

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE
COPY

N° 183

mf
ORIGINAL: FRENCH/ENGLISH
8th June, 1964

NATO CONFIDENTIAL
DOCUMENT
AC/127-D/160(Draft)

COMMITTEE OF ECONOMIC ADVISERS

MEETING OF NATIONAL OFFICIALS ON NATO
COUNTRIES' TRADE POLICIES TOWARDS THE
EUROPEAN SATELLITE COUNTRIES

Note by the Chairman of the Group

As agreed during the meeting, the attached report is circulated in draft form. It comprises an introductory note by the Chairman, a summary of the Group's findings, a more detailed record of the discussions and a list of the participants.

2. During the meeting itself broad agreement was reached on a summary of the findings on the basis of a draft by the International Secretariat, and a version, revised in the light of remarks made by the participants, was circulated on blue on 28th May. Since then, the Belgian Delegation, apart from some improvements to the French translation, has suggested two modifications in both the English original and the translation, which have been specially indicated in the attached text. Unless some delegation expresses disagreement with the changes made at the request of Belgium, the wording of the summary of the findings should now be considered as final.

3. Annex I contains a more detailed record of the discussions prepared by the International Staff. Delegations are invited to transmit this text to the officials who took part in the meeting. Should they want to correct or supplement the record of what they have stated, suggested amendments should be transmitted to the Secretariat prior to 23rd June in order to permit the report to be submitted as soon as possible in its final form to the Committee of Economic Advisers.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

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MEETING OF NATIONAL OFFICIALS ON NATO
COUNTRIES' TRADE POLICIES TOWARDS THE
EUROPEAN SATELLITE COUNTRIES

Notes by the Chairman of the Group

The Committee of Economic Advisers decided in March 1964(1) to call a meeting of member countries' officials responsible for commercial negotiations with the satellites to assist it in carrying out the Council's instructions in making "recommendations as to such economic measures as might be taken by NATO to loosen the ties between the USSR and the various satellites(2)."

2. The Group of national officials met on the 25th and 26th May, 1964. They proceeded to an exchange of views and of information on the main characteristics of NATO countries' trade with Communist countries, particularly trade with the Soviet satellites. They examined whether in practice it would be possible to discriminate in their trading relations between the USSR and the satellites as also between the various satellites. In general, the Group considered the difficulties of establishing closer economic relations between NATO countries and the satellites, or a number of them, and measures that might be taken to overcome these.

3. Following their discussion, the Group agreed to the summary of their findings attached hereto. In addition, the International Secretariat has drawn up a more detailed record of the proceedings which is to be found in the Annex.

4. The present report is submitted for the consideration of the Committee of Economic Advisers who may avail themselves of it in drawing up their own recommendations to the Council.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

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- (1) AC/127-R/130, Item III
(2) C-R(63)58, paragraph 50.

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SUMMARY OF FINDINGS

The national officials have summed up their findings as follows:

- (1) Over recent years, trade between NATO countries and the Satellites has increased, although proportionately not more than the NATO countries' trade with the world as a whole. While trade with the Satellites is important for certain branches of industry in several member countries, it has remained small, a fact which, in the opinion of some delegates(1), should be made more widely known to public opinion in Western countries.
- (a) Imports from the Satellites consist largely of agricultural products and raw materials for some of which the market in member countries cannot be significantly enlarged without hurting domestic producers or traditional suppliers from the Free World, including the less-developed NATO countries. The same difficulty also exists for semi-finished or finished products. In addition, the poor quality of these products and the lack of marketing expertise hamper their sales to the West unless their prices are arbitrarily fixed far below the normal prices of such products in the West.
- (b) Exports to the Satellites are hampered by lack of financial means and tend to be limited by the extent to which the Satellites can increase their sales to the West. The Satellites are mostly interested in buying capital goods, for some of which they seek to obtain long-term credits. The priority given to these goods on the Satellites' import lists reflects the importance attached to industry in the economic plans of these countries. As regards consumer goods, the normal aim of the Satellites is to limit their imports in relation to the volume of consumer goods which they can themselves sell to the West, and for which they are constantly seeking increased outlets.

(1) Modification suggested by the Belgian Delegation.

(c) In general, the Communist economic system which is characterised by rigid planning and the absence of normal cost and price relationships does not favour international trade, in particular trade with market economy countries outside the bloc. The bulk of the foreign trade of the Satellites is conducted with the USSR which is their main supplier of raw materials and some sophisticated machinery. A significant shift of their trade from the USSR to the West seems unlikely in the absence of a major change in the political situation.

(11) The national officials have, in particular, examined whether it would be practicable to introduce discrimination between the USSR and the Satellites, and between the various Satellites themselves. They underlined that, from a political point of view, the advisability of such discrimination was a matter beyond their terms of reference. However, most of them, indicated that, from a practical point of view, the margin for such discrimination would be limited as far as open policies and rules of trade were concerned, although to some extent more favourable treatment might be given to certain Satellites when trade agreements were negotiated or implemented. The United States Representative indicated that his country was applying tailor-made policies in her relations with the Communist countries and favoured openly those who showed signs of emancipating themselves from the Soviet bloc.

