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AC/127-WP/347

ECONOMIC COMMITTEE

NATO COUNTRIES' TRADE WITH COMMUNIST COUNTRIES
IN 1971

DRAFT NINTH REPORT TO THE COUNCIL

Note by the Secretary

For the reasons given in working paper AC/127-WP/347, dated 16th January, 1973, it was not possible at that date to circulate the Economic Directorate's yearly itemized study of the structure of NATO countries' trade with the Communist countries.

Additional information was subsequently received which made it possible to draft what now constitutes the final section of the working paper. It is circulated herewith as Annex IV to AC/127-WP/347.

(Signed) Ph. de BURLET

NATO,
1110 Brussels.

N A T O U N C L A S S I F I E D

ITEMIZED STUDY OF THE STRUCTURE OF NATO COUNTRIES'
TRADE WITH COMMUNIST COUNTRIES IN 1970(1)

I. TRADE BETWEEN THE EUROPEAN NATO COUNTRIES AND THE EUROPEAN
COMMUNIST COUNTRIES

A. EXPORTS

1. In 1970, the European NATO countries' sales to the European Communist countries totalled \$4,684 million. These included manufactures to the value of \$3,854 million(2), representing an increase of 9.7% over 1969 figures. This is far lower than the increase in 1969 which was 16.6%. The proportion of total exports made up by "manufactures" (82.3%) though predominant, dwindled slightly in relation to the percentages for the preceding two years.

2. Sales of manufactured goods, totalling \$1,284 million, rose the most sharply - by 19% as compared with 18% for miscellaneous manufactured articles (\$260 million), 8% for chemicals (\$616 million) and 2.8% for machinery and transport equipment (\$1,662 million).

3. Deliveries of "non-manufactures"(3), totalling \$830 million, rose by 26% in relation to 1969 following the sharp increase in sales of European foodstuffs to the East. As a result, the proportion of these goods in the composition of total exports rose slightly, from 15.8% to 17.7%.

(1) For full statistics see AC/127-D/409, dated 6th December, 1972. The figures used therein are taken from the OECD bulletin of statistics for trade by commodity in 1970, Volume I (Imports), Volume I (Exports) (Foreign Trade Statistics, Series C).

(2) For the purpose of the present report, the term "manufactures" covers all items falling into the following sections of the SITC: Section 5 - chemicals, Section 6 - manufactured goods, Section 7 - machinery and transport equipment, Section 8 - miscellaneous manufactured articles, Section 9 - non-classified items

(3) For the purposes of the present report, the term "non-manufactures" covers all the items listed in the following sections of the SITC: Section 0 - food, Section 1 - beverages, Section 2 - crude materials, Section 3 - mineral fuels and Section 4 - oil and fats

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(i) Exports to the USSR

4. NATO Europe exports to the USSR totalled \$1,462 million in 1970. In this connection, two comments are called for. On the one hand - and for the first time in several years - the value of sales of machinery and transport equipment fell: \$615 million, as compared with \$675 million in 1969 (-8.9%). Sales by the Federal Republic of Germany, the Netherlands and the United Kingdom were particularly affected. On the other hand, sales of manufactured goods rose from \$325 million worth to \$414 million (+27%) and those of miscellaneous manufactured articles from \$104 million to \$123 million (18%). All in all, sales in these three major categories (totaling \$1,152 million) accounted for about 79% of exports.

5. Sales of chemicals fell slightly - \$161 million as compared with \$169 million in 1969. Performances by Belgium, France, Italy and the Netherlands weakened noticeably while the United Kingdom and Germany were more successful.

6. The fraction of sales to the USSR represented by "non-manufactures" - 9.7% - rose slightly in relation to 1969 (\$142 million as compared with \$125 million) - particularly as a result of higher sales of foodstuffs and beverages.

(ii) Exports to the East European countries

7. NATO Europe exports to Eastern Europe totalled \$3,222 million in 1970. "Manufactures" accounted for about 79% of sales as compared with 90% in the case of the USSR. Their value - \$2,534 million - was 92% higher than the value of sales to the USSR. (\$1,320 million). A point to be noted is the rising percentage of chemicals and machinery and transport equipment exported to Communist Europe which is going to the East European countries (74% as compared with 70% in 1969 in the first case and 63% as compared with 58% in 1969 in the second case). On the other hand, the proportion of manufactured goods sent to those countries dwindled slightly, 68% in 1970 as compared with 70% in 1969 while the proportion of miscellaneous manufactured articles remained unchanged at 53%.

