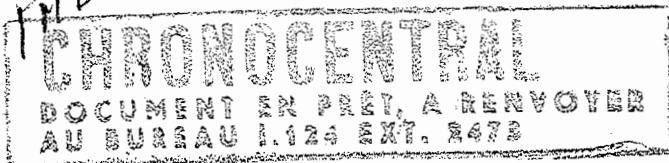


CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

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NATO COUNTRIES' TRADE POLICY TOWARDS THE EASTERN  
EUROPEAN COUNTRIES(1)

Report by the Committee of Economic Advisers

The Council, during its examination on 9th October, 1963, of document C-M(63)71, on recent economic developments in the USSR, other Eastern European countries and Communist China, instructed 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).

2. Several permanent representatives, with this end in view, had suggested that it might be opportune, in the light of current developments, to apply, in the field of economic relations, a policy towards the Eastern European countries which would be differentiated with due regard to the individual positions of each of these countries. Such a policy might contribute to weaken Soviet influence over these countries and to favour a certain evolution which is beginning to appear within the Soviet bloc and to bring about a change in our favour in East/West relations.

3. The idea of a differentiation between the Eastern European countries had been put forward previously on several occasions. During the second meeting of APAG(3) a general consensus of opinion had emerged on the need for an adjustment of Western trade policy towards the Soviet bloc in the light of circumstances and with due regard to the individual position of each member of the bloc, and on the political advantage that the West might gain by developing its economic relations with some of the European Communist countries so as to maintain its links with these countries and to endeavour to loosen their ties with the Soviet bloc. The members of APAG had also agreed that: "If East/West trade is to be an asset to the West, or at least not a liability, it should be co-ordinated between member countries with a view to preventing the Soviet bloc from exploiting competition between them ...."(4).

(1) For the purpose of the present report the terms "Eastern European countries" cover Albania, Bulgaria, Czechoslovakia, Hungary, Poland and Roumania. The report does not apply to the Soviet Zone of Germany in view of its special political situation. See on this subject the text of the statement made by the German Representative at the meeting of the Committee on 27th September, 1964, reproduced at Annex II.

(2) C-R(63)58, paragraph 50.

(3) It is recalled that APAG is a consultative body whose views are not binding on governments.

(4) C-M(63)10, paragraph 9(iii).

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4. The Committee of Economic Advisers had several discussions on trade policy in this field and, with a view to fulfilling their mandate in the best possible conditions, sought the advice of national officials responsible for commercial negotiations with the Eastern European countries. A group of such officials met on 25th and 26th May, 1964(1). A summary of their findings is to be found at Annex I.

5. During further exchanges of views in the Committee, it has been emphasised that:

- (i) trade between NATO countries and the Eastern European countries was at present fairly limited;
- (ii) several difficulties (rigidity of the Communist economic system in force in the Eastern European countries, lack of financial means to pay for imports, limited range of Eastern European goods of interest to the West) tended to hamper the expansion of this trade;
- (iii) on the other hand, the growing eagerness of the Eastern European countries (resulting from the failure of COMECON fully to satisfy their needs and, in the case of Roumania at least, the desire to reduce dependence on the Soviet Union) to expand their trade with the West, presented opportunities, which merited exploitation for closer contacts, particularly in the commercial sphere, between these countries and NATO countries.

6. The problem of the lengthening of the duration of export credits in respect of trade policy towards the Eastern European countries has not been treated in the present report to the Council as the whole question of credit to Communist countries is still under consideration in the Committee of Economic Advisers.

7. It appeared during the discussions, both in the Group of officials and in the Committee, that there was no unanimity of views among member countries as to the desirability of differentiating in their trade policies between the Eastern European and the other Communist countries, and between the former themselves. There was also some difference of opinion as to the practical possibility of such differentiation as well as on its likely effects on the relations of NATO countries with the Communist world.

8. Bearing these considerations in mind, the Committee proposes that the Council adopt the following draft decisions:

- (1) A summary record of the meeting is to be found in AO/127-D/160

The COUNCIL:

- (i) recommended that member countries, in considering their trade policy, should have regard to the possibilities of loosening the ties between the USSR and the Eastern European countries;
- (ii) noted that the following practical steps had been considered by the Committee of Economic Advisers:
  - (a) to attempt to make progress towards genuine and reciprocal multilateralisation of trade and payments with the Communist countries;
  - (b) to study further the advisability of certain Eastern European countries being admitted to international institutions such as GATT;
  - (c) to attempt to multiply direct contacts between Western firms and the managers of the importing or exporting enterprises (producers and end-users) in the Eastern European countries;
  - (d) to consider any possible simplification of administrative procedures for trade with the Eastern European countries, publication of trade opportunities and improvement of commercial representation, increased exchanges of trade missions and participation in trade fairs;
- (iii) noted that while all member countries agree to direct their efforts towards gaining greater influence in Eastern Europe and loosening the ties between the various parts of the Communist world, differences of opinion exist as to how this could best be attempted in the field of economic relations:
  - (a) a large number of NATO countries were in favour of a flexible policy as far as any differentiation was concerned between the Eastern European countries and the USSR and between the Eastern European countries themselves; they felt that the possible advantages of open and publicised differentiation should be carefully weighed against the risk of

reactions either from the Eastern European countries or from the USSR, which might have counter-productive effects; however, they were prepared to consider a concerted and co-ordinated effort under which they might, according to circumstances and to reactions:

