roubles of the Member Countries of the CMEA, UNCTAD, TD/B/AC.23/5, p.4.

The highest authority of the Bank is its Council. It is responsible for the general management of the Bank's activities. The Council is composed of representatives from all member countries of the Bank, each of whom is entitled to one vote irrespective of its share in the capital of the Bank. All decisions of the Council have to be adopted unanimously.

The Council of the Bank approves, upon proposals submitted by the Board, credit and other plans of the Bank; determines principles for the planning of credits and resources, as well as for crediting and other banking operations; and sets interest rates on credits, deposits, current and other accounts in transferable roubles. The Council also authorizes the establishment and liquidation of branches and representative offices of the Bank; determines the structure, the staff appointment schedule, and the administrative budget. One more important function of the Council is to establish business relations with the banks of member countries and with international financing and banking organizations.

The Board of the Bank is the executive body in charge of the immediate management of day-to-day activities of the Bank within its statutory competence and in accordance with decisions of the Council. The Board consists of the Chairman and members of the Board, appointees of all member countries of the Bank for a period of up to five years. Its headquarters are located in Moscow, USSR.

The IBEC activities are performed on the basis of full equality. In deliberating and deciding upon matters connected with the Bank's activities, the member countries of the Bank enjoy equal rights. Membership in IBEC and the activity of this Bank in no way constitute an obstacle to the development of direct financial and other business relations of the member countries of the Bank, both among themselves and with other countries. IBEC also may effect settlements in transferable roubles with countries that are not members of the Bank. Rules and conditions governing payments in transferable roubles with such countries are established by agreement between the Council of the Bank and the interested countries.

As an intergovernmental organization, the Bank was granted consultative status with UNCTAD in 1974. Other countries may become members of IBEC if they agree to share the aims and principles of the activities of the Bank and to assume obligations resulting from its statutes.

The multinational system of payments and
crediting in transferable roubles

Simultaneous with the establishment of the Bank, the agreement of 1963 envisaged transferable rouble settlements among the IBEC countries as from 1964. The system of payments in transferable roubles has since become an integral part of all the undertakings in the field of economic and industrial co-operation among CMEA countries.

The gold content of the transferable rouble was set at 0.987412 grammes of fine gold. Its purchasing power is based on the agreed level of prices for goods involved in mutual trade of the IBEC member countries. The transferable rouble is "insured" against inflation since it has a permanent and stable backing in marketable goods (the prices of which are defined by national pricing agencies) and enters international payment flows only in relation to the real requirements of the IBEC member countries for the payment of goods and services.

In the sphere of multilateral and bilateral economic co-operation of the IBEC member countries, the transferable rouble fulfils the following functions:

- (a) Measure of value and scale of prices. The prices of goods in mutual trade of the IBEC member countries are expressed in transferable roubles. These prices differ not only from the domestic prices of the member countries, but also from world market prices, although the latter are used as a basis in mutual trade. They are adjusted to eliminate the influence of cyclical changes in world prices, the effect of speculative operations, discounts and premiums characteristic of free market operations. One of the main methods of such adjustments is the use of average prices for the last five-year period, instead of current prices. Accordingly, contract prices agreed upon are effective for one year, whereafter they are renegotiated.
- (b) Means of payment. Settlements of mutual deliveries of goods, non-commercial payments and repayment of credits among the IBEC member countries are effected in transferable roubles.

- (o) Means of accumulation. The IBEC member countries accumulate in transferable roubles the means necessary for the purchase of goods; for subscription payments to the authorized capital of the International Bank for Economic Co-operation and the International Investment Bank (IIB), created by these countries, as well as of other joint international economic organizations; for repayment of intergovernmental credits and for various other purposes.