8. Sales of "non-manufactures" represented 21% of total exports. They totalled \$687 million as compared with \$536 million in 1969, mainly as a consequence of the increase in deliveries of foodstuffs (\$327 million as compared with \$237 million) and mineral fuels (\$66 million as compared with \$34 million in 1969).

9. The GDR is the principal East European customer for "non-manufactures" (\$236 million or 34% of sales), as well as "manufactures" (\$653 million or 26% of sales). A notable feature in this respect was the remarkable increase in purchases of machinery and transport equipment, the value of which rose in a single year from \$167 million to \$246 million as a consequence of larger deliveries from the Federal Republic, France and the United Kingdom.

10. In 1970, Poland doubled its purchases of foodstuffs to \$74 million as compared with \$37 million in 1969. On the other hand, its purchases of "manufactures" were smaller mainly because of more limited procurement of machinery and transport equipment. Other features of trade with the East European countries were the increases in Czech purchases of machinery (\$205 million as compared with \$167 million) and the continuing priority being given by Rumania to purchases of "manufactures" (\$438 million) which represented 89% of its total purchases from NATO Europe.

(iii) Exports to European Communist countries in relation to total exports by European NATO countries

11. As indicated in the first part of this document, exports to the European Communist countries accounted for only a very modest percentage of total world exports by NATO Europe: 4% in 1970. For certain types of goods, however, and for certain NATO countries, the East European countries are important customers. For example they bought 19% of foodstuffs exported by Greece, 21% of beverages, 32% of raw materials, 29% of oils and fats and 18% of chemicals. In the case of Turkey, these percentages are a little lower but are still of some considerable significance. This is likewise true of Icelandic sales of foodstuffs, chemicals and miscellaneous manufactured articles (52% of which went to Communist countries). In addition a significant fraction of German exports of "non-manufactures" other than mineral fuels, between 9 and 15%, went to the European Communist countries.

12. As regards "manufactures", percentages are generally below 5.5% of total world sales. In the case of machinery and transport equipment this level was bettered only by Denmark and Italy (6.6%); in the case of manufactured goods by Italy (6.6%), Germany (8%), and Turkey (6.1%) and in the case of chemicals by Germany (7.1%) and Italy (8.5%).

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B. IMPORTS

13. In 1970, imports by the European NATO countries from Eastern Europe and the USSR totalled \$4,659 million (see AC/127-D/406). However, the statistics set out in document AC/127-D/409, taken from OECD figures for trade by commodities published in their "C" series, give a substantially lower total, \$4,402 million. The difference, \$257 million, applies only to imports from the USSR.

14. According to information obtained from the OECD, it would appear that while the "A" series of statistics on overall foreign trade - not broken down - gives the complete figures for trade with each country, the "C" series includes aggregate figures for certain commodities which are not broken down by the reporting country. These appear under the heading "SECRET". The following paragraphs take account of this difficulty as far as possible.

15. In 1970, NATO Europe imports from the European Communist countries consisted of 43% of "manufactures" and 57% of "non-manufactures". These percentages show that there was a slight increase in the percentage for manufactures by comparison with 1969 (a rise of 1½ points). The unadjusted value of the "manufactures" purchased by NATO Europe, i.e. \$1,904 million, is equal to nearly half the value of the same type of goods sold by NATO Europe to the European Communist countries(1). On the other hand, these countries supplied three times as many "non-manufactures" as they bought (\$2,498 million as compared with \$829 million). These figures while showing that trade between the two parties is to some extent complementary nonetheless highlight the sharp imbalance in the structure of such trade. This factor inevitably affects the capacity of certain East European countries to balance their trade with the West and, even more so, to achieve a surplus trade balance other than episodically.

16. In 1970, European NATO countries' purchases of machinery and transport equipment from the European Communist countries totalled \$405 million, which was 46% more than in 1969. Imports of miscellaneous manufactured articles, to the value of \$358 million were up by 25% and imports of chemicals, to the value of \$232 million, were 15% above their 1969 level. In contrast, imports of manufactured goods, the value of which has been reduced (for the reasons given in paragraph 13 above) and which total \$868 million dropped by 6% in comparison with the previous year.

