

ADDRESS

by

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at the John Hopkins University
on the 13th February 1967, in Bologna

To discuss adequately trade between the Community and Eastern Europe, account must be taken not only of the economic interests involved on both sides, but also of the overall relationship between West and East and of certain specific technical problems.

Thus I shall devote a few introductory remarks to the important changes which have taken place in the relations with Eastern Europe. Thereafter I shall describe the development of trade with the Eastern countries since 1958. In a third section of my lecture I shall discuss the difficulties which arise in trade between a community of countries with free economies and countries where the economy is still largely subject to State direction. In my concluding remarks I shall have a look at the future.

- I -

This year is the 20th anniversary of the outbreak of the cold war.

By July 1947 all efforts to persuade Soviet Russia to join in a European Recovery Programme supported by American financial assistance had failed. The Soviets had reached the conclusion that the Marshall Plan was a Trojan Horse designed to desintegrate their newly acquired empire. They also believed that Soviet influence could be extended over the whole of Europe and its dependencies by applying a policy of intimidation and of exploitation of the many difficulties faced by Western European countries. As a result, Moscow tightened its grip on the European countries under its control, and these became sheer satellites. Soviet policy in regard to the West became outright hostile. The Iron Curtain had fallen on our Continent.

Faced with a real and immediate threat, Western Europe which was practically defenceless, could only turn to the United States for protection: this was granted and shortly afterwards the Atlantic Alliance was born.

Thus our Continent became divided into two hostile camps: trade with the East became trade with potential enemies.

As a result, the two sides followed different courses for their recovery and development.

The Western Europeans adopted free competition as the means to secure the best use of the resources available to them. Accordingly, their mutual economic relations became based on multilateral trade, the most favoured nation clause, multilateral payments and later on convertibility of currencies. The Eastern nations proceeded instead towards rigid compulsory centralized planning, and State directed, strictly bilateral trade.

It must be stressed at this point that Western countries have never had a common attitude in relation to trade with the East during the cold war. This in the circumstances could be considered a weakness; but it was the inevitable result of their freedom of action within a group to which they belonged of their own free choice, and of the different interests and views which existed between them on this question. All agreed of course that given the situation, exports to the East of materials which could add to the military potential of their opponents had to be prohibited. But they argued at length as to which materials were really to be considered of strategic importance. On the other hand, some countries in the West doubted very strongly the wisdom of a policy which eventually would consist in the sealing off altogether of the East from the process of European recovery. Furthermore, the economic interests of the various Western countries were very different when it came to supplies from the East. Take oil for example. Italy, with no oil producing areas under her control, was - and still is - naturally inclined to diversify as much as possible the sources of supply of this essential raw material, and thus secure continuity of supply and a good bargaining position on prices. France instead, desirous to maintain and develop its traditional trade with her former colonies, was not in favour of massive Western imports of oil from the East. In the far North, tiny Iceland, with an economy based almost entirely on fish, unable to dispose of certain fish products such as fishmeal at good prices

in the West, could not be indifferent to Eastern offers of exchanging fishmeal against oil.

Italy was in fact the first of the Six members of the Community to accept oil from Soviet Russia and Roumania as a counterpart of its exports.

Obviously, to become greatly dependent on essential supplies from the East, in a situation of cold war, entailed for any Western country a serious risk: and this was generally recognized.

By and large, during the height of the cold war the West could not dissociate altogether its commercial interests from the overall political tension between the two camps. The West in fact never really accepted the separation from Eastern Europe other than as a temporary event and managed even during the most difficult years to keep alive some trade relations with our Eastern neighbours. But as long as the cold war was on, even in the West any important departure from an attitude of strict reserve in regard to trade with the East would acquire, whatever its economic justifications, the political significance of an attempt to establish a neutral status between the two opposing camps.

Opinions vary as to when the tide of the cold war began to ebb.

Destalinization, the theory of peaceful coexistence, the doctrine of poly-centrism in the communist world, the highs and lows and the paradoxes of the Khrushchevian era: all these events no doubt broke the terrible spell.

I believe however that the turning point came at the conclusion of the Cuban crisis of 1962.