The transferable rouble is an independent currency. It differs from the national currencies of the IBEC member countries, including the Soviet rouble, in the following manner:

- (a) Whereas the gold content and the volume of issue (emission) of national currencies are determined by the Governments of the corresponding countries, in the case of the transferable rouble this is done by the IBEC Council;
- (b) National currencies are now used only for domestic settlements and payments and not for international settlements; the transferable rouble, however, is used only for international settlements;
- (c) National currencies are issued in the form of bank notes and metal coins and are also used for clearing through banks between organisations and enterprises; the transferable rouble functions only through bank accounts and cannot be used by private persons for cash payments, as it is not issued in the form of bank notes and coins.

When settlements are effected in transferable roubles among the CMEA member countries, the transferable roubles are converted into the national currencies of these countries. If, for example, the Bulgarian Foreign Trade Bank receives through IBEC 100,000 transferable roubles in payment for Bulgarian exports from the Bank Handlowy of Poland, it will pay the Bulgarian seller an equivalent of this amount in Bulgarian leva. Simultaneously, the Bank Handlowy of Poland will require from the Polish buyer an equivalent of this amount in Polish zlotys. The rates for conversion of transferable roubles into national currencies for payments in foreign trade transactions are set by the central banks of the IBEC member countries on the basis of agreements between the currency and financial organs of these countries. The basis for these rates is formed by the relationship

between the transferable rouble and the corresponding national currencies according to their gold content, as well as by the level of the co-ordinated prices of commodities in the mutual trade of the ISEC member countries.

For settlements of non-commercial operations (expenses of diplomatic and trade representations, tourists, private transfers), use is made of agreed ratios of national currencies to the transferable rouble. These ratios are set with due consideration for the level of retail prices for goods and tariffs for services prevailing in the ISEC member countries. At present, the transferable rouble is not convertible into the currencies of the countries which are not members of ISEC. However, ISEC sets the rates of Western currencies against the transferable rouble on the basis of a basket of 13 currencies which takes into account market rate fluctuations of these currencies against the United States dollar. This basket comprises the following currencies: the United States dollar, pound sterling, Swiss franc, the mark of the Federal Republic of Germany, French franc, Italian lira, Dutch guilder, Belgian franc, Swedish krona, Danish krona, Canadian dollar, Austrian schilling and Japanese yen.

The system of payments in transferable roubles works in the following way. Each ISEC member country entrusts one of its banks - an authorized bank - with all settlements in transferable roubles to be effected through ISEC. ISEC opens a transferable rouble current account for each such authorized bank. This account may have only a positive balance. Non-committed amounts on the current account are at the disposal of the authorized bank.

ISEC enters on the transferable rouble current account all amounts in this currency received from other authorized banks in favour of the authorized holder of this account (for the sale of export goods and non-commercial operations, as well as for credits received from other ISEC member countries) as well as credits from ISEC and the International Investment Bank. Under orders from the authorized holder of the account, ISEC effects all payments from the transferable rouble account in favour of other authorized banks (payment for imports of goods and non-commercial expenses, repayment of intergovernmental credits) as well as the repayment of credits received from ISEC and IIB. All transferable rouble settlements of each authorized bank with all other authorized banks are concentrated on one current account, thus providing permanent multilateral settlement of reciprocal requirements and payments: the practical functioning

of the multilateral system of payments. Since 1964, this system has fully replaced the earlier system of bilateral clearing accounts.

The authorized banks may place their free transferable rouble assets on term deposits in IBEC. In 1977 IBEC paid on current accounts 1.5 per cent per annum; on three-month deposits, 2.5 per cent; on six-month deposits, 3.5 per cent; on nine-month deposits, 3.75 per cent; on twelve-month and longer-term deposits, 4 per cent per annum.

The economic co-operation among the IBEC member countries is realized mainly through their mutual foreign trade. By ensuring prompt and smooth settlements in transferable roubles, IBEC facilitates development of trade among the member countries. For settlements on mutual trade which comprise almost 95 per cent of all mutual settlements of the IBEC member countries, collection with subsequent acceptance (collection with immediate payment) is most frequently the form used. Besides settlements in the form of collection with subsequent acceptance, IBEC also carries out settlements in transferable roubles in the form of collection with prior acceptance, letter of credit and other remittances in accordance with international banking practice.