(1) The adjusted value, about \$2,161 million, equals 56% of NATO Europe sales to the European Communist countries

17. This is, however, simply a statistical adjustment and has no relation with the true situation. It is clear, from the figures for preceding years and from a perusal of the items making up Section 6 of the SITC, "manufactured goods", that the value of European NATO country imports under this head could be estimated very approximately at \$1,134 million, i.e. 23% more than in 1969.

18. A point to be noted is the very substantial headway made by European Communist countries in 1970 in their sales of manufactured goods some of which come up against heavy competition on the European markets.

(i) Imports from the USSR

19. For the above-mentioned reasons, the value of NATO Europe imports from the USSR in 1970 is given as \$1,382 million whereas in fact it should total \$1,643 million. Among "non-manufactures", imports of mineral fuels rose sharply from \$366 million in 1969 to \$436 million in 1970 (+19%)(1). In contrast, purchases of other goods either rose far more slowly or dropped slightly, as in the case of crude materials (\$445 million as compared with \$452 million) or else plummeted as in the case of food and beverages, sales of which were down by 38% (\$89.3 million as compared with \$143 million in 1969). The proportion of Soviet sales made up of "non-manufactures", (\$1,007 million), while still high, was down slightly by comparison with 1969: 61% against 63%.

20. In 1970, Soviet sales of manufactured goods, machinery and transport equipment rose appreciably, while sales of miscellaneous manufactured articles stagnated below the \$10 million mark.

21. As regards manufactured goods, the figure of \$242.5 million given in document AC/127-D/409 did not include the value of United Kingdom imports of diamonds, pearls and semi-precious stones from the USSR. Most United Kingdom purchases of these items are now grouped together under the "SECRET" heading. This was also true of certain ferro-alloys, purchases of which are only given in aggregate. By comparing certain data, however, it has been possible to put a figure of about \$508 million on NATO Europe purchases of manufactured goods from the USSR in 1970 making an increase of 18% over 1969. It should be remembered in this connection that manufactured goods sold by the USSR are in fact mainly semi-manufactures: industrial diamonds, wood veneers and worked wood, nickel, silver, steel lingots, pig iron and ferro-alloys, copper, aluminium and certain other non-ferrous metals.

(1) Soviet sales of crude oil and petroleum products rose from 20.6 million tons in 1969 to 22.1 million tons in 1970. This 10% increase does not fully explain the increase in the value of sales which can be attributed in part to price changes or to changes in the composition of the goods purchased

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22. Soviet sales of machinery and transport equipment to NATO Europe went up by 87% in a single year though still on the small scale - \$66.4 million. This is well below the figure for East European countries' sales (five times as high). The expansion of Soviet exports to Germany was particularly remarkable: \$17.3 million as compared with only \$4.4 million in 1969. This increase is mainly the consequence of the sale of ships to the value of just over \$10 million. Sales to Norway rose from \$1.4 million to \$5.7 million for the same reasons. Another point to be noted is the twofold increase in purchases by Turkey which totalled \$12.5 million. Almost 60% of Soviet sales entered under "machinery and transport equipment" consisted of shipping, machine tools for metal working and non-electrical machinery and appliances such as heating equipment pumps and centrifuges and mechanical handling equipment.

(ii) Imports from Eastern Europe

23. Apart from purchases of foodstuffs as well as oils and fats which dropped slightly, NATO Europe imports from Eastern Europe, particularly of "manufactures", were well up in 1970. The proportion of NATO Europe purchases accounted for by "manufactures" was 51% as compared with 45% in 1969. It should be noted in this connection that purchases of chemicals rose by 15% to a value of \$184.5 million, manufactured goods by 27% to a value of \$625.7 million, machinery and transport equipment by 40% to a value of \$339 million and miscellaneous manufactured articles (including consumer durables) by 26%.

24. The Federal Republic of Germany was the best customer. Its purchases of manufactured goods, machinery, equipment and miscellaneous manufactured articles accounted for some 47% of total NATO Europe imports of this type of product from Eastern Europe. The GDR leads in sales to NATO Europe, and particularly to the Federal Republic. It is followed by Czechoslovakia, and some way behind, by Poland, Rumania, Hungary and Bulgaria. A point of interest is the fact that Rumania, although less industrialized than Hungary, did better than the latter in its sales of "manufactures" to NATO Europe (\$186.6 million as compared with \$157.4 million).

25. Sales of "non-manufactures" which are losing ground (49%) within the context of total East European exports to NATO Europe came to \$1,491 million in 1970, which is 3.6% more than in the previous year. This slight gain was due exclusively to higher sales of mineral fuels by the GDR and Poland (lignite and coal) to the Federal Republic of Germany and by Rumanian sales of crude materials to Italy and the Federal Republic.

