EXCLUSIVE

Soviets Ask For "Feasibility Study" Of T-Ruble Convertibility

Soviet Authorities have asked London banks to undertake a "feasibility study" of the means to turn the transferable ruble — the unit of account used for trade within the East European Council for Mutual Economic Assistance (Comecon) — into a fully convertible international trade currency, British financial circles report. This request, the Soviets' first actual initiative since they mentioned their intent to make the ruble available for trade deals between East and West in October 1976, was underscored yesterday by the arrival in London of Soviet Foreign Trade Bank director Maslov, who will reportedly hold meetings with London merchant bank officials.

The potential political significance of this visit is enhanced by press reports that the Soviet Union has asked Britain to act as official mediator in all bilateral "bloc to bloc" relations between the European Economic Community (EEC) and the Comecon, following the recent successful conclusion of EEC-Comecon "fishing rights" discussions, also facilitated by British initiatives. The French daily *Le Figaro* characterized the agreement on fishing rights as "a major step forward" which testifies to the quickly-improving climate between the "two Europes." "The prospect of more difficult relations with the new administration prompts the Soviets to attribute much greater importance to direct relations with the EEC," added the French liberal daily *Le Monde*, noting that a syndicate of U.S. banks has just abandoned a planned $200 million loan to the Comecon's International Bank for Economic Cooperation (IBEC), probably as a result of White House opposition.

Although no West European leader has yet spoken publicly of the convertible ruble issue, the sudden rash of newspaper articles dealing with the subject in the past few days indicates that it is under discussion at the highest level. The respected West German financial daily *Handelsblatt* signaled this Feb. 16, in a full-page detailed examination of IBEC's proposal that the transfer-ruble become a fully convertible unit of account for East-West trade in general. Though somewhat lukewarm in its appraisal of the proposal because of IBEC's restrictive statutes and the current structure of monetary-economic relations within the East Bloc, *Handelsblatt* addressed three positive "counter-proposals" to the Soviets, namely that the Comecon issue credit to Western countries and firms, that new mechanisms — for bilateral and multilateral trade — be created, and that ruble accounts held by the Third World be expanded.

The next day, *Il Sole-24 Ore*, the newspaper of the Italian industrialists' association Confindustria, located the emerging Europe-wide transfer-ruble discussions in their appropriate context — the continuing collapse of the U.S. dollar and the West European financiers' concern over the "tension which could arise in the coming months over rates and international liquidity." The Europeans' fear of a growing credit crisis directly accounts for their interest in the eventual negotiability of the transfer-ruble on a world scale, said *Il Sole*, adding that if gold were remonetized and the gold-backed ruble made convertible, both "would rise rapidly against the dollar," collapsing it in short order. Other articles endorsing with more or less enthusiasm the concept of a Euro-ruble for massive expansion of East-West trade have since appeared in the Finnish industrialists' daily, *Hufvudstadsbladet*, and *Le Figaro*.

While the transfer-ruble negotiations proceed behind closed doors, West European leaders are about to make public their intent to return to monetary sanity at the earliest opportunity, in keeping with *Il Sole's* suggestion. According to the British magazine *The Economist*, the EEC Commission is about to issue a formal proposal for a scheme whereby member-countries would meet their mutual payments deficit in gold, making gold the centerpiece of the monetary system again, at the expense of the parasitical dollar.

The significance of this statement of intent was heightened by a meeting between French Prime Minister Barre and Italian Finance Minister Stammati Feb. 17 in Paris. The two statesmen have since concurred publicly that the "first medium-term priority" for the EEC is to establish "a real monetary and economic union," a permanent demand of the late General de Gaulle, heretofore unrealizable because of British and West German alignment on U.S. monetary policy. Barre added that his government and that of West German Chancellor Schmidt are in the process of working out proposals for a new EEC drive in the direction of monetary unity, which will be presented at the end of the year.

In anticipation of the increasingly probable severing of the ties between Western Europe and the dollar, European banks are gradually pulling out of large syndication Eurodollar loans, and demand that the syndicators — most frequently the large international banks based in New York — "buy back" their participation. This way, said a West German source Feb. 17, "there will be a little crash, not a big one, and not everybody will get hurt..." French banker Maurice Lauré — who heads Société Générale — expressed a similar viewpoint in the Feb. 19 *Le Figaro*, stating that, contrary to *Business Week*'s recent allegations, French banks are *not* dangerously overextended as a result of so-called excessive conversion of short-term petrodollar deposits into long-term loans. Said Lauré: "The French banks' portfolio of medium-term loans in currency is certainly of a better quality than that of many U.S. banks, whose commitments, not so long ago, drew the Federal Reserve's attention..."