During the 13 years of IBEC's existence, the multilateral payments system in transferable roubles has followed the dynamic development of all forms of economic and industrial co-operation of the CMEA member countries. The volume of settlements in transferable roubles has grown at a constant rate from 22.9 billion transferable roubles in 1964 to 82.5 billion in 1976.^{13/}

Closely linked with the multilateral system of settlements is the system of crediting in transferable roubles, using either settlement or term credits.

IBEC grants settlement credits to the authorized banks so as to meet their requirements for funds during short-term excesses of payments over collections. This credit is of a revolving type. It is advanced immediately, when needed, up to a limit determined by the Council of the Bank. The terms

^{13/} Ibid., p. 10.

for its repayment are not set. The credit is repaid from the balance on the current account of the authorised borrower when collections exceed payments. Practice has shown that on an average, the term for such a credit does not exceed 30 days. The limit of settlement credit for each authorised bank is set annually at 2 per cent of the volume of settlements on trade turnover with all other authorised banks for the previous year. After repayment of the old credit, a new credit may be granted within the volume of the set limit.

IBEC grants term-credits in transferable roubles to cover requirements for funds of the authorised banks for a period of up to three years. The credit is made available for arrangements relating to the specialisation and co-operation of production, for the expansion of trade, for effecting a balance of payments, and for seasonal needs. This credit is advanced for fixed terms. If necessary, the term may be prolonged within the limits of the overall three-year terms. Twice a year, IBEC considers applications by the member countries' authorised banks concerning their needs in term credit. The volume of credit applications is based on national planned data concerning settlements on mutual trade and other payments, and credit granted follows a decision by the Bank Council according to the real needs. In the period between meetings of the Council, the Board of the Bank may, if such a necessity arises, advance additional term-credits to the authorised banks within the limits of the reserve approved by the Bank Council.

The interest rate charged by IBEC on both term and settlement credit are stable. They have remained unchanged since 1971. Term-credit rates vary depending on the term: for credit terms of up to six months, 3.25 per cent per annum; up to twelve months, 3.5 per cent per annum; up to two years, 4 per cent per annum; and up to three years, 5 per cent per annum.

The financial operations of the Bank have resulted in a growth of its net profits, which increased from 7 million transferable roubles in 1970 to 24.7 million transferable roubles in 1975.^{14/}

Following the increase in trade between the CMEA countries and the other countries of the world, the IBEC Council adopted in 1976 a

^{14/} Ibid., p. 12.

decision to improve procedures for participation by non-member countries in its activity.

According to this decision (now entering the practical stage), payments in transferable roubles between member countries and non-members of IHEC may be effected in respect of goods and services, non-commercial expenses of diplomatic and other representations, tourists, etc. The relevant agreement on the purchase/sale of goods and services or payment of non-commercial expenses through accounts in transferable roubles should be reached between foreign trade firms and organization, as well as between banks and other competent organs of the interested countries. Settlements may cover the delivery of individual lots of goods or all trade turnover. Settlements on non-commercial expenses may also be effected, partially or totally, in transferable roubles. The banks of non-member countries, while performing settlements on the total of their trade turnover with all the IHEC member countries, may take credits and place deposits in transferable roubles on the conditions currently in force for the IHEC member countries.

New arrangements with payments in transferable roubles can be of special interest to developing countries. As stated in the study prepared by Prof. Sumitra Chieti, "the developing countries can use transferable roubles to overcome short-term deficits, especially when they have a surplus with one member of the CMEA and a deficit with another. Countries which are in the initial stages of development will find the transferable rouble more helpful because many of the capital goods required can be obtained from the CMEA countries and, therefore, transferable roubles can promote trade."^{15/}

The International Investment Bank

Another important financial institution established by the CMEA countries is the International Investment Bank. The agreement on its establishment was signed in 1970 by representatives from Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia,

^{15/} See Sumitra Chieti, Payments Arrangements in India's Trade with the Socialist Countries of Eastern Europe, UNCTAD, TD/B/AC.22/4, p. 20.