(iii) Part played by imports from European Communist countries in total imports by NATO Europe

26. Few European members of the Alliance depend to any great extent on imports of certain categories of products from the European Communist countries. Turkey buys from them 20.5% of its total imports of manufactured goods, both semi-finished and finished, 14.5% of its machinery and transport equipment and 11% of its crude materials. Iceland buys 62% and 14.5% respectively of its total imports of mineral fuels and crude materials. Eighteen per cent of Greek imports of mineral fuels come from the East. Germany buys 18% of its foreign purchases of oils and fats and almost 12% of Italian imports of foodstuffs come from that part of the world.

II. TRADE BETWEEN NORTH AMERICA AND THE EUROPEAN COMMUNIST COUNTRIES

A. EXPORTS

27. In 1970, North American exports of "non-manufactures" to European Communist countries rose sharply (\$338.5 million as compared with \$137.7 million in 1969) and accounted for 69% of total exports as compared with 31% in the case of "manufactures". In percentage terms, the latter fell in comparison with 1969 (50%) but their sales value rose slightly (\$153.9 million as compared with \$138.5 million).

28. Canadian sales of foodstuffs advanced strongly, rising from \$8.8 million to \$105.3 million (6.6% of Canada's aggregate world sales). This last figure can be divided mainly between the USSR (\$85.6 million), Poland (\$10.4 million), Bulgaria (\$3.3 million) and Albania (\$4 million). Canadian sales of crude materials (\$21.2 million) and manufactured goods (\$6.4 million) were also higher with just over one-third in the first category and two-thirds of the second category going to the USSR. These transactions were on a relatively modest scale but, given the trend of East-West trade, there is a likelihood of more pronounced expansion in the future.

29. As with Canada, United States sales of "non-manufactures" (\$210.5 million as compared with \$115 million) did particularly well. There was little change however as regards "manufactures" - \$142 million as compared with \$133 million in 1969. Two-thirds of the manufactured goods were sold to the USSR but only some 17% of "non-manufactures". Most of the latter went to the East European countries particularly Poland and Rumania. In relation to United States world exports, sales to the European Communist countries whatever the category were frequently below 1% and only reached 2% and 3% in the case of raw materials, oils and fats.

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B. IMPORTS

30. North American imports from the European Communist countries in 1970 (\$290.4 million) were about 9% higher than in 1969. The increase may be attributed to larger purchases by the United States which rose by about \$30 million to \$226 million while Canadian purchases (\$65 million) fell by \$5.5 million. "Manufactures" accounted for 65% of total imports which was practically the same as in 1969.

31. Soviet sales to North America consisted mainly of crude materials - \$20.3 million - and manufactured goods - \$50 million - which together accounted for 88% of total Soviet exports to that part of the world. Manufactured goods did particularly well with sales rising by 35% above their 1969 level following increased purchases by the United States which consisted almost entirely of non-ferrous metals and precious and semi-precious stones.

32. East European sales to North America (\$209.4 million) cover a far wider range of goods than Soviet sales; 60% of deliveries comprised foodstuffs and manufactured goods in equal parts; to these were added exports of machinery, equipment, consumer durables and miscellaneous domestic appliances making up a further 30%; the balance of 10% consisted of chemicals, crude materials and mineral fuels.

33. North American imports of goods from the European Communist countries in all categories were in any case insignificant in relation to the total (between 0.1% and 1.1%).

C. NATO COUNTRIES' TRADE WITH CHINA

34. The increase in NATO Europe's exports to China (\$467 million in 1970 as compared with \$428 million in 1969) was mainly due to a sharp rise in sales of machinery and transport equipment which totalled \$97.4 million as compared with \$42.5 million in the previous year. This is a new and noteworthy development. North American sales were restricted to sales by Canada (\$139 million in 1970 as compared with \$113 million previously) which, in addition to the usual grains, was able to sell manufactured goods to the value of \$17.5 million.

35. NATO country imports from China showed a definite downturn in 1970 (\$362 million against \$400 million). Apart from chemicals, all categories of goods were affected. The proportion of "non-manufactures" in NATO country imports (\$343.5 million) remained high at 63% (about the same as for imports from the USSR). In contrast, 75% of North American imports (\$18.2 million) consisted of manufactured goods.