Le Figaro: Is The Euro-Ruble On The Horizon?

The following are excerpts from an article entitled "Changes in the Comecon's Internal Relations" by Marie Lavigne, which appeared in Le Figaro, *Feb. 19:*

Whereas in the West the East Bloc countries indebtedness continued to be the object of speculation, the International Bank for Economic Cooperation (IBEC) of the Comecon proposed, at the end of October 1976, that non-member states participate in the system of payments in "transferable rubles," made in the collective currency of the Socialist countries.

Is this challenge, or act of faith in regard to the potentialities of Socialist integration, sufficiently affirmed from now on to ensure an international extension of the "Euro-ruble"? In this perspective, one can wonder if economic integration within the Comecon has been accelerated and reinforced by the crisis of the Western economies.

One of the first manifestations of a repercussion of the energy crisis on the East Bloc countries was, at the beginning of 1975, the spectacular increase of the price paid by the USSR's partners for Soviet oil, still at one-fourth of the world price in 1974. At the same time as this 130 percent increase, a revision of the procedure of determination of Socialist international prices was announced. Henceforth, revised every year and no longer every five years, these prices are calculated on the basis of average world prices in the previous years, although in 1975 this determination was exceptionally made on the basis of average 1972-74 prices.

Where are we two years later? We know that in January 1976 the price of Soviet oil was increased by about 8 percent. It has just been raised again in January 1977. Although the rate of this increase was not officially communicated, a calculation based on an average of 1972-76 world prices leads us to believe that it amounts to about 33 percent. Let us add that the new procedure concerns not only oil (or raw materials) but, in principle, the totality of goods exchanged among Comecon members. How have these increases affected mutual trade?

The USSR, which exports mostly raw materials and imports manufactured goods in its relations with the other East-European countries, improved its terms of trade by 7 percent from 1975. The relation between the price of its exports and that of its imports, which has been stable since 1971, had in the course of the previous 15 years deteriorated by 20 percent. In effect, because of the structure of its trade with the Comecon partners, the USSR is to be compared to an underdeveloped country, and the evolution of world prices, which affects exchange conditions within the Comecon with some delay, was unfavorable to the USSR until 1974.

Can it be said that, conversely, these last two years have placed the USSR's partners in critical situations? The most affected countries have of course been the greatest importers (in proportion to their total purchases) of raw materials, that is to say Czechoslovakia and the DDR. Romania, on the other hand, was the only country to keep a positive balance vis-à-vis the USSR in 1975 and 1976. Nonetheless, the deficits registered in the last two years cannot be compared, either in absolute value or in their proportions, with the growth of indebtedness in East-West relations. The cumulated trade balances of the six "small" Socialist countries with the USSR even show, for the 1971-76 period, a very slight surplus in their favor.

In any case, within the Comecon, negotiations on quantities take precedence over arrangements on prices. Of course, the USSR's clients must supply more merchandise in exchange for raw materials whose prices, although increased in the last two years, remain lower than world prices. But the important thing for them is, above all, guaranteed supplies.

Their indebtedness to the West, estimated to amount to $22 billion at the end of 1975 (more than 30 billion if we add the Soviet Union itself), incites them to seek within the Comecon, thus from the USSR primarily, regular and guaranteed long-term supplies of basic products. Therefore, it is no coincidence that in 1975 and 1976 Socialist integration has been reinforced in this direction.

A Gigantic Construction Yard

A "concerted plan for integrationist measures" decided upon in 1975 was included in the 1976-80 five-year plans of all countries. Last July, several "common finalized programs" were defined for a 10-15 year period, notably in the domain of energy, raw materials and food. If these plans are still in their preparatory phase, the "concerted plan" includes about 20 concrete "great projects" already being implemented, most of which are on Soviet territory.

The most important is the 2750 km gas-line which will bring from Orenburg (Urals) to the Western border of the USSR the natural gas ordered by its European partners. The operation is financed by a credit line from the Comecon's International Investment Bank (amounting to 2.4 billion transferable rubles, that is to say $3.2 billion, extended for the most part in convertible currencies), representing four fifths of all credits granted by this bank to all Comecon members since its creation in 1971.

Additional bilateral credit is supplied by the member countries in the form of equipment and especially labor power, as nearly 30,000 workers and technicians will work on this gigantic work-yard, whose individual sections will be entirely realized by each corresponding country. Only Rumania supplies materials only.