Poland, Romania and the USSR. The CMEA member countries aimed, through the Bank, at further concentrating resources for capital construction and effecting the more efficient use of medium-term and long-term financial funds in projects in the field of specialization and co-operation in production, development of raw materials and fuel resources and, in general, the implementation of the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by CMEA Member Countries.

According to the agreement on the establishment of the IIB, the highest authority of the Bank is the Council, which is responsible for the management of the Bank's activities. The Council of the Bank consists of representatives from all member countries appointed by the respective governments. Each member country has one vote in the Council, irrespective of its quota in the authorized capital. This provision guarantees full equality in shaping the general investment policy of the IIB, as well as in selecting projects for financing. Major decisions of the Council are taken unanimously while, for questions of lesser importance, a majority of at least three-quarters is sufficient. The Council of the Bank may take decisions if not less than three quarters of the member countries are represented at the meeting. The executive body of the Bank is the Board which supervises the Bank's activities in accordance with the agreement, statutes and the decisions of the Council. The Board is responsible to the Council of the Bank.

The resources of the International Investment Bank comprise contributions of member countries to its authorized capital, funds from member countries of the Bank and international money markets, transfers of a portion of profits to the reserve capital of the Bank and its own special funds. In conformity with the agreement on the establishment of the IIB, 70 per cent of its authorized capital is in transferable roubles, and 30 per cent in convertible currencies or gold. Members' quotas in the authorized capital are fixed according to the share of their exports in members' total mutual exports. The authorized capital can be increased with the agreement of the member countries' Governments on the recommendation of the Bank's Council, as well as on the acceptance of a new

member of the Bank by the amount of the new participant's quota. The amount, method and timing of an instalment are determined by the Council of the Bank upon agreement with the country concerned. At the beginning of 1976, the authorized capital of the Bank was 1,068.3 million transferable roubles.^{15/}

The International Investment Bank grants medium-term and long-term credits for building new enterprises as well as for expanding or reconstructing the existing ones. Medium-term credits are granted, as a rule, for a period of up to five years, long-term credits for up to fifteen years. The IIB may grant credits to:

- Banks, economic organizations and national enterprises of member countries officially authorized to receive credits;
- International economic organizations and enterprises of member countries;
- Banks and economic organizations of other countries.

Credits are granted in transferable roubles and in convertible currencies complemented by the borrower's own resources, and sometimes they are granted for the whole cost of a project. The Bank charges interest on the credits it grants, which varies according to the period of credit and the currency in which it is made. Granting of credits and guarantees is certified in each case by a corresponding credit agreement. Normally, the Board of the Bank examines credit applications within two months of their receipt, but in urgent cases it may shorten this term. In order to ascertain the competent examination of a credit application and to take into account the relevant considerations of the borrower, the Bank may invite representatives of the borrower as well as of other competent bodies of the corresponding country to take part in the examination. The Bank may also send its specialists to the borrower to clear up some questions. Projects to be financed by the Bank are approved by the Council and, in some cases, by the Chairman of the Board.

The use of credit and all other issues between the borrower and the IIB are regulated in conformity with a credit agreement concluded between

^{15/} See Activities of the International Investment Bank, UNCTAD, TD/B/AC.23/4, p. 4.

them. After signing a credit agreement and receiving all the necessary documents, the Bank opens an account in the name of the borrower in the currency provided for in the agreement. The Bank effects all payments through corresponding banks for the cost of equipment, construction, assembly works, etc., up to the limit of the credit granted in transferable roubles and in convertible currencies, in accordance with the purpose of expenditures determined by the credit agreement. Repayment of the basic debt under the project financed by the Bank is effected by the borrower in accordance with the schedule prescribed in the credit agreement. Repayment starts as a rule not later than six months after the date fixed in the contract.