As we all remember, Khrushchev had allowed the crisis to develop up to the point where he either had to accept a nuclear war or withdraw. He withdrew. With his disgrace he has paid for the gross miscalculation of the risk. But I cannot help feeling that he deserves the gratitude of mankind. Had it not been for this miscalculation, neither of the two great nuclear powers might have

realized fully, as they now do, the tremendous responsibility which accompanies the possession of nuclear weapons.

Cuba was the starting point for a development without precedent in history. I mean the tacit acceptance by the United States and the Soviet Union of common rules of international behaviour. While their political interests remain essentially opposed, both know that they cannot promote these interests beyond a given point without having to face unacceptable risks.

This development has had and is having momentous consequences. It has naturally entailed a limitation of the influence which the Soviet Union can effectively exercise in its own camp. No doubt the same can be said about the position of the United States in regard to her Western allies. But the consequences are far more significant for the camp where solidarity was enforced, and based on a common objective of world domination.

The most spectacular event in this conflict was of course the rise of China as an open challenger to Soviet Russia for the leadership of the communist world. For China, beset with enormous economic and social problems, and an ancient ambition to acquire a dominating position in Asia, it was impossible to accept a stabilization of the world situation existing in 1962. For China the revolutionary era could not be considered closed, it was just starting.

Perhaps in the long run, China will become for the world a far more serious danger than Russia ever was. Anyhow, the situation in China is at present much too confused to permit a conclusive assessment.

But for the time being we, as peace-loving human beings, can be content with the fact that the single monolithic communist bloc subject to irrational and dangerous impulses has ceased to exist: that autonomous attitudes based more on national interests and views than on bloc political interests are again becoming possible in Eastern Europe, and that the Eastern countries have begun to look in their own right for appropriate solutions to the problem of their relations with the West. Yugoslavia is no longer the only exception to the iron rule.

On the other hand, the long period of peace or rather of absence of hot war which we have enjoyed in Europe since 1945 is bearing fruit.

New generations are coming up, both in the East and in the West, their minds far more open to the fascinating problems of the second industrial revolution, and of a rational organization of this new world of ours, than to the fanatic defence of a given ideology or the support of policy of power and supremacy.

The industrialization of the East has brought about a diversification of the economies which in turn has given rise to the problem of securing a rational balance between the various economic activities in the absence of profit as a regulator. Expansion in developing countries entails a rising demand which cannot be satisfied except by trade with the industrialized countries which can deliver the goods. The gradual rise in the standard of living of the people, the great increase in general education which has taken place in the East, the knowledge about living conditions of the working classes in the Western countries have resulted in a growing demand for consumer goods which, in the absence of tension, cannot be long disregarded. As soon as enforced discipline relaxes, people become critical. Thus criticism of resource waste is becoming more and more open. For instance, how much of the 97 million tons of steel produced in the Soviet Union in 1966 was wasted in useless conventional armaments whereas it could have found its way into the production of motorcars and refrigerators?

Traditional dogmas, such as compulsory planning and the overriding importance of heavy industry over the production of the consumer goods, are no longer intangible. Distinguished Soviet economists have rediscovered the theory that profit is indispensable for the healthy development of an economy and are now attempting to reconcile this new theory with current planning practices. Some 2000 enterprises, perhaps more, will be adjusted in 1967 to a system of management based on profit: and this change will affect several million workers.

As regards foreign trade, the Soviet efforts to create in 1962,

as a counterpart to the European Economic Community a system of intrasocialist economic integration seem to have failed. Integration, as conceived then, meant a common production and trade plan within which each partner of the C.A.E.M (or COMECON) was to be allotted a production quota of given goods, related to its availability of raw materials or of technicians and skilled labour. The planning was to be centralized in Moscow: it seemed evident that the Soviet Union would have tried to manage the plan with a view to maintain every other participating country in a situation of enforced dependence on the group.

This approach was flatly rejected by Roumania, and in 1963 the scheme was tacitly transformed into a loose framework for bilateral negotiations. This meant the end of the central planning idea and the victory of national economic interests of the various Eastern partners over bloc political objectives. An international economic bank which had been set up to support Eastern integration with a system of multilateral payments and short term credits has had so far little to do.

In Soviet Russia itself a new ruling class has emerged which seems to have a sober notion of national interests and appears desirous and capable of using traditional diplomacy for the promotion of these interests.

