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EXTERNAL ECONOMIC RELATIONS OF PRODUCTION CO-OPERATIVES
IN THE UNION OF SOVIET SOCIALIST REPUBLICS:
CURRENT STATUS AND PROSPECTS

Prepared by

N. A. Veretennikov
UNIDO consultant

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HISTORICAL BACKGROUND. LEGAL REGULATIONS.

External trade was an important element of Russian co-operatives at the turn of the 19-20th centuries. Engaged primarily in agricultural production, Russian co-operatives delivered a substantial part of their final product to European markets. Russia stood for 60 per cent of flax sales in Europe. There were also animal oils, hemp, sheepskins and a variety of other merchandise of remarkable quality. The external activities of Russian rural co-operatives contributed to the stabilization of the balance of payments, promoted purchases of equipment and materials for the accelerated development of agricultural production.

However, the rejection in the late 20-s of the New Economic Policy which supported co-operatives development was followed by the spread of state domination in all areas of economic life. The co-operative movement in its original conception was actually curtailed, and the external relations of economic units which formally remained co-operative (collective farms, consumer co-operatives) got under austere state control and lost their independent nature.

The current stage of the external economic activities of production co-operatives in the Soviet Union is regulated by the 1988 Law "On the Co-operation in the USSR". One clause of this law is fully dedicated to the external economic relations. Specific ways and forms of their implementation are also stipulated in government decrees of 1987-1988, mainly in the USSR Council of Ministers Decree "On Further Development of External Economic Activities of State, Co-operative and Other Public Ventures, Associations and Organizations" of December 2, 1988. According to this document, production co-operatives were entitled to direct export-import transactions. The procedures of FC registration were developed and their obligations towards government agencies regulating the country's external economic relations were defined. Thus was created a sufficient though not quite perfect legal basis for such activities of production co-operatives.

Simultaneously, a number of recently enacted documents reduced the range of production co-operatives external activities. Thus the Council of Ministers Decree of December 28, 1988 "On the regulation of certain co-operative activities in accordance with the law "On the Co-operation in the USSR" bans production and sales of cinema- and video materials, foreign currency transactions, and reduces opportunities in international tourism organization. Like all other societies outside the network of state external economic agencies, production co-operatives are subject to export control of certain products strategically important for the country's external trade and besides to the procedures of export and import licencing.

According to co-operatives' calculations, after the law "On the Co-operation in the USSR" enactment about 200 sub-legal acts were adopted including those that limit opportunities for external economic activities development. The most limitative was the decision banning barter transactions. Currently, trade exchanges are practised as routine export-import deals. Co-operatives willing to trade with foreign counterparts have to export their own products and sell part of their currency earnings to the state (some 30 to 50 to 70 per cent depending on the sectoral standards) using the rest for their own import. Imported goods can only be used by the co-operative itself for further production development and social and economic needs of its members.

The imposed limitations (1988-1989) are mainly consequent to current economic and financial difficulties of the country. At the same time, the initiators of restrictive measures pursued the purpose to prevent damages or profit losses to the state. At the moment, the system of acts regulating this area of co-operative activities may be viewed as completed thus beginning a period of co-operatives' external economic activities adaptation to this system.

CURRENT STATUS OF CO-OPERATIVES' EXTERNAL ECONOMIC RELATIONS

In August of 1989 production co-operatives totaled 939 out of 7218 associations registered as independent external transactions participants. Last months saw the exceeding growth of registered producers' co-operatives against state associations which became an important evidence of their increasing interest to expand external economic activities.

A substantial part of co-operatives' contractors are small and medium businesses, often headed by Soviet emigrants. They have a better knowledge of the country's economic system, the specifics of dealings with government or administrative agencies, needs and resources of Soviet partners. Foreign contractors' interests are mainly in the area of buying primary commodities (such as scrap metals, timber, stone, unprocessed leather) and souvenirs, drinks and small-fruit.