In spite of its relatively short period of existence, the IIB has achieved tangible results in the field of promoting capital investments and the development of national economies of CMEA countries. From 1971 to 1976, the Bank financed 48 projects aimed at promoting the industrial development of CMEA countries. The total amount of credits committed by the Bank rose to over 3 billion transferable roubles.^{16/}

During the 1971-1976 period, 27 projects financed by the Bank were put into operation. The resulting additional production amounted to over 750 million transferable roubles a year in all member countries.^{17/} The Bank granted credits primarily for projects in power, metallurgical, machine-building, chemical, textile and other branches of the national economies of the member countries of the Bank. With the financial assistance of the Bank, various projects are being implemented, such as the expansion and reconstruction of the "Ikarus" bus plant in Hungary; the expansion and technical reconstruction of the enterprise "Umformtechnik" in Erfurt in the German Democratic Republic; the construction of a plant for producing motor equipment in Praska in Poland; capacities for the production of railway carriages at the plant in Caracal in Romania; the construction of the main gas pipeline in the USSR; and many others.

A new stage in the credit activities of the International Investment Bank was reached in 1973, when the Governments of the member countries and the Bank signed an agreement to establish within the Bank a special

^{16/} Ibid., p. 7.

^{17/} Ibid., p. 7.

fund of one billion transferable roubles (a portion in convertible currency) for financing projects of economic and technical assistance to developing countries.

The aim of this special fund is to strengthen co-operation between the CMEA and developing countries. The fund is designed to render assistance to developing countries in rebuilding their economic structure, creating new economic structures, developing industry as the basis for the modernization of the developing countries' economies.

From the special fund resources, the Bank grants credits for a term of up to 15 years for financing deliveries of equipment, machinery and other goods and rendering services by the member countries of the IIB to developing countries in the construction of new, and the reconstruction and modernization of existing, enterprises in different branches of their economies, especially in industry and agriculture. Banks, enterprises and economic organizations of the state sector or co-operatives in the developing countries may borrow from the special fund. In some cases, private firms may also apply for a loan from the fund. The Bank grants credits from the fund, primarily in transferable roubles, to pay for deliveries of equipment, machinery and other goods from the member countries of the special fund, as well as to pay for services rendered by various organizations of those countries. Only in specific cases are credits granted in convertible currencies, for example, to pay for equipment which is not manufactured in the CMEA countries or to pay for licences. The possibility of getting part of the IIB credit in convertible currencies may help developing countries to combine supplies from centrally-planned economy countries with supplies from market-economy countries.

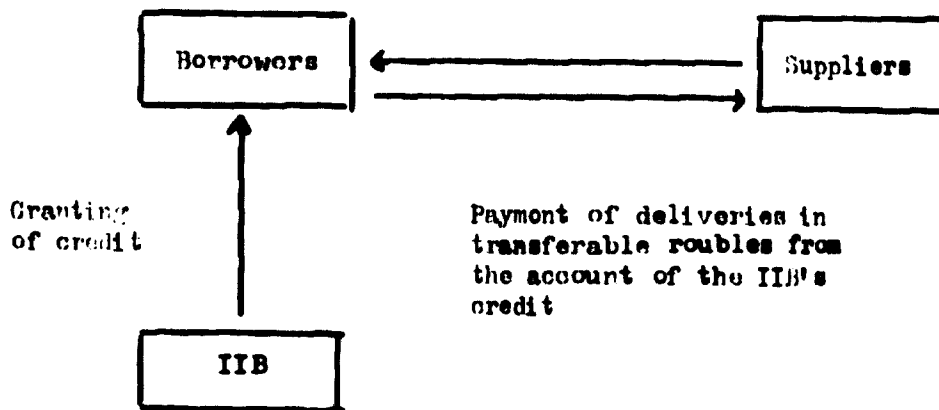
As far as investment credits in transferable roubles are concerned, they can be used for medium-term and long-term financing of capital investments both in the CMEA member countries and the non-member countries as well. Granting of credits in transferable roubles means that borrowers themselves should secure sources of supply in the CMEA member countries.

The procedure for use and repayment of credits from the special fund in transferable roubles is shown in Diagram V.

Diagram V.