- select specific Eastern European countries for the measures listed in (ii) above;
- favour these Eastern European countries rather than others in negotiating or implementing trade agreements, and in particular in considering the allocation of import quotas among Communist countries;

(b) several other member countries were in favour of expanding trade with the Eastern European countries without differentiation based on political considerations, since they believed that a straightforward expansion of trade with the Eastern European countries would, by itself, contribute to a loosening of the ties between these countries and the USSR; these NATO countries expressed fears lest politically-motivated discrimination between the countries of Eastern Europe might in fact inhibit some of them from expanding their commercial exchanges with the West; these NATO countries also had doubts about the possibility of establishing criteria as regards the willingness of certain Eastern European countries rather than others to emancipate themselves from the Soviet bloc; these NATO countries were prepared to take the steps listed at (a), (c) and (d) in (ii) above, in respect of all Eastern European countries without differentiation and felt it equally desirable that such steps be taken as regards the USSR; one of these NATO countries was also prepared to take the step listed at (b) in (ii) above;

(iv) agreed that any measures intended to expand trade with the Eastern European countries should:

- (a) be subject to the existing international commitments of member countries, and in particular to the agreed restrictions on exports of strategical goods:
- (b) not prejudice the declared decision that the governments of NATO countries should take, as far as possible and to the extent permitted by their international commitments, appropriate measures to facilitate the exports of Greece and Turkey to the free world (C-M(62)56 and C-M(62)57) in order not to hamper the actual and potential imports of developed NATO countries from their less-developed allies.

(Signed) F.D. GREGH  
Chairman

SUMMARY OF FINDINGS

The national officials have summed up their findings as follows:

- (i) Over recent years, trade between NATO countries and the satellites(1) 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, 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.
  - (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.

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(1) The word "satellites" in this summary established by the national officials should be taken to mean the "Eastern European countries" as listed in footnote(1), page 1 of the present report C-M(64)78.

- (ii) 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.
- (iii) 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 insofar 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, 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.

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STATEMENT

made by the Representative of the Federal Republic of  
Germany during the meeting of the Committee of Economic  
Advisers on 24th September, 1964

The German Government, after thorough consideration of the draft report to the Council ED/64/34(1) is unable to agree that the factors which might justify a differentiation in economic policy between the various countries of Eastern Europe and between these countries and the Soviet Union apply in the case of the Soviet Occupied Zone of Germany.

2. The German Government, like the majority of other delegations represented on the Committee of Economic Advisers, considers that to apply to the Satellites an economic policy differentiating both between them and between them and the Soviet Union might serve to loosen the ties between the satellites and the latter; but it is convinced that in the case of the Soviet Zone of Occupation, on account of the special political situation there prevailing, no such development could be expected.

3. Indeed, the Soviet Occupied Zone of Germany and its rulers owe their existence exclusively to the Soviet Union and it is only with the latter's aid that they will in future be able to safeguard and preserve it. Considering the special position of the Soviet Occupied Zone, the extension to it of more or less favourable treatment will not bring about any changes in this respect; the Zone will remain in the same position of dependence upon the Soviet Union. In these conditions, the extension of more favourable economic treatment to the Soviet Occupied Zone could not favour a loosening of the ties between it and the Soviet Union as may be the case with most of the satellite countries. Neither could such a loosening be expected if the NATO countries, within the framework of a policy of differentiation, were to envisage a more rigorous treatment for the Zone. In this case, the latter's ties with the Soviet Union would rather be strengthened.

4. The German Government is of the opinion that the factors which should govern economic and commercial considerations are the same as those which apply to purely political considerations. It considers, therefore, that the findings of document, C-M(62)143, of 28th November, 1962, "Policy Towards East European Satellites", prepared by the Committee of Political Advisers and approved by the Council, should be applied in the present case. This concerns in particular paragraph 4 of this report where it is stated that: "The purview of this Report does not include the Soviet Occupied Zone of Germany".

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(1) This draft, amended in the light of discussions in the Committee of Economic Advisers, has become the present document C-M(64)78.

5. For these various reasons, the German Government cannot approve the inclusion of the Soviet Occupied Zone of Germany among the Communist countries of Eastern Europe. It requests that in accordance with the proposals put forward by the Chairman at the previous meeting of the Committee of Economic Advisers the reference to the Soviet Occupied Zone should be omitted from the note at the foot of page 1 of the draft report, ED/64/34 and that the following sentence should be added to this note: "The report does not apply to the Soviet Zone of Germany, in view of its special political situation".

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