These changes would probably not have occurred had the West not followed over the last two decades an overall policy mixing firmness and flexibility. The West stood firm in the defence of freedom and in resisting intimidation and pressure from outside and from within. There were however always some Western countries willing to make an effort to ease tension and never did the West attempt to use its force to impose the solution of outstanding problems in Europe, such as Berlin and the division of Germany. This policy kept the peace without surrender. Peace in freedom has made it possible for Western Europe to achieve economic and social progress on a scale never known before. These results were achieved through economic and commercial policies which were essentially liberal. Above all, secure under the protection of the Alliance, Western Europe proved capable of

launching a process of gradual economic integration of nations. This integration was based on a durable reconciliation between countries which had been fighting each other for centuries, and entailed the acceptance of a growing degree of interdependence, and the leadership of common democratic institutions: an integration open to trade and competition with the whole world and committed to peaceful objectives.

The results achieved by the European Community since 1952 and in particular since 1958 on the economic and social plan have certainly shaken the convictions held in the East ever since the famous speech by Stalin on the contradiction of capitalism.

It was evident that with Western Europe emerging as one of the greatest economic powers of the world there could be no certainty that a new economic crisis would inevitably wash away the very foundations of our civilization. Thus while at the outset the launching of European economic integration was condemned in the East as one more aggressive Western device directed against our neighbours, by 1962, attitudes had changed, as revealed by surveys of Soviet experts and specialists. Besides, it must have occurred to the Soviets that the growing economic interdependence of the Six countries has had a stabilizing effect on general conditions on our Continent: and this may have been welcome at a time when Asia was beginning to be a cause of serious concern to Russia. The force of attraction exercised by the Community on its Western European neighbours, the manifest desire of countries which are beyond suspicion as regards their attachment to peace such as Great Britain and the Scandinavians, to become members of the Community, the emergence in Italy and later in Germany of left-centre Governments, the foreign policy of the French Government: all these facts cannot but confirm in Soviet minds the notion that the Community - in the light of present circumstances - is an asset from their point of view.

Let us now analyse the development of trade with Eastern Europe since 1958.

Trade between the European Community and the members of C.A.E.M. has amounted in 1965 to about 3 billion dollars, an increase of 129% over the 1958 level.

This trend towards rapid expansion was further accentuated in 1966. In the first 9 months of 1966 the increase over the same period in 1965 has been 18%, while it was 16% in 1965 in relation to 1964.

The expansion of trade with the East has been more rapid than the expansion of the total foreign trade of the Community. Total foreign trade increased in 1966 by only 9%, the same as in the previous year.

This performance compares with the development of trade between Great Britain and Eastern Europe. This amounted in 1965 to 940 million dollars, an increase of 126% over the 1958 level. Naturally, in absolute terms the volume of trade between the Community and Eastern Europe is three times greater.

There are also other differences.

The Community is more or less in balance in her trade with the East, while the United Kingdom is heavily in deficit, imports having just about the double of British exports in 1965.

London, as a world market for raw materials, and Sterling as an international currency, are obviously attractive for Eastern countries desirous of earning Sterling for their purchases in the Sterling area and in the West.

There is also a different distribution of trade. The Soviet Union and Poland represented in 1965 71% of Britain's total trade with Eastern Europe while for the Community these two countries represented 48%.

The trend is however towards a more even distribution of the United Kingdom's trade with the Eastern countries, a further indication of a more autonomous development of the various national economies in the East.

This being said, trade with Eastern countries still represents only a minor fraction of the total trade of the Community: the percentage in the last five years has been between 5.30 and 5.50. Trade with the West has been more important for the East. In 1964 trade with the Community constituted 6% of the total trade of the Soviet Union and 12% of the total trade of Hungary. By and large however, trade with the West is still - percentage wise - of marginal importance for the Eastern countries.

In strictly economic and commercial terms, Western trade with the East is subject to the availability in the East of means of payment for their purchases in the West.

Now the Eastern countries have seen their traditional role as suppliers to the West for certain essential raw materials and basic goods substantially reduced.

This is true for grains, meat and cattle, because of successive bad harvests, poor productive organization, increased internal consumption, and rapid expansion of the production in Western Europe, in particular in the Community, and of the interpenetration of the Six Markets.

It is equally true for coal, which must now compete on Western markets more and more with oil and natural gas and cheap American coal, while Western demand for oil, timber and certain metals tends to remain stable.