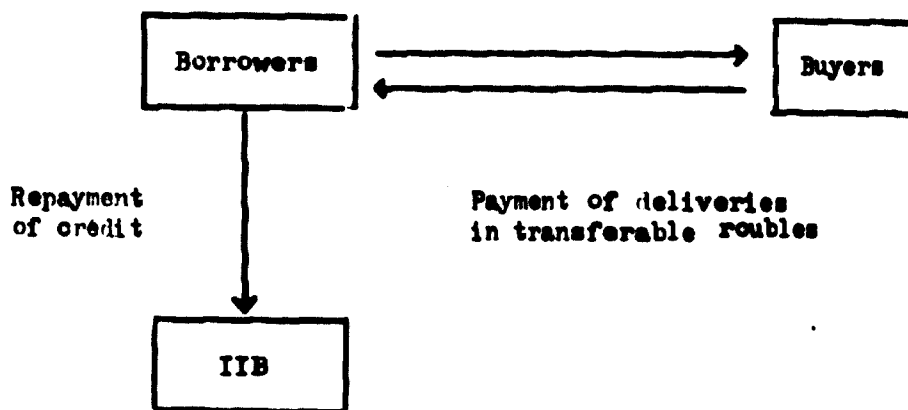
Stage I: Use of credits

Deliveries of equipment and other materials from the CMEA member countries for the construction of the project financed by the IIB



Stage II: Repayment of credits

Deliveries of goods from corresponding developing countries to the CMEA member countries



As can be seen from that scheme, the borrower may use IIB's credit in transferable roubles provided deliveries of equipment and other materials from the CMEA member countries are balanced with deliveries of goods from the recipient country to the CMEA member countries. It is assumed that the borrower has already determined both the supplier of equipment and of other materials for the project and buyers of the product from the project in the CMEA member countries.

By the end of 1977, IIB had terminated the preparation of basic documents on credit operations with non-members of the Bank and is starting business contacts with third countries. Negotiations have already been conducted with representatives of the Socialist Republic of Viet Nam. The Bank expressed its readiness to consider the granting of credits during the current five-year period, as well as after 1980. The IIB specialists participated in the work of the Joint Commission on Co-operation between the CMEA and Mexico and considered opportunities to grant credits for joint construction of phosphate-extracting enterprises in Tunisia and Morocco. The Bank also took part in negotiations on rendering financial assistance to the Laos People's Democratic Republic and Angola.

Credits granted by the International Investment Bank through its special fund may play an important role in the development of industrial, scientific, technical and trade co-operation. In particular, IIB credits for capital investments may be based on multilateral co-operation agreements between the member countries of the IIB and developing countries. Furthermore, the IIB's crediting of investment measures in the developing countries, in co-operation with one or several member countries of the Bank, may represent an interest for third countries or banks in that they facilitate their participation on a mutually beneficial basis.

SUMMARY

1. To promote the development of economic and industrial co-operation the member countries of the Council for Mutual Economic Assistance have established a diversified institutional mechanism based on the combination of multilateral and bilateral aspects of co-operation. The main components of this mechanism are the organs of the CMEA, bilateral intergovernmental commissions and multilateral industrial co-operation agencies operating at the branch level. All these components are interconnected and complementary, although they use their own resources and specific methods to promote international co-operation in various sectors of the economy.
2. Within the framework of the institutional mechanisms of co-operation, the role of a co-ordination centre was assumed by the organs of the Council for Mutual Economic Assistance. According to the Charter of the CMEA, the system of its main organs includes the following: the Session of the Council, the Executive Committee, the CMEA Standing Commissions, the Conferences of the Heads of Departments of the Member Countries, research institutes and the CMEA Secretariat. Acting as co-ordinating bodies, the CMEA organs provide the Governments with a forum for multilateral discussions and consultations. They also initiate measures to encourage economic, scientific and technological co-operation among the member countries, assist the countries in the preparation, co-ordination and implementation of co-operation programmes, promote decision-making, prepare studies and documents for discussion, and maintain liaison with other international organisations.
3. There are two basic types of resolutions adopted by the CMEA: recommendations and decisions. Following the principle of equality, the resolutions can enter into effect only after having been approved by all member countries. Since the CMEA countries reject the concept of a supranational body adopting legally-binding resolutions which can affect autonomous economic development, recommendations and decisions do not apply to countries which declare their lack of interest in a problem under discussion.
4. Closely connected with multilateral co-operation within the framework of the CMEA organs are bilateral ties between the economies of CMEA countries.