The assessment of production co-operatives place in the country's external economy structure is not easy so far. It results from the inefficiency of export-import operations statistics still unable to keep pace with rapid changes in the country's economic system and external relations. Probably their share does not exceed tenths of a per cent and is hardly if at all discernible in the country's foreign trade.

A SURVEY OF PRODUCTION CO-OPERATIVES EXTERNAL ECONOMIC ACTIVITIES. BASIC PROBLEMS.

Due to the fact that the latest period of production co-operatives' external economic activities is not long enough for long-term trends forecasts, and any analysis is reduced to some six to seven months of work, the conclusions given here are preliminary and subject to serious amendments in the future.

Systematization of appropriate data, viewpoints and opinions published by the Soviet mass media and the analysis of materials collected by the author of this paper during his field research in the cities of Moscow, Syktyvkar and Ukhta allowed for the following general remarks:

a) production co-operatives can be divided into the four categories by the part which external economic relations take in their economic activities and production development strategy:

- production co-operatives whose external economic activities are the primary and main element of their work (for example, "Sovintercontact-Agroservice" co-operative from Moscow). Usually such co-operatives in their registered rules secure practically all kinds and forms of external economic relations, emphasizing intermediary operations (before they were banned) and organization of manufacturing and services in co-operation with foreign companies in the USSR. For instance, "Sovintercontact" and several Western companies signed an agreement of intention to start joint publication of contemporary Soviet writers literary works. This joint project includes a Syktyvkar shareholders' society "Pera" who is to supply wood for printing paper manufacturing. Also, "Sovintercontact" negotiates the use of Dutch technology in agricultural infrastructure construction in the Moscow region;

- production co-operatives whose external economic activities are of secondary or auxiliary character. They pursue the aim of hard currency earnings for purchasing new foreign technology and equipment to be used in production development. Such co-operatives associate their external relations prospects with barter trade and joint production.

It seems quite logic, that barter trade as a rule includes exchange of raw materials and prime products for equipment essential for the industrial modernization (machine tools, production lines, etc.) and business management (personal computers). For instance, "Pera" of Syktyvkar contracted deliveries to Unicon International Trading, Finland, produced by its subsidiary engaged in wood clearing for power transmission lines and road construction. Their earnings are to be used for purchases of sawmill and furniture making machinery. This deal was negotiated via "Unex" external trade association whose actions, according to "Pera" executives, sometimes lacked effectiveness and reliability. The accumulated experience of this external transaction drew to the conclusion that such deals could be negotiated directly and more effectively as far as earnings and time saving are concerned. And this resulted in "Pera"'s registration as an independent subject of external economic relations and later - in a joint venture with a West German company.

Many commodities supplied by co-operatives (wood, scrap metals, hides and skins) may only sell abroad by licences which actually are issued by state agencies quite wary of competition. And they do not consider the fact that often co-operatives find a way to sell merchandise practically neglected by the state trade. The imposed restrictions are related to certain co-operative export-import deals (e.g., by the co-operative "Tekhnika", Moscow) estimated by state agencies as violation of state interests, "the country sell-out" and speculation;

- production co-operatives which have only started to assess their potential as future external economic partners. These usually are manufacturing enterprises transferred to co-operative ownership, just beginning to overcome financial and economic difficulties. Such are the Moscow Low Voltage Equipment Plant, the Nikolsk Brickyard and others. Their management is characterised by the realistic approach of external market competition problems, the absence of adventurism and expectations to grab "hot money". Thus the Moscow Low Voltage Equipment Plant considers as the initial step towards external transactions a thorough study of foreign markets by commodities' groups, sales methods and the experience of potential competitors, that is the whole range of problems whose knowledge is essential for the development of their own marketing policy. Simultaneously, the plant's sales department makes a research into the possible internal sales of import-substitution merchandise for hard currency at lower-than-import prices. Import-substitution appears as the basis providing a harmonic balance of the state interests due to substantial currency savings and those of PC-s getting the experience in international competition together with currency earnings;