Thus a development of trade with the East is conditional on an effort by the Eastern countries to improve their productivity in agriculture and to develop the industrial production in order to compete with the highly sophisticated products which the West is now accustomed to: and also to adopt modern methods of marketing.

There are indications that this can be done. The establishment by the Community of a common agricultural policy is not having negative effects on the export trade of our Eastern neighbours. Whenever goods have been offered at fair prices and in competitive

conditions of quality, trade has flourished. Thus Polish exports of pork to the Community went up in 1963-64 from 9 to 14 million dollars and other Eastern countries likewise improved their position. Poland has also improved her position as an exporter of meat.

On the industrial plane, chemical imports from the East in 1964 went up 20% and imports of machinery and transport equipment 19% over the previous year.

By and large however, trade tends to develop more rapidly between countries having reached a comparable state of economic development. This is why the total foreign trade of the Community is conducted in large part with the other highly industrialized areas of the world.

The development of trade with the East is conditional therefore in the short term on a liberal import policy of the West on a reasonably liberal Western credit policy in support of exports, in particular capital goods, and in the long run on the willingness and capability of the Eastern economies to attract Western demand to the extent necessary to balance Eastern demands for Western goods.

Let us now have a look at the trend in Western import and credit policies toward the East.

Great Britain was one of the first countries in the West to engage in a policy of active promotion of trade with the East. She concluded in 1959, while the cold war was still on, a five year agreement with Soviet Russia, according to which the open general licence system, which is equivalent to the liberalization of imports, was extended to Russian goods. Similar agreements were concluded with other European countries and have since been renewed.

Within the Community there have been recently a series of very important developments.

France has abolished import restrictions on 817 positions out of the 1097 positions of the common external tariff in regard to all Eastern countries, with the exception of the Soviet occupied zone in Germany. Germany has liberated 650 positions for imports from

Poland, Roumania, Czechoslovakia and Hungary. The Benelux countries have practically liberated 1024 positions - that is almost the whole lot - for imports from all Eastern countries. Italy has remained more conservative: only 200 positions have been liberated for imports from all Eastern countries with the exception of the zone, while 150 additional positions have been liberated for imports from certain Eastern countries only.

Whenever trade remains subject to import restrictions, it is regulated within the framework of bilateral agreements. There are some 40 bilateral agreements in existence between the Six countries of the Community and the Eastern countries.

Besides, because of the difficulties, to which I shall come later, arising from trading with State trading countries, certain safeguards are necessary when import restrictions are abolished.

The trend in current Western import policies from the East is thus towards more and more liberalism, but there are considerable differences between the Western countries - even within the Community - both as concerns the extent of the liberalization and the nature of the safeguard process.

To complete the picture, I should add that an East-West trade relations Act has been pending before Congress since May 1966 which, if approved, would empower the President of the United States to apply - under certain conditions and within certain limits - the most favoured nation clause for tariff reductions to Eastern European countries other than Yugoslavia and Poland, for which the authority already exists.

Finally, the list of goods for which export to the East is prohibited for defence reasons has been considerably reduced. It is significant that the United States has recently decided to supply Roumania with an atomic reactor.

As concerns Western export credit policy, there have also been important developments, and here too Great Britain has played a leading role.

There exists since 1934 an institution usually referred to as the Berne Club, established with a view to harmonizing the export credit policies of its members, and thus preventing them from engaging in a mutually ruinous competition for gaining foreign outlets. In 1962 the Club expressed itself in favour of a rule according to which the member governments would abstain from extending their guarantee to export credits granted to Eastern countries exceeding five years: any member wishing to exceed this time limit was to engage in previous consultations with the Club. The Six members of the Community, all members of the Club, adopted this rule insofar as they were concerned. Great Britain refused however to accept any limitation to her discretionary power for deciding the terms under which trade would be promoted in any direction: and strongly objected to any discrimination between importing countries, whether Eastern or not. Accordingly, the United Kingdom has recently granted guaranteed export credits to Eastern countries up to 12 and even 15 years.

The Berne rule having been broken, it was inevitable that other Western countries would follow suit.

Actually, the United States itself has granted credits for large supplies of grains to Soviet Russia, and the atomic reactor deal with Roumania was also on favourable credit terms.