(111) As regards practical recommendations which could be made to facilitate the expansion of trade with the Satellites, the following main points may be noted:

(a) some of the national officials thought that a liberalisation of export credits might favour an expansion of trade. However, all recognised that this matter implied policy decisions which were beyond their competence, especially in so far as the lengthening of the duration of credits was concerned. They pointed out that the satellite countries showed a preference for lines of credit which they could use with more flexibility than suppliers' credits, but that several governments were reluctant to extend the practice of offering such lines of credit to Communist countries;

- (b) any progress in a multilateralisation of trade and payments would also be very helpful. However, with the Communist economic system involved, a multilateralisation of trade raises serious technical difficulties. As to a multilateralisation of payments, this has so far been a one-way process: the Communist countries have benefited from it in their relations with the West, but they have not accorded reciprocal treatment to the West. It was noted in this respect that genuine and reciprocal multilateralisation was a good thing in itself and that, to the extent it could be achieved, no discrimination should be sought between the Satellites on the one hand and the USSR on the other;
- (c) it would be of help, in expanding trade with the Satellites, if direct contacts could be established between Western firms and the managers of the importing or exporting enterprises in the satellite countries. Although, in many cases(1), efforts to this end have so far been disappointing, they should be continued;
- (d) any progress possible towards simplifying and improving the administrative machinery of the West would favour trade expansion and might in particular give significant results with the Satellites. Various practical steps such as publication of trade opportunities, improvement of commercial representation, increased exchanges of trade missions and participation in trade fairs could help in expanding trade with the Satellites. Such practical measures, which do not raise problems of discrimination, could be applied to a greater extent with satellite countries showing willingness to co-operate.

(1) Modification suggested by the Belgian Delegation.

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MEETING OF NATIONAL OFFICIALS ON NATO COUNTRIES'
TRADE POLICIES TOWARDS THE EUROPEAN
SATELLITE COUNTRIES
(25th and 26th May, 1964)

Record of proceedings established by the
International Staff

1. Mr F. D. Gregh, Deputy Secretary General - Assistant Secretary General for Economics and Finance, welcomes the delegates(1) from the national capitals and reminds them that their meeting was decided pursuant to the NATO Council's instructions to the Committee of Economic Advisers to make "recommendations as to such economic measures as might be taken by NATO to loosen the ties between the USSR and the various satellites"(2). The Committee of Economic Advisers, in order to carry out this task, has, in fact, felt the need to seek guidance from officials of member countries who have practical experience of the various problems raised by East-West trade. In order to facilitate the group's work, a list(3) has been established containing a certain number of points on which they might possibly wish to comment.

2. Mr Gregh reminds representatives that they will have to choose a Chairman to direct their work. This choice may be made either from national representatives or from the International Staff. The latter, in conformity with the procedure followed at the September 1961 meeting, will draw up a record of the various statements made, which will constitute the group's report. However, the group will need to elaborate draft conclusions on their deliberations.

3. Following a brief adjournment of the meeting, the group chose as Chairman Mr A. Vincent, Head of the Economics Directorate in the Economics and Finance Division of the International Staff.

PRINCIPAL CHARACTERISTICS OF EAST-WEST TRADE

(a) France

4. The FRENCH REPRESENTATIVE declares that his country's policy on East-West trade has changed, but that one fact is evident: such trade has not led to the increase hoped for; it only accounts for approximately 3.7% of French trade with the world. French exports to Eastern countries show a double characteristic: they are small in relation to total French exports, but

(1) A list of participants is attached at Annex II.
(2) C-R(63)58, paragraph 50.
(3) AC/127-D/150(Revised), of 31st March, 1964.

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ANNEX I to
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are concentrated on specific sectors, essentially those of capital equipment; an interruption or dislocation of such trade might therefore have repercussions, severe at times, on certain French industries. Eastern countries tend to seek the lengthening of trade agreements normally concluded for only one year. So short a duration gives rise to disadvantages, both for France and for the Eastern countries; indeed, the principal exports to these countries relate to industrial complexes, whose delivery stretches out over several years, and for which credits of up to five years are often granted. This explains why protocols for industrial equipment concluded with Poland, Czechoslovakia, Hungary and Roumania now cover three to five year periods. However, the procedure of annual agreements continues to be applied to listed articles relating to a large number of products, of which 60 to 65% only lead later to commercial transactions.

5. France has no cut and dried financial policy. Attempts have been made to move from bilateralism to multilateralism in trade with Eastern countries: such attempts have met with some success among the satellites, with the exception of Roumania. One should, however, recognise that the changeover to convertibility is not especially attractive for Eastern countries, who, in so far as is possible, wish to balance their foreign trade. Regarding the length of credits, the French Government limits their duration to five years in accordance with the Berne agreements and commitments entered into within the framework of the IEC. Only suppliers' credits are authorised; these are guaranteed by COFACE, which is enabled to provide cover for up to 90% of their total amount. A preference has been shown by Eastern countries for more flexible arrangements in the form of direct bankers' credits; however, such credits do not qualify for guarantees by COFACE, and, failing such guarantees, financial institutions have refused to grant credit. The inclination to switch from suppliers' credits to financial credits has been discouraged by the French authorities, who do not wish to increase facilities afforded to Eastern countries.