The bulk of the work on bilateral co-operation is carried out by inter-governmental bilateral commissions on economic, scientific and technological co-operation, which are standing bodies and embrace almost all CMEA countries. The main task of the international bilateral commissions is to derive and exploit to the full the potentials offered by the division of labour and economic co-operation between the two countries involved, and to help them to draw closer to each other in economic terms.

5. This general task implies that bilateral intergovernmental commissions examine problems of co-operation which arise in the course of co-ordinating national economic plans, chart the most feasible ways of improving the machinery of mutual co-operation, initiate measures related to developing specialisation in industrial production, and explore opportunities for increasing trade turnover and exchange of services between both parties as well as promoting scientific and technological co-operation.

6. Bilateral commissions operate on the basis of special agreements signed by the two countries in which the competences, tasks, structure and procedure of a given commission are described. To ensure that the work of the commission is linked with overall multilateral co-operation schemes, the agreements stipulate that bilateral commissions will take into account the resolutions of the CMEA organs.

7. In close relation to the work of the CMEA and bilateral intergovernmental commissions stand the activities of the international specialized economic and industrial co-operation agencies. As international organizations these agencies are autonomous and cannot be subordinate to, or identified with, the organs of the CMEA, although they are established by the CMEA countries. The competence of specialized agencies is usually limited to the promotion of international co-operation in the selected sector of the economy, mainly in the field of industrial production. However, there are also international organizations which deal with scientific research and development or with international commerce and financing.

8. As regards their nature, functions and legal status, the specialized economic and industrial co-operation agencies of the CMEA countries can be classified into two broad categories: interstate economic organizations and international associations. The functions of interstate economic organizations have a rather co-ordinative/regulatory character; the countries are represented there through their government agencies, such as ministries,

state committees, and chief administrations. The main distinctive feature of international associations is that they operate on a self-financing basis and the countries are represented in such agencies by national economic or industrial organizations and/or by large production units.

9. Within the context of overall economic co-operation of the CMEA countries, the main objective of specialized agencies, irrespective of their differences in legal status and sphere of activity, is to unite the efforts of participating countries aimed at co-operation and joint activity in specific fields of economy, science and technology, specific industrial sectors, sub-sectors and individual lines of production. In order to attain this objective specialized co-operation agencies have worked out a number of practical methods, as is shown by the review of the operations of some individual international agencies working in various spheres of economic and industrial co-operation.

10. Within the system of international specialized organizations established by the CMEA countries, a special position is occupied by two financial agencies: the International Bank for Economic Co-operation (IBEC) and the International Investment Bank (IIB). The importance of these agencies is emphasized by the fact that they provide the economic and industrial co-operation mechanisms among the CMEA countries with the necessary financial facilities.

11. Both banks base their operations on the bilateral system of payments and crediting in transferable roubles, which has replaced the system of bilateral clearing accounts which existed at the initial stages of co-operation. Within the framework of the multilateral system of payments and crediting, IBEC is responsible mainly for advancing short- and medium-term foreign trade credits, whereas IIB concentrates on long-term investment crediting and financing large-scale multinational projects.

12. In recent years, both IIB and IBEC have taken measures to promote the use of the multilateral system of payments and crediting in transferable roubles in economic relations with countries which are not members of the CMEA, in particular with developing countries. To that end, the International Bank for Economic Co-operation has introduced an improved procedure for participation of non-member countries in the multilateral system of foreign trade payments, and the International Investment Bank has established a special fund for economic and technical assistance to developing countries with the aim of promoting the strengthening of their economic independence and the establishing of modern economic structures.