- production co-operatives which at the time do not expect to enter foreign markets. Besides co-operatives producing goods for internal consumption and home-industry enterprises, this category includes many scientific and research and development co-operative associations. The latter are able to quite soberly assess the costs of their own developments, and compare their level with foreign products. But their general ignorance of selling ideas abroad, e.g., via joint engineering consulting companies, results in reluctance to enter external markets with their products while reasonably assuming that the pre-production developments would bring in just a fraction of potential earnings.

The conclusion is quite obvious that the restrictive policy in external economic activities resulting from the country's economic difficulties as well as prejudice towards co-operatives is limiting opportunities of the first two categories. Co-operatives of this kind most of all need international co-operation which could help them in solving the problems on the chosen road of development without abusing the government current economic policy while providing extra currency income to the state treasury.

b) The main problem in the development of Soviet co-operatives' external relations results from inexperience and incompetence in this area. Co-operatives, especially provincial, have a very vague idea of participation in foreign markets. They have no information concerning prices, partners and contracting conditions, nor do they know who in the Soviet Union can advise on these subjects. Numerous state agencies and co-operatives are well aware how important this problem is. Here a model example is the first Soviet large co-operative "Kropotkinskaya 36". In the course of activities' diversifying its management realized the importance of information and intermediary services for hundreds and thousands of Soviet co-operatives with no external relation experience and knowledge whom to address on issues of their interest. The data bank of the new information center contains various data on co-operatives

who has contacted "Kropotkinskaya 36" in search of foreign sales opportunities or joint business partnership in the country. There are offers to export timber, hides, scrap metals, mushrooms and other products. This data bank contains information on the co-operative "Severnyi" from Ukhta (708 persons employed, 20 million roubles of annual income, main line - road construction) which was an object of study on this seminar's program. Good prospects on information services for co-operative external relations and intermediating on this basis are doubtless. But in case with "Kropotkinskaya 36" these prospects remain beyond implementation because the existing acts and instructions prohibit co-operative intermediating.

Besides organizations capable of expert advice and high-quality information (such as All-Union Market Research Institute and INFORMVES of the Ministry of External Economic Relations, "FACT" co-operative, the Experimental Creative Research Center of the Social Inventions Fund and others) we are aware of numerous advisory associations, both official and co-operative, unable to provide qualified consultations. Unpreparedness and lack of understanding of external economic operations are blocking effective functioning of joint ventures many of which remain idle. Often they are established for the precedent of establishment and their founders give little thought to how they would work and have a rather vague idea of the complexity of relations within such a high level partnership. And the current drastic drop in the number of foreign firms interested in collaboration with co-operatives is not occasional. They see neither reliable partners, nor guarantees of commitments. All this is openly discussed in the mass media, the Soviet press including. Incompetence is aggravated by the personell training problem. The training of specialists is provided by a limited number of schools such as the Academy of External Trade, the Advanced Education Institute and the Higher School of Commerce of the Ministry of External Economic Relations, commercial schools of the Academy of Economics, the Plekhanov Economic Institute and the Moscow Institute of International Relations. Quite obviously, these schools train specialists mainly for state external economy agencies. But now there are many co-operatives offering training in practices of external economy though unable to provide a high qualification level. Personell training may become a key item in international programs to support the co-operative movement in the USSR.