(b) Italy

6. The ITALIAN REPRESENTATIVE states that his country's trade with the East has developed satisfactorily; in 1963, imports were 50% above those in 1962, and exports increased by 12.7%. The satellites provide Italy with raw materials and foodstuffs, while she sells them manufactured goods. An imperfect multilateral system of trade with the satellites has favoured such exchanges, whose development is closely watched by the Italian Government, which wishes to see them expand. In spite of the importance of commercial transactions with Eastern countries, no sector of the Italian economy is particularly dependent on such trade. However, there are limits to East-West trade, and commercial relations with the Soviet bloc will probably show a tendency to be stabilised at the relatively high

level they have now reached. Indeed, Eastern countries cannot indefinitely increase their exports of foodstuffs, and owing to the system of quotas restraining other products likely to be exported by them, it is progressively more difficult for them to increase their sales to Italy. Italian exports to Eastern countries are essentially of capital equipment. In order to further such sales, it is necessary to grant substantial credits. In their negotiations with Italy, Eastern countries have expressed the wish to obtain financial credits rather than suppliers' credits, as well as the lengthening of such credits. In this connexion, the Italian Representative mentions the difficulties experienced by his country as a result of certain competitors having offered credits of over five years. Regarding the length of suppliers' credits, Italy's position is well known; she has kept to her commitments. The Italian authorities consider that whatever decisions might be adopted in this matter, these should be unanimous and applicable to all countries: this is the only way to avoid excessive competition breaking loose and possibly to give political significance to any decision more favourable to Eastern countries for the lengthening of credits beyond five years. Otherwise the political significance of such lengthening of credits will be lost.

(c) Benelux

7. The BELGIAN REPRESENTATIVE, speaking for all three Benelux countries, points out that Benelux trade with Eastern countries accounts for only 2% of her world trade. In 1959/60, trade reached a relatively high level; but exports have since then shown a tendency to stagnate, and even to fall off, and imports have only risen very moderately. Benelux trade with the satellite countries tends to balance. The problem of the proper period for trade agreements has also had to be faced by Benelux. Eastern countries are very desirous to reach long-term agreements in order to take these into account in the establishment of their five and seven year plans. Benelux, on the contrary, wishes to be free to revise lists of quotas annually; even with respect to the satellites, with whom three-year agreements have been concluded, such annual revisions have been maintained. Trade with Eastern countries now appears to have reached a maximum level. There are difficulties for both sides as regards the nature of commodities to be exchanged. Benelux can only with difficulty increase her purchases of manufactured goods, or even of certain raw materials of Eastern origin.

(d) United Kingdom

8. The UNITED KINGDOM REPRESENTATIVE declares that his country's trade with Eastern countries has grown substantially; it has increased by 50% since 1959, but so far only accounts for

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about 3% of the United Kingdom's foreign trade. Soviet exports are essentially composed of raw materials; 90% of commodities sold by the Soviet Union are not subject to quota restriction by the United Kingdom. So far, the position has not been the same for products from satellite countries, of which 50% used to be subject to quotas since such exports consist of manufactured goods and foodstuffs.

9. The United Kingdom has recently agreed to conclude five-year trade agreements with Eastern countries; in addition, she has suggested the total freeing of imports from Communist countries on condition that these countries undertake to avoid any action likely to disrupt the British market. Czechoslovakia and Hungary have already accepted these conditions and it is probable that Poland will accept also. However, the USSR and Bulgaria have rejected the British offer and Roumania has yet to reply.

10. There are two important obstacles to trade with Communist countries: on the one hand, the difficulty for countries with a market economy to deal with countries whose trade is a state monopoly; on the other, the difficulties for Communist countries to offer products likely to be of interest to Western countries, the latter are interested in buying certain raw materials and some agricultural products, but hesitate a good deal to allow the import of manufactured goods whose prices, often fixed at too low a level, threaten to disrupt their internal markets.

11. Referring to the problem of long-term credits, the United Kingdom Representative stresses that these are likely to be granted only for sales of industrial complexes (factories, plant) to Eastern countries. Generally speaking, the latter do not appear particularly eager to take advantage of the possibilities for obtaining credit open to them.

(e) The Federal Republic of Germany

12. The GERMAN REPRESENTATIVE states that his country has agreements with all Eastern countries; these are generally three years in length. Trade with Eastern countries(1) accounts for approximately 3% of Germany's trade with the world. Trade with the USSR has shown a tendency to fall recently. Foodstuffs account for about 50% of the German Federal Republic's imports from the satellites; while, on the other hand, exports are composed of capital equipment. The Federal Republic also follows the policy of using quotas for certain imports of manufactured goods from the Soviet bloc. The German Federal Republic's policy regarding credits is in conformity with the rules of the Lomé Union. Credits to the USSR are limited to 180 days only; those granted to the satellites are more liberal in their terms, but are not of any size. Poland has only used half of the credits granted her.

(1) Such trade does not include trade with the Soviet-occupied Zone of Germany.

(f) Canada

13. The CANADIAN REPRESENTATIVE states that his country's imports from the Soviet bloc are insignificant. Canadian exports have increased, owing to sales of wheat, but the question arises to what extent such sales will prove to be of a temporary or permanent nature. Eastern countries have not used credits offered them, preferring to pay cash.

(g) Greece

14. The GREEK REPRESENTATIVE declares that for geographical and economic reasons trade with Eastern countries is substantial; this accounts for 10% of total Greek imports and 20% of exports.

(h) Portugal

15. The PORTUGUESE REPRESENTATIVE declares that his country has bilateral agreements with Czechoslovakia, Poland and Hungary, but does not grant credits.

(i) Norway

16. The NORWEGIAN REPRESENTATIVE confirms that the level of trade between Norway and Eastern countries is limited: between 1960/63, exports to and imports from the East represented approximately 4% and 3.5% respectively of total Norwegian exports and imports. His country is attempting to expand trade with the Soviet bloc but commodities likely to be of interest in such exchanges are limited. There are therefore natural obstacles to the growth of trade. Credits granted by Norway to Eastern countries are negligible; these stand at less than \$4 million.