Very recently there have been a series of important decisions taken by Governments and industries in the Community. FIAT has agreed to supply Soviet Russia with an automobile factory worth some 300 million dollars under state guaranteed export credits up to 8 and a half years. The time limit is to start from the date at which the factory begins functioning.

Renault has made a similar agreement with Soviet Russia, although for a more limited amount, for the supply of machinery required for the rationalization of existing automobile factories.

Olivetti General Electric has concluded a basic agreement with the Soviet States organization for the co-ordination of imports in the Soviet Union of industrial equipment. In the framework of this agreement and on credit terms yet to be discussed, electronic equipment and

and equipment for the installation of factories of computers and typing machines will be supplied for a sum of some 65 million dollars.

Necchi is planning to supply equipment for a shirt factory in Roumania.

Similar agreements are being contemplated by West German firms or by German and French firms in joint ventures.

Again we must conclude that Western policy on export credits is becoming more and more open; individual attitudes however are fairly different from country to country.

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These differences of attitude lead me to the third section of my lecture: in which I shall discuss certain technical difficulties which arise in connection with trade between countries with different economic systems.

These difficulties can become very serious in the case of free economy countries bound together in a common market such as the members of the European Community.

The origin of the problem is that prices in free economies and in state managed economies are not formed in the same way and do not mean the same thing. In free economies, prices are the result of the free competition between producers, and of the cost of the factors of production. In state directed economies, prices are fixed by the State authorities, according to the conveniences of their overall policies, and this applies both to the products and to the factors of production. Thus goods offered by State trading countries for export can be priced irrespective of their cost: but there is actually, in State managed economies, no real internal prices with which export prices can be compared so that dumping practices can be detected.

Western countries abide by the rules of GATT: inter alia the rules agreed within GATT for counteracting such practices. But these

rules are designed to apply to free economy countries where prices are formed as a result of the natural forces of the market. These rules are therefore of no avail in regard to trade with the East: and, likewise, tariff protection, calculated to maintain a reasonable balance between industrialized and developed free economy countries, has little meaning in trade with the East.

Thus the Western countries, including of course the members of the European Community, have had to resort to special measures for protecting themselves, whenever imports were free, and even when imports were subject to quotas, from the risk that Eastern countries might offer goods at prices with which their own producers could not possibly compete.

In general, Western countries have reserved for themselves the right immediately to re-establish quantitative restrictions on any product, or to stop imports altogether, whenever the prices at which goods were imported entails serious risks of disruption for their own production. There are however Western countries whose attitude is more lenient, and who by and large have not gone further than the GATT rules.

As I have said, these differences entail a serious risk for the common market.

On the 1st of July 1968 the customs union of the Six members of the Community will be completed. This means that by that date almost all industrial and agricultural goods shall circulate within the Community without customs duties or levies or quota restrictions. This free circulation will apply not only to goods produced in the Community, but also to goods imported into any member country of the Community from the outside, on the condition that the duty provided by the common external tariff, or the levy prescribed by the regulations of the common agricultural policy will have been paid.

The Treaty of Rome does prescribe that the member countries harmonize their commercial policy: that is their import policy from third countries, their policy on safeguards against dumping, and their export credit policy. This obligation however does not apply,

according to the Treaty, until the end of the transitional period, that is until the end of '69. Thus a potential conflict has arisen between the rapid establishment of the Common Market, which will come into existence one and a half years in advance of the schedule, foreseen by the Treaty, and the freedom of action which member countries have retained in their commercial policy.

The Treaty does contain rules according to which any member country can protect itself against decisions of commercial policy taken by another member country which may have harmful effects on its own market. This means that in certain cases one country can re-establish import restrictions towards other member countries.

Take for instance the recent measures of liberalization adopted by the member countries. France, although very generous, has excluded from liberalization of imports from the East most of its agricultural and textile products. The Germans have liberalized in particular the chemical, mechanical and electro-technical sectors. Italy has liberalized in practice only imports of raw materials of essential importance for her economy.

The reason for these differences is evident. Each country in the Community has still her own problems and interests. The Six have not reached yet the stage of an economic union. Thus Germany, for instance, may be interested in opening her market to imports from the East of certain equipment which Italy may on the contrary wish to maintain restricted. As Germany is free, for the time being, to make her own commercial policy decisions, Italy must be free under certain conditions to restrict imports from Germany of these Eastern goods even if the duties have been paid.