c) There is an acute problem concerning the quality of merchandise offered for export. In most cases the technology level of production units and training of personell engaged in the manufacturing of these products are not sufficient to meet the demands of foreign markets. Even ordinary products such as wooden pallets can not be manufactured according to European consumer standards. This determines the predominant raw materials orientation of co-operative export. There is an opinion that it seriously opposes the state interests even when the state by this or that reason cannot develop raw or secondary resources. On the other hand, the majority of co-operatives regard the trade in raw products as the only opportunity to earn hard currency and acquire equipment ensuring higher quality. Such is a typical situation with

those engaged in wood removal and logging, say, road construction co-operatives. Had they the appropriate equipment, they could diversify their activities by manufacturing houses, furniture and other wood based products. Their managers suggest as the initial measure to sell round-wood and acquire sawmill machinery. Then begins the trade in timber and plywood and purchases of equipment for furniture making and housebuilding. And only after that the co-operative has the opportunity of independent external activities because it starts a non-licensed production. Problems begin to arise from the very first stage while getting licences to export wood. Here especially significant are direct contacts with foreign firms, co-operative among them, which could supply the needed equipment on the compensatory basis.

Quality problems could be practically solved by establishing direct relations and co-production with foreign companies but such contacts have not been practised yet. The topic of co-production and direct relationship might be an item on the agenda of the next seminar on co-operative movement.

d) The dependence on the state and sectoral bureaucracy in promoting external economic activities evokes co-operative criticism for hindering, to their opinion, prompt solving of arising problems. This dependence covers both commercial and merely organizational issues. For instance, the Ukhta co-operative "Severnyi" after signing the agreement with Hungary for delivery of fifteen hundred cubic meters of round-wood to be used in Europallets manufacturing, had to coordinate shipments with the state external economic association "Exportles", the Ministry of Forestry and the Ministry of Gas Industry (the latter's production department sponsored that co-operative). Its chairman could document his business trip abroad only via "Severagroprom" association despite the fact that "Severnyi" was registered as an external economic exchange participant. The existing dependence is all the more acute due to all the more prevailing anxiety and hostility towards co-operatives among the society and state bureaucracy.

Also not easy are co-operatives relations with state external trade agencies. As a rule, co-operatives offer small volumes of export merchandise while these agencies are interested in more substantial deals. Occasionally co-operatives meet a refusal when trade agencies have no contractors for the offered product.

Many problems arise during the organization of business trips abroad, especially to capitalist countries, and accepting foreign partners in the Soviet Union. According to current regulations, trips abroad (if it is not a mission on the part of a state agency) are allowed either on a private person invitation or on a tour. The conception of a business trip as the ground for getting exit papers is not recognized yet.

e) The credit system for production co-operatives' external operations has not yet been ultimately formed. However, successful development of such activities will chiefly depend on the integrity and urgency in solving new problems in credit accounting and currency servicing of external transactions.

The State Bank began to adapt the bank system to services in the new environment right after the August 1988 decision defining the ways to improve the management of the external economy complex (i.e. Decisions of the Central Committee of the Communist Party of the Soviet Union and the Council of Ministers "On the Measures for Management Improvement in External Economic Relations" and "On the Measures for the Improvement of Economic, Scientific and Technological Co-operation with Socialist Countries"). The last period saw the development and implementation of banking services scheme for organizations and enterprises, co-operatives including, who acquired the rights of external markets direct approach, though the rules for co-operative currency funds usage have not been defined yet. Current regulations stipulate that all organizations and enterprises are served by the USSR Vnesheconombank agencies.

However, the accumulation of independent work experience in the near future will relegate these functions to newly established specialized banks - Agroprombank, Promstroybank and Zhilsotsbank of the USSR, primarily where Vnesheconombank offices had not been opened. The first steps in this direction have already been made. A recently established Innovation Commercial Bank, Moscow, received Vnesheconombank's permission to correspondence agreements with foreign banks, which paves the way to independent crediting and currency servicing of external economy participants. The existing documents stipulate in principle possible co-operative banks involvement. The practice of independent choice of a creditor agency specifically envisaged in the law "On the Co-operation in the USSR" must demonstrate which ventures that take part in the external economic exchange would attach themselves to this or that bank. Meanwhile, there is an opinion that independent international market entrance by credit agencies, co-operatives including, demands the borrowing of the experience of various bank operations which, according to top executives, has been accumulated only by Vnesheconombank itself (see Yu.V.Ponomarev "The External Aspects of Specialized Banks Activities", "Money And Credit", Moscow, 1988). Thus the absence of rights to make independent correspondence agreements with foreign banks, open an account with them or attract foreign currency investments actually consolidates Vnesheconombank's monopoly for currency-based credit operations. At the same time any system of credit and currency servicing of FC-s, would substantially increase credit resources by attracting assets of foreign banks whose interest in such activities could be stimulated by the international support of co-operative development in the USSR on the side of the United Nations and world co-operative movement.