(j) United States

17. The UNITED STATES REPRESENTATIVE points out that the level of trade between NATO countries and Communist countries is relatively low. Public opinion that sometimes appears to have the impression that East-West trade has grown substantially should be informed of this. Policies related to the granting of credits to Communist countries and in particular to the USSR seem to have little influence on the level of trade with these countries. The United States is not opposed to trade with Eastern countries; but it practises a flexible and diversified policy in this respect. The United States authorities hope, naturally, that the development of commercial relations between their allies and the satellites will not impair the results of their own policy in this field, but, on the contrary, that they should reinforce them.

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18. The United States has granted Poland and Yugoslavia economic aid and the advantage of the most-favored nation clause. Following a certain show of independence by Roumania towards the USSR, the United States is attempting to improve its commercial relations with this country, not by granting credits, but by allowing a relaxation of the export licensing system. Their commercial policy does not imply that the United States authorities intend to call for a revision of the COMCOM list of strategic products subject to embargo. In this respect the United States will probably not avail themselves fully of the possibilities which such a list gives to their allies.

DIFFICULTIES ARISING WITH REGARD TO THE ESTABLISHMENT OF CLOSER ECONOMIC RELATIONS BETWEEN NATO COUNTRIES AND THE SATELLITES

(a) The nature of trade with the satellites

19. The FRENCH REPRESENTATIVE declares that during recent years satellite countries have been in a position to offer raw products and primary materials of a kind to interest the West; but these countries wish to diversify their trade and also to sell in turn manufactured and semi-finished goods. Western countries are all prepared for this new development; quotas established at present by both parties for manufactured goods have yet to be fully utilised.

20. The BELGIAN REPRESENTATIVE states that the satellites encounter no difficulty on Benelux markets in their sales of certain raw materials, but that this is not the case for manufactured and consumer goods; in view of competition by Western firms already established in the market, satellite countries have trouble finding buyers, owing to the often inferior quality of their goods, their lack of experience in packing, in publicity and in other aspects of marketing. These countries therefore attempt to break into the market by reducing prices. In order to spare their national producers from definite harm, Benelux has continued to enforce a system of quotas for manufactured goods of satellite origin. Generally speaking, the USSR is in a better position than these countries in selling such products on Western markets.

21. The REPRESENTATIVES of the UNITED STATES and the UNITED KINGDOM stress that one of the difficulties in trade with Communist countries arises from their inability to analyse their costs of production and determine correctly the real value of those manufactured goods that they wish to sell.

(b) Instability of markets in Communist countries

22. The UNITED KINGDOM REPRESENTATIVE declares that markets in Eastern countries are not subject to greater instability than those in the free world; he recognises, however, that they are not open to consumer goods. Imports of such goods by Eastern countries

are inadequate to exhaust quotas that they have already accepted, since they limit the value of their purchases to that of such products as they are themselves able to sell on Western markets.

23. The UNITED STATES REPRESENTATIVE considers that in the long run Eastern markets are unreliable. Communist countries, in fact, only wish to obtain from free world markets those capital goods which they are temporarily short of and remain wedded to a policy of self-sufficiency.

24. The TURKISH REPRESENTATIVE also considers that Communist markets are unstable, since Eastern countries' trade with the free world is basically not motivated by the needs of the market, but solely by production requirements.

25. The BELGIAN REPRESENTATIVE agrees that Eastern countries have always accorded priority to capital goods over consumer goods, but considers their market to be stable.

26. The FRENCH REPRESENTATIVE declares that the fact that the Eastern countries do not wish to import consumer goods which are not essential to their populations does not detract from their stability as export markets. Possibly, however, as a result of the world conference on trade, they may increase their purchases of tropical produce from developing countries.

27. The ITALIAN REPRESENTATIVE believes that Eastern countries initially establish their import quotas on consumer goods on an overall basis. They then grant their various suppliers specific quotas in the course of negotiations on commercial agreements, the sum of these quotas generally exceeding the initial overall quota. Finally, they choose to buy in one country rather than in another on the basis of either political or economic considerations. This explains why the sales by most countries of the free world often fall short of established quotas. The mere fact that exports to Eastern countries consist mainly of capital goods does not prevent this market from being stable. Experience actually shows that the export of capital goods leads to new exports (spare parts, replacements of machinery, etc.), and Eastern countries have become aware that foreign trade is more than a mere passing necessity arising from exceptional circumstances.

(c) Problems facing NATO countries in exporting to the satellites

28. The ITALIAN REPRESENTATIVE states that Eastern countries keep their trade with the Western world at a level that does not rise above 25 to 35% of their total trade. This ceiling appears to have been determined by political, psychological and economic

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considerations. Long-term agreements between Eastern countries aim at ensuring the stability of their trading relations within the framework of COMECON; there is a system of preferences between Communist countries; in particular, these countries benefit from advantageous terms of trade, from credits on favourable conditions and have the certainty that their supplies of raw materials will be maintained. The satellite countries are, therefore, encouraged to remain within the framework of their present trading pattern; should Western countries wish to expand their trade with the satellites, they will have to consider such measures as would be competitive, either de facto or de jure, with this system of preferences, that applies to commercial transactions between Eastern countries.

(d) The question of dumping

29. The BELGIAN REPRESENTATIVE states that the use of the word "dumping" is not fully appropriate when referring to Soviet bloc manufactured goods. Indeed, owing to differences in the economic system, cost elements entering into these products differ considerably between Communist and Western countries. The control of such costs, though possible in the West, appears not to be feasible in the case of products in Communist countries. In addition, some of these products may be sold cheaper abroad owing to their inferior quality. Under these conditions, the only way to guard against their disrupting the national market is to resort to quotas.