Anybody can see that if member countries were to adopt frequently measures of this kind in order to protect themselves from the commercial policy of one another, the very foundation of the Common Market would be shaken.

The same reasoning applies when (liberalization being at the same level) safeguards are different and are applied with different severity by the various member countries.

In regard to export credit policy, it is quite evident that if member countries were to align themselves indiscriminately on the most generous Western country, the result would be a progressive deterioration of the conditions under which the Community could secure outlets for her exports. An excessive liberalism and lack of harmonization would weaken the overall bargaining position of the Community.

This being said it must be recognized that, while there have been cases in which Eastern goods have been imported in Western countries at abnormally low prices, Eastern export prices have been recently, as a rule, at a reasonable level. As a result, safeguard measures have been applied fairly seldom. This is perhaps the result of the fact that our Eastern neighbours are introducing the notion of profit and productivity in their economic planning, and that they want to secure a durable access on the Western markets.

Still, as long as the Eastern economies shall be subject to State direction, there shall remain a problem of adequate safeguards and therefore a problem of harmonization of commercial policy of the Community countries.

- IV -

Let us now have a glimpse at the future.

The European Community believes in the development of international trade in any direction. She must however secure the stability of the Common Market, and achieve the economic union of its members.

Thus, the Community ought as a matter of priority to establish a common commercial policy.

The Eastern countries ought to recognize this necessity and renounce their political objections to negotiating with the Community as a unit.

The rapid development of trade between the Community and Eastern Europe since 1958 indicates that there is a potential convergence of

economic and commercial interests on both sides.

This is not surprising because the Eastern European countries have reached a relatively high level of industrial development and the Community has emerged as a most powerful economic entity; she is the first importer and the second exporter in the world.

Because trade with the East is still of marginal importance to both sides, there seems to be ample margin for further development: thus efforts both by the Community and the East to find adequate solutions to the technical problems I have mentioned, would be worth while.

Preliminary steps have been taken in this direction. A procedure of consultation has been set up by the Six concerning negotiations by any member country of a commercial agreement with a third country. This procedure has helped creating among the Six the consciousness that their commercial and economic relations with third countries are a matter of concern for all.

But the time has come to take bolder steps. Member countries should decide to harmonize their national commercial policies with a view to establishing a common level of liberalization of imports, to setting up identical safeguard measures and to defining reasonable export credit terms.

The common level of liberalization should be set as high as possible, account being taken of the special situation of every single member country. Whenever imports could not be liberalized, member countries should agree on import quotas for the Community taken as a unit.

As regards export credit policies, a procedure of consultation between member countries has been equally set up. The next step should be the adoption of a common attitude. The Community should consider this question from the point of view of the best use of its available resources, and the call on these resources by internal demand, and by the need of providing assistance to the developing countries throughout the world.

Finally as concerns safeguards against economic and market disruption, the Community should adopt common measures intended in the first plan to discourage abnormal practices by Eastern exporters, and adequate, to afford the required protection.

The conclusive step should take the form of agreements concluded by the Community - and not any more by its individual members - with the various Eastern countries, within an international framework such as GATT, if these countries were to become members of the institution, on the bilateral plan

The Eastern countries seem in general to be more responsive to these requirements than could be expected from them a few years ago. The easing of the tension between East and West makes it possible. Naturally the situation varies from country to country.

Thus Poland and Czechoslovakia take part in the Kennedy Round where the Community negotiates as a unit: Poland has also established technical contacts with the Community and has become a member of GATT. Hungary has been agreed in GATT as an observer.

The decision by Roumania to establish diplomatic relations with the Federal Republic is a new very important development in the direction of the return to normal conditions in the relationship with Eastern Europe, notwithstanding the lack to date of a solution of the problem of the division of Germany. It is impossible to assess as yet the implications of this decision: but it certainly seems to be a decision in the right direction from both Governments concerned.

Thus 1967 offers good reasons for hope. The hope will be the more justified if the European Community will continue in the months and years to come to complete its own achievement in every sense, and if other Western nations will join the Community with a view to sharing its obligations, its opportunities, and its ideals of democratic freedom and of peaceful progress.