From the date of completion of the operation, in 1978, the Socialist countries will receive in repayment 15.5 cubic meters of natural gas a year for 20 years. As the agreement on the project was signed in 1974, one can suppose that compensation for reciprocal supplies was calculated in 1974 prices.

To the great multilateral investments one must add bilateral actions like the "Katowice" steel complex built in southern Poland with the assistance of the USSR, which includes the construction of a rail line in charge of bringing from the USSR, first equipment, later iron ore. The precise purpose of the operation is to allow Poland to eliminate its deficit with the Western countries in the area of steel imports ($800 million in 1975, $600 million in 1976); a greater dependency on Soviet ore supplies is a corollary of this.

Beyond essentially conjunctural phenomena like Soviet aid to Poland at the end of 1976, in the form of credit which will enable Poland's leaders to relax tension on the consumer goods market through increased purchases from the USSR, or like the Soviet-Romanian rapprochement, a tightening of economic ties within the Comecon seems unquestionable, whatever the involved parties' motivations.

Confidustria Reports On The Transfer Ruble

The following article appeared Feb. 17 in Il Sole 24 Ore, *the official publication of Confindustria, the Italian industrialist organization.*

London — For many years there has been talk of Soviet intentions to internationalize the role of the ruble. Soviet economist Ivan Konnik wrote precisely ten years ago: "The convertibility of the ruble is an indispensable precondition for bringing our currency into the (international) currency area and progressively displacing the dollar from its position of dominance." Such a principle has been more recently reaffirmed by E. Andres in his book, *The Basis of Monetary Theory In a Socialist Society.*

The passage from theory to the concrete seemed to take place toward the end of 1976, when the International Bank for Economic Cooperation (IBEC) announced that the transferable ruble had been extended beyond the Comecon as a unit of account no longer limited to import-export operations among socialist bloc countries, but extended to the financing of commercial transactions with the West.

The orientation of IBEC, which regulates payments within the Comecon, is not the only indication of a new approach on the part of the Eastern countries to Western financial markets. It is significant however, because it portends a decisive action by the Comecon to overcome the current factors of rigidity in the balance of payments. During 1976, Comecon presence in the capital markets progressively increased in consistency and — notwithstanding the fact that the bloc's exposed debt position is over $43 billion, according to Chase Manhattan Bank estimates — the increase of (bloc) negotiable credit on the Euromarket went from 4 percent to 15 percent of the total. Such an "opening" in the market toward the Comecon was due in part to the strong liquidity position of the U.S. banks, but above all to the increased willingness of the socialist countries to supply information on their internal economic development plans.

City of London circles are also working with alacrity on the hypothesis of including the ruble in the worldwide currency chess board. The internationalization of the ruble would have a significant impact on the currency front: "It would certainly represent a hard blow to the strength of the dollar," they say at Citibank. There are some who go even further, hazarding the possibility that this could de facto force the U.S. administration to reconsider the convertibility of the dollar into gold that was abandoned in 1971.

Michel Kaser, Oxford University Sovietologist, predicts that the ruble will have the role of a reserve currency and that there will be a new market installed parallel to that of the Eurodollar. According to some City of London bankers, the urgency for convertibility is due to the growing indebtedness of the Comecon toward the West and the tension which could arise over the coming months over rates and international liquidity. With this in mind, it is said that arrangements for the negotiability of the ruble on a world scale are proceeding at an accelerating rhythm at the City banks. The only questions are with respect to when and how this would be realized.

It must be kept in mind, in fact, that the U.S. Federal Reserve would be initially reluctant to accept ruble convertibility and would continue to demand gold from the USSR in payment of U.S. imports. It is probable, however, that since gold transactions among central banks initially have no direct effect on quotations in the free market, and since there is continuing currency uncertainty, the value of Soviet gold and the ruble could increase considerably. The technical obstacle that must be overcome appears to be the transformation of the convertible ruble into an international unit of account. Many experts think that were the USSR to demonstrate the capacity to convert rubles into gold at any time (The U.S. State Department has entertained few doubts about this ever since it became clear that mining activity in the USSR had increased strongly), the central role of the Soviet currency would be a fact. The Soviet Union would have only to reveal the increase of its gold reserves, which are already considered sufficient to support the full convertibility of the currency.

There is a political hitch, however. Convertibility presupposes a notable elasticity in ruble exchanges and therefore a complex adaptation of the centralized structure of the Soviet system to mechanisms appropriate to a market economy. The spring for this historic transformation would be provided by the increasing equilibrium between the East European economies and those of the Western industrialized countries. If disequilibrium between them increases, the greater interdependence between the two systems will become inevitable, and hence there will be a reciprocal loss of autonomy.