30. The ITALIAN REPRESENTATIVE states that he has not come across obvious cases of dumping by Eastern countries. These countries pay considerable attention to this matter and their foreign trade ministries intervene to check the prices of their products in order to ensure their earning a maximum of foreign exchange from their sales to the West. However, there exists an "indirect" form of dumping, as a result of home exporters who, having been compelled to receive products from Communist countries in order to further certain transactions with them, hasten later to rid themselves of these at give-away prices.

31. The FRENCH REPRESENTATIVE states that dumping by the East is not frequent, as Communist countries know that in order to defend themselves, Western countries can, at any time, curtail their purchases. Some rare cases of dumping have been observed on sales of raw materials; these concerned transactions of a local and temporary character, sometimes for purely political purposes. As an example of the high elasticity of Communist prices, he mentions Bulgarian tobacco, the selling price of which was lowered proportionally following the raising of import duties on tobacco by the EEC.

32. The UNITED KINGDOM REPRESENTATIVE considers that in so far as regards raw materials, Eastern countries have generally accepted to adjust their prices whenever these have had undesirable repercussions in the West. The dumping problem should not, however, be underestimated. This is evident principally in the field of manufactured products for which it has proved difficult when prices are especially low to react with sufficient speed.

- (e) Possible unfavourable repercussions on free world countries as a result of establishing closer economic relations between Western and satellite countries

33. The TURKISH REPRESENTATIVE emphasises that his country is especially desirous that the possible expansion of trade with the satellites should not occur at the expense of commercial relations with countries of the free world and, in particular, with those countries of the Alliance which are less-developed.

34. The GREEK REPRESENTATIVE states that his country's position on the question of developing East-West trade is similar to that of Turkey.

- (f) Restrictions enforced by various NATO countries on certain commercial transactions with Communist countries

35. The FRENCH REPRESENTATIVE says that it is rather difficult on the whole to know the Soviet reaction in face of a refusal of Western countries to sell certain products. Communist negotiators in the course of official discussions do not fail to stress their wish to acquire products whose sale is prohibited; but they soon realise, however, the rigidity of the Western position and do not obdurately maintain their attitude. Another problem, however, has concerned French exporters who sell manufactured goods under American licence or comprising parts of American origin. They always fear selling such products to infringe American regulations on the sale of certain types of equipment to the Soviets.

36. The UNITED STATES REPRESENTATIVE points out that French exporters are able to obtain precise information on current American regulations by putting themselves in touch with commercial attachés at the United States Embassy in Paris.

37. In the ITALIAN REPRESENTATIVE's opinion, it would be necessary within the framework of a policy of expansion of trade with Eastern countries and maybe to consider some modifications to the COCOM list. Obstacles placed in the way of sales of products that the Soviets wish to acquire do have a certain psychological significance. The softening of such restrictions would improve the atmosphere of East-West negotiations and no doubt allow a growth of trade.

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(g) The influence of the preferential systems in the EEC and EFTA on the development of trade with the satellites

38. In reply to a question from the United Kingdom Representative asking if the EEC's common agricultural policy would not have an unfavourable influence on imports of agricultural products from satellite countries, the FRENCH REPRESENTATIVE recalls that the EEC does not aim at self-sufficiency in agriculture. There are, however, regulations and tariffs applying to imports of agricultural produce, particularly that originating from countries where trade is carried on by the state. The USSR, as spokesman for the satellites in problems raised by the EEC tariffs, has requested their reduction, but without success.

39. The ITALIAN REPRESENTATIVE emphasises the fact that the USSR, who does not recognise, at present, the agreement relating to the EEC customs' union, wishes to benefit from these tariff levels in force between the Six, and for this purpose insists on the application of the most-favoured nation clause. In Italy, the implementation of EEC policy in agriculture has created an obstacle to the development of agricultural imports from the satellites.

40. The GERMAN REPRESENTATIVE confirms that his country has encountered certain difficulties in its trade with Poland, and that a fall in imports of agricultural produce has resulted. He believes that this fall is due to the poor harvests in Poland rather than to the EEC's common agricultural policy.

41. The BELGIAN REPRESENTATIVE states that Eastern countries constantly request to benefit from the Community's internal tariff, but as a result of failure in such efforts have had to soften their attitude, and it seems that their attitude is changing. He considers that the common agricultural policy of the EEC may have repercussions on trade with the East.

42. The UNITED KINGDOM REPRESENTATIVE emphasises the fact that Communist countries are hostile to that form of discrimination which results for them from the reciprocal lowering of tariffs between EFTA countries and request the application of the most-favoured nation clause. EFTA countries have therefore come up against the same difficulties as the EEC in their commercial negotiations with the East. The United Kingdom Representative does not feel, however, that the EEC and EFTA tariff systems, whose preferential character can be expected to become more pronounced, will in practice have any marked effects on the development of trade with the East.

43. The FRENCH REPRESENTATIVE considers that it is still premature to attempt to forecast the consequences for commercial relations with the satellites of the implementation of that clause in the Rome Treaty according to which in 1970 the EEC Commission would negotiate in the same of the six member countries. The BELGIAN REPRESENTATIVE adds that Benelux has a certain experience in such matters. Though the Benelux statutes are not recognised by the USSR, the satellites have accepted this reality and are willing to negotiate agreements with Benelux. It is probable that the satellites and even the USSR will recognise the accomplished fact of the Common Market and in conformity with their commercial interests will agree to negotiate with the Commission.