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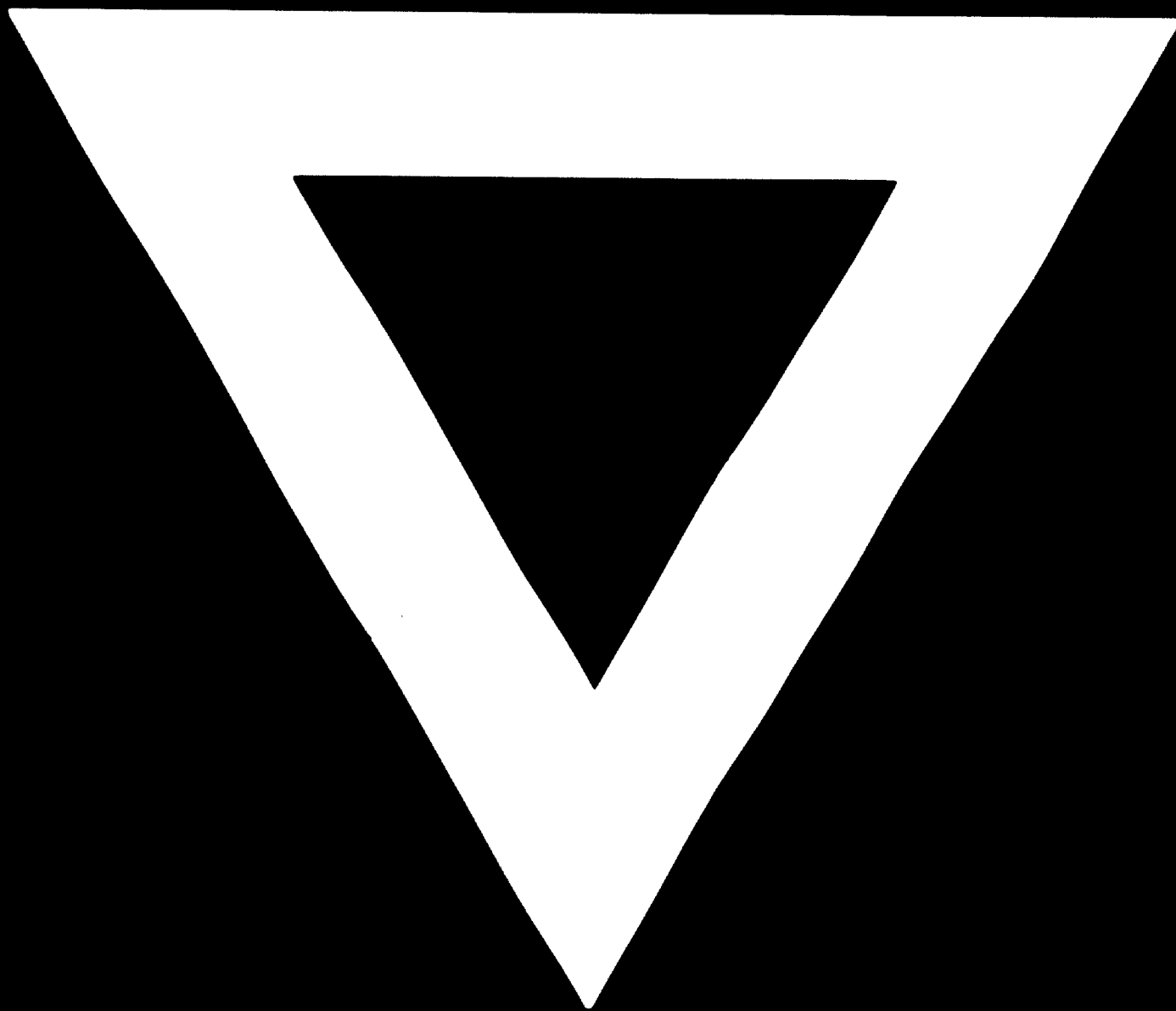
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