f) Potential areas of co-operation between Soviet production co-operatives and foreign companies and organizations, including that on a compensatory basis and coproduction, and taking into consideration real economic situation in the country as well as mutual opportunities, can be listed as follows:

- agricultural production, mainly animal husbandry, with gradual increase and diversification of meat processing;
- shipskin and fur making, furbearing animals breeding;

- processing of wood, leather, glass wastes and scrap metals;
- stonecutting;
- construction in the USSR (already practised by foreign contractors);
- computer assembly and software support;
- medicine, mainly diagnostics and non-traditional medical treatment methods;
- unclaimed technologies. There are many technologies in conceptual forms in the USSR. For all the risks in this business area, it is very effective and could flourish with the assistance of different foundations, charitables including.

It should be cleared that many of the above mentioned potential export-import transactions demand licensing.

CONCLUSIONS AND RECOMENDATIONS.

External economic relations of Soviet co-operatives are developing in the context of the co-operative movement in general and reflects all difficulties and problems which accompany new phenomena of the country's economic life. These problems include the unpreparedness of the legal basis and necessity for its continuous modification which hinders the establishment of a stable legal environment; the unilateral dependence on the state agencies whose executives while guarding state interests are often prejudiced in dealing with co-operative problems; the lack of raw materials and especially modern equipment for manufacturing of competitive products; insufficient economic training and information on the specifics of external markets, the uncertainty on issues of external operations crediting, currency accounts usage, etc.

In the process of development and implementation of various measures for the progress in production co-operatives' external economic activities the following assumptions should be made.

First, co-operative entrance of foreign markets will contribute to increasing the country's involvement in the international manufacturing division, diversifying of collaboration forms and growth of the number of foreign partners among small and medium business companies.

Second, the production co-operatives' merchandise is an additional export resource and its sales abroad will be favourable for the country's finance.

Third, external economic relations are a powerful factor for the improvement of production co-operatives' production base and their members' social status.

Taking all this into consideration, the following measures for the development of the Soviet production co-operatives' external economic relations appear advisable:

- the organization of information and advisory services emphasising studies of legal principles of external trade and co-operation, foreign markets situation, economics and methods of foreign trade. The provision of these opportunities by specialized state agencies (e.g., the Ministry of External Economic Relations, the USSR Chamber of Commerce and Industry, higher education institutes and academies) should be accompanied by the involvement of foreign specialists and agencies, probably within the international co-operative movement support programs;

- the establishment of wide-range contacts with international and Soviet co-operative unions and associations, small and medium business associations, holding symposiums and meetings dedicated to solving of co-operative movement problems in general and special issues of international economic co-operation;

- establishing of external trade firms and associations on co-operative basis which would help to rationalize the costs of external activities by inviting the best experts, reducing the costs of financial and other operations, transportation to ports of departure, etc., provide better opportunities for mutual assistance in exports of goods and services, accumulation of essential export resources, etc.;

- usage of international support programs to study the opportunities for export-import operations servicing and hard currency crediting while attracting foreign financial institutions, co-operative including;

- inclusion of external economic activities into international and national research programs on the co-operative movement as a specific analysis aspect. Such studies could be held on a continuous basis by UNIDO and UNCTAD forces accompanied by invited foreign experts in the area of industrial development and external economic relations.