POSSIBILITIES OPEN TO THE WEST FOR DISCRIMINATING IN ITS ECONOMIC POLICIES BETWEEN THE SATELLITES AND THE USSR

44. The FRENCH REPRESENTATIVE states that in his opinion some discrimination might be established in commercial relations with Communist countries; this would primarily take the form of administrative measures tending to favour one Communist country rather than another. To imagine, however, that discrimination might openly be implemented in the actual texts of commercial agreements would be unrealistic. Discrimination essentially depends on suitable political and economic circumstances: it is therefore the responsibility of each negotiator to judge to what extent he can resort to this.

45. The ITALIAN REPRESENTATIVE wonders whether it is truly possible in practice to differentiate between various Communist countries. He doubts whether a positive result would be achieved if the political objective was too obvious; such would be the case if discrimination were to arise from current regulations. In addition, discrimination of this character would involve a danger of provoking reprisals from the Communist countries. As regards discrimination in some hidden form, this would be of little effect, as Italian businessmen are free to choose their trading partners. On the whole, a lengthening of credits in favour of one satellite country is hardly possible without laying oneself open to requests from all other Communist countries for equal treatment. However, a certain latitude does exist for action in this field, for instance by facilitating administrative formalities, the conditions upon which the credit is granted, the insurance premium, etc. However, even this possibility is very limited, as governmental authorities are constantly under strong pressure from exporters, who prefer all foreign countries with whom they deal to be subject to the same rules. An area where a certain degree of discrimination would not give rise to difficulties is in the choice of industrial projects for satellite countries that lend themselves to the granting of Western support. Such action by Western countries might have the advantage of forcing the USSR

to increase her own financial contribution to the development of the satellite economies. Normally the West should not grant it to COMECON projects aimed at increasing the cohesion of the Soviet bloc, but it is difficult to generalise in this matter, every case having to be examined with care.

46. The DANISH REPRESENTATIVE recalls that agreement has been reached in the Committee of Political Advisors on certain general principles of discrimination in policy towards the satellites (C-1(62)143); these principles continue to appear satisfactory to the Danish authorities.

47. The BELGIAN REPRESENTATIVE stresses the fact that since 1958 Benelux has treated all satellite countries equally. In the evident interest of both Belgium and Benelux, it is difficult not to apply quota restrictions to certain imports from all Communist countries. The position of Benelux is different as between the USSR and the satellites. It has reached commercial agreements with the satellites and not with the USSR, who has put obstacles in the way of the conclusion of such agreements by refusing to recognise the Benelux customs' union. Different agreements of varying significance, however, may be made, depending on the countries involved; yet one needs to guard against being duped, since the country which benefits from more favourable conditions might be used by other Communist countries to further the sale of their own products. It is both possible and preferable to grant advantages outside the actual agreements in order to create an atmosphere of good will. A policy of discrimination may involve, for those countries which practise it, economic sacrifices which should be taken into account when, for political reasons, discriminatory trading practices might come to be formulated.

48. The UNITED KINGDOM REPRESENTATIVE declares that his country encourages trade with the satellites and, therefore, favours their economic independence. But, as is well known, it remains attached to a policy of non-discrimination between the USSR and the satellites, as also between the various satellites themselves. At the government level, the policy of discrimination cannot be effective without being open; however, the fact that the USSR would have knowledge of this could not fail to pose complex problems and might provoke reactions such as would jeopardise the ultimate aim. At the administrative level, a certain degree of discrimination is conceivable without it being made public, and since 1939 the Board of Trade has the necessary means to practise this: however, owing particularly to the close control exercised by Parliament and public opinion, the margin for manoeuvre is, in fact, very limited for the purpose of attempting discrimination, which should be practised discreetly.

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49. The UNITED STATES REPRESENTATIVE declares that his country already practises a policy of discrimination in favour of Poland, for whom it has even established an aid programme. No difficulties with the USSR have arisen as a result of this. The United States is at present attempting to favour commercial relations with Roumania. The USSR will probably not consider it opportune to raise objections in this respect. The United States authorities consider it both normal and possible to practise a policy of discrimination between the various Communist countries, especially as the latter, owing to their state monopoly in foreign trade, are always able to differentiate between various Western countries.

50. The TURKISH REPRESENTATIVE underlines that it is within the character of Communist countries' foreign trade to practise discrimination between countries with whom this trade takes place, as a result of which, should the free world treat Communist countries on the same footing in their trading relations as they treat their other partners, refraining from any form of discrimination towards them, they will of necessity find themselves in a position of inferiority.

51. The FRENCH REPRESENTATIVE considers that under present conditions prevailing in the Communist bloc and in view of the political situation in Eastern Europe, it is difficult to go very far along the road to discrimination. The position would be difficult should one or several among the satellite countries come to free itself from Russian political dominance. Aspirations to economic independence by some of these countries are but timid moves to which no very great importance should be attached. In any general confrontation, Roumania and Poland, who remain Communist countries, will align themselves with the Soviet Union. He stresses the point of view that he has already expressed: some differentiation by administrative means is possible, but should this become flagrant, the country practising it would be under strong pressure from other Communist countries to grant the same advantages to them.

52. The FRENCH REPRESENTATIVE adds that it is difficult to know to what extent the trade with one or other among the satellites might indirectly be of advantage to the USSR. In any case, exports to the satellites of industrial complexes to be built and equipped on the spot cannot be transferred to the USSR.

MEASURES THAT MIGHT BE TAKEN TO OVERCOME OBSTACLES TO THE
DEVELOPMENT OF TRADE WITH THE SATELLITES

- (a) Further exchange of information with a view to avoiding Western exporters being played off against one another by a monopoly buyer

53. The ITALIAN REPRESENTATIVE considers that any expansion of the practice of exchanging information on trade with the East would be very useful. The existence of certain bodies (Berne Union, the Common Market) already allows Western countries to carry out such exchanges of information. The main obstacle to their further extension is to be found in the legitimate wish of businessmen in Western countries to have the confidential nature of commercial transactions respected.

54. The UNITED KINGDOM REPRESENTATIVE states that Communist countries do not only play Western countries one against the other, but also exporters from the same country. He does not feel that this is a significant difficulty for trade with the satellite countries: the latter are merely taking advantage of competition between various exporters concerned with finding outlets. Indeed, British exporters prefer to run the risk of such competition rather than attempt to seek a remedy by resorting to further exchanges of information which, in order to be effective, would lead them to reveal the confidential aspects of their commercial negotiations.

55. The FRENCH REPRESENTATIVE notes that information on trade with the satellites is regularly made public in the JOURNAL OFFICIEL, declarations to the press and Chamber of Commerce bulletins as also on the initiative of commercial attachés from the various interested countries. He does not feel that state organizations responsible for foreign trade in Eastern countries play off Western exporters one against another to any significant extent; among the latter, conditions of normal competition exist of which Communist countries take advantage.

- (b) The conclusion of long-term contracts with industries in satellite countries for exports to the West

56. The ITALIAN REPRESENTATIVE underlines that, were satellite countries able to count on assured long-term exports, trade with them would be facilitated. However, the fact remains that Western importers do not like to commit themselves on a long-term basis, but wish to avail themselves of all possibilities open to them on the world market. Only commitments to purchase certain raw materials or agricultural products can be undertaken for relatively long-term periods.

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57. The UNITED KINGDOM REPRESENTATIVE states that he entirely shares the Italian Representative's point of view.

- (c) The intensification of special relations which might have developed between individual NATO countries and certain satellites

58. The UNITED STATES REPRESENTATIVE declares that his country has sought to establish special relations with some Communist countries on all occasions where economic and political circumstances were favourable. As a result of this, the United States has developed economic relations with Yugoslavia, failing which this country might now have been fully reintegrated into the Soviet bloc, has granted aid to Poland and plans to reach an agreement very soon with Roumania. Experience shows that special economic links can usefully be created with certain Communist countries.

59. The GREEK REPRESENTATIVE remarks that Western trade with Yugoslavia has been favoured by the latter's connexion with OECD.

60. The ITALIAN REPRESENTATIVE recalls that his country has been able to develop economic relations with Yugoslavia as a result of having a common border with her. He stresses, however, that the tightening of commercial links followed and did not precede the breaking off of Yugoslav relations with the Soviet Union. The development of connexions between Yugoslav state enterprises and private Italian firms has had favourable consequences by affording Yugoslav leaders a better understanding of certain economic problems and an opportunity to become more familiar with free world practices. These connexions have encouraged some evolution in the economic and social development of Yugoslavia and, in particular, the decentralisation of the economic system which affords greater autonomy to business enterprises. The Yugoslav experience may be considered a success to which free world countries and, in particular, Italy have contributed by accepting certain commercial or financial sacrifices. A policy of closer Western links with other Eastern countries would certainly also require such sacrifices.

61. The FRENCH REPRESENTATIVE draws attention to the fact that historical and sentimental links that might exist between a Western country and the satellites are not sufficient to ensure or develop lasting economic connexions. The impression he has gained from numerous missions in satellite countries is that youth in these countries is indifferent to political questions, but is preoccupied with the raising of the standard of living; in order to draw the satellites out of the Soviet orbit, material means should be made available, adequate to demonstrate without doubt the advantages of closer relations with the West. France has

sought in her relations with Albania to attempt to carry out an experiment of the Yugoslav type; however, owing to the Albanian's ingrained distrust, political results so far have been almost non-existent. In particular, the Franco-Albanian commercial agreement is only very modest in scope.

(4) The introduction of a more liberal system of credit guarantees

62. The FRENCH REPRESENTATIVE declares that satellite countries prefer financial credits to suppliers' credits. Financial credits are not credits granted by the state but credits granted by one bank to another, at commercial rates fixed by the banks themselves. Such credits fulfil a practical purpose by providing greater freedom of manoeuvre to the buyer in his negotiations with prospective suppliers. Were credits of more than five years to be granted to satellite countries, a certain growth in exports to these countries might result; but there is no reason to believe that this growth would be either substantial or lasting.

63. The FRENCH REPRESENTATIVE states that the French Government does not grant loans to Communist countries and does not authorise the guaranteeing of financial credits. There remains, therefore, only the matter of suppliers' credits which are by nature difficult to obtain. It might be appropriate to seek ways to simplify the procedure followed in granting such credits.

64. The UNITED KINGDOM REPRESENTATIVE notes that the major part of British trade with the satellites, taking account of the kind of goods involved, does not require long-term credits or credits granted under special conditions. The inadequacy of credit does not constitute in his opinion a serious obstacle to the expansion of East-West trade.

65. The ITALIAN REPRESENTATIVE states that all Communist countries try to obtain credits on the best possible terms, and are willing to buy more when long-term credits are available to them. He believed that a more liberal credit policy would encourage trade; a distinction could perhaps be established between the USSR and the satellites by considering the latter as developing countries whose needs for long-term credits in connexion with certain technical projects are greater than those of the USSR.

66. The FRENCH REPRESENTATIVE observes that it is difficult to show a preference in granting credits to some Communist countries rather than others and that competition between Western countries for the granting of credits to these countries would be damaging to Western interests.

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(e) Progress towards a multilateralisation of Western trade with the satellites

67. The CANADIAN REPRESENTATIVE observes that the multilateralisation of trade, which in itself is a good thing, is clearly the aim to be achieved; however, it has been impeded by many practical difficulties particularly in the case of Communist countries.

68. The FRENCH REPRESENTATIVE wishes to stress the distinction existing between the multilateralisation of payments and that of trade. In the financial field multilateralisation is possible and should be realised fairly soon; however, as regards trade for the moment at least this seems impossible to achieve. The experts of the United Nations Economic Commission for Europe, who recently discussed this matter in Geneva, came to the same conclusion, given the differences in structure between Communist countries and those of the free world, as also to the lack of confidence which the former showed in their commercial relations with the West.

69. The ITALIAN REPRESENTATIVE points out that Eastern countries have enjoyed some form of imperfect multilateralisation allowing them to use whenever convenient convertible currencies earned through favourable trade balances with certain Western countries; however, they refrain from granting the same advantages to the latter when in turn their trade balance is favourable.

70. The UNITED KINGDOM REPRESENTATIVE stresses that the multilateralisation of trade should go hand in hand with that of payments. The United Kingdom has cause to regret the multilateralisation of payments from which the USSR has benefited over several years, since the latter has failed to use up a substantial part of its surplus with the United Kingdom to buy in that country.

(f) Direct contacts between Western exporters and satellite enterprises

71. The FRENCH REPRESENTATIVE states that it is practically impossible for French exporters to meet the final user of goods sold in satellite countries; they are compelled to negotiate and discuss exclusively with the specialised organizations responsible for foreign trade.

72. The ITALIAN REPRESENTATIVE observes that a certain shift in the attitude of Eastern countries is tending to become apparent, as they are aware of the low level of efficiency shown by their system of purchasing. They might therefore in future favour certain direct contacts between exporters and the final users of the latter's products.

73. The BELGIAN REPRESENTATIVE, while admitting that contacts between Western exporters and final users in Communist countries are as a rule hard to establish, states that contacts between technicians have already been made and are likely to develop further.

(g) Various other measures that might favour trade with the satellites

74. The ITALIAN REPRESENTATIVE is of the opinion that the extension of services provided by commercial attachés in satellite countries, the multiplication of exchanges of trade missions with these countries and a greater participation in trade fairs are the measures likely to favour the development of commercial relations; however, spectacular results should not be expected from such measures. The exchange of economic missions continues to be the most efficient method of tightening commercial links; Western countries can favour the exchange of such missions with certain satellites rather than with others and yet not lay themselves open to the reproach of practising discrimination.

75. The UNITED STATES REPRESENTATIVE felt that all the measures to which the Italian Representative had referred were both useful and important since such action facilitated the establishment of relations between the various interested parties.

76. Following this exchange of views, the CHAIRMAN invited the representatives of member countries to draw up a summary of their conclusions on the basis of a draft prepared by the Economics Directorate. The group agreed to avail itself of this draft, which they finally adopted after introducing a certain number of amendments. This agreed text is reproduced as an introduction to the present document.

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MEETING OF NATIONAL OFFICIALS ON NATO COUNTRIES' TRADE
POLICIES TOWARDS THE EUROPEAN SATELLITE COUNTRIES

List of Participants

Chairman : Mr. A. VINCENT, Head of Economic Directorate,
Division of Economics and Finance, Interna-
tional Staff.

National Officials :

- BELGIUM : Mr. P. NOELANTS, Directorate for Commercial Relations with Eastern Countries, Ministry of Foreign Affairs and Foreign Trade.
- CANADA : Mr. J.H. TAYLOR, Canadian Delegation to NATO
- DENMARK : Mr. H. CHRISTENSEN, Danish Delegation to NATO
- FRANCE : Mr. J. FOUCHET, Directorate of Economic and Financial Affairs Ministry of Foreign Affairs
- GERMANY : Dr. W. STEIDLE, Counsellor, Head of the Department for Eastern and South-Eastern Europe in the Foreign Trade Division of the Federal Ministry of Economics.
- GREECE : Mr. D. MANOLAKIS, Greek Delegation to NATO.
- ITALY : Mr. G. MIGLIUOLO, Counsellor, Head of Office for Economic Relations with Eastern countries, Ministry of Foreign Affairs.
- NETHERLANDS : Mr. MOL, Deputy Head of the Division for Trade with Eastern Countries, Ministry of Economic Affairs.
- NORWAY : Mr. G. HAERUM, Counsellor, Head of Office for Commerce with the Eastern Countries, Ministry of Foreign Affairs.
- PORTUGAL : Mr. J. de MATOS FERREIRA, Portuguese Delegation to NATO.
- TURKEY : Mr. S. EREK DAG, Turkish Delegation to NATO,
Mr. U. SUMUNCU, Turkish Delegation to NATO.
- UNITED KINGDOM: Mr. I. GRAY, Board of Trade.
- UNITED STATES: Mr. C. BREECHER, United States Delegation to NATO.
Mr. P. SEIP, United States Delegation to NATO.

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- Mr. B. JØRGENSEN , Economics Directorate,
- Mr. G. von GROLL " "
- Mr. R. KILLINGBECK " "
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