

FROM: Scotty Mackenzie, Director of Press Relations

FOR RELEASE: At Will

THE EUROPEAN COMMUNITY AND THE BLOC

An address by Frederick T. Van Dyk, Deputy Director, European Community Information Service, Washington, D.C., at AMA's East-West Trade Briefing Session, May 20-22, 1964, at the Hotel Pierre in New York.

NOTE TO EDITORS: Excerpts of up to 50%, or narrative summary, of this paper permitted.

As far as the Soviet Union is concerned, the European Community does not exist.

Although 64 countries have diplomatic representation to the Community in Brussels, the Soviet Union and Eastern bloc do not.

The reason is not hard to understand. From its beginning, and until quite recently, the Community was denounced by the Soviet Union as a brother of NATO, as an imperialist organization bent on re-establishing dominance over helpless developing nations, and as the "last gasp" of Western Europe in attempting to revive dying capitalism.

One wonders if some of these very vigorous denunciations were really believed at their source. In any case, it is clear that the Soviets have been disturbed by the development of a Common Market---if only because it is a refutation of Communist theory. After all, the fact of a uniting, prosperous Western Europe acting peacefully through common institutions is a far cry from the economic collapse and disintegration of the West.

Today, however, the Soviet Union takes a much milder line toward the Community. One reason for the change of heart is commercial self-interest.

The Soviet Union and Comecon countries have made various trade agreements in the past with Community member states. However, after 1970---when the Community has reached the end of its transition period to economic unity---there will be a common Community trade policy and bilateral trade agreements will no longer be possible. Even earlier, 1966 or 1967, all tariff barriers will have been removed within the Common Market and there will be free trade within. This will mean that commercial pressures will increase on those Eastern bloc countries which are not members of GATT and which are not taking part in the Kennedy Round trade negotiation in Geneva. These Bloc countries will find themselves faced with a thriving market of 180 million people with free trade within. They will find that their non-Communist European neighbors will---although not within the Community itself---have in the Kennedy Round gained continued access to the Community market.

(It should be noted that Czechoslovakia is a GATT member, while Poland participates in the work of the contracting parties under a special arrangement).

Looking at the Community through Soviet eyes, we thus see a development which is not at all pleasing, either politically or economically, but which nonetheless must be met and dealt with.

One way to meet and "deal with" the problem would be for the Bloc to become completely self-sufficient economically. However, Comecon has been less than a roaring success. And recent movement has indeed been away from self-sufficiency toward increasing trade with the West.

Thus, short of reversing the recent trend toward increasing contact with the West and of greater freedom within the Bloc, it would seem that we could expect some Soviet initiative soon toward the Community. One can only

speculate as to whether this would mean Soviet diplomatic recognition of the Community and sending of a mission to Brussels. But it certainly is a possibility. Jean Rey, the Common Market's Commissioner in charge of external relations, is on record as saying that the door is open for such initiative.

Last year the Soviet Union sent a note to all Community countries, except Italy, requesting tariff negotiations and concessions. But all replied that any such negotiation would have to be with the Community itself.

The Common Market Council of Ministers then sent a note to Moscow, through the Dutch ambassador, offering partial suspension of duties on a number of products including caviar and vodka. But today, six months later, the Soviet Union is still studying the note. Its acceptance would, of course, mean recognition of the Common Market.

The Community must also formulate a definite policy toward the Bloc.

The Common Market Commission recently submitted a memo to the six member states proposing a gradual transition toward a common commercial policy vis-a-vis Eastern Europe. Among the Commission's recommendations was one that the Six bind themselves, no later than December 31 of this year, to a uniformly worded safeguard clause in their bilateral trade agreements with state trading countries. On the strength of this clause the Six could then, separately, take measures against any market disruptions caused by imports from state traders (who can arbitrarily fix export prices to their liking without regard to free-market forces). Such a decision had already been taken in 1963 by the Six on products under the Coal and Steel Community.

The Six have not yet made response, however, to the Common Market Commission memo. One reason is that the member states already have some special provisions in their agreements with state trading countries. Another is that they believe state trading countries may object to the inclusion of the safeguard clause in any trade agreement and demand a concession as "payment" for it. The EEC Commission intends, however, to pursue the proposal as part of its responsibility under the Rome Treaty.

The Commission also proposes that the Six coordinate their policies in credit to state traders.

In summary, then, we see that the Eastern bloc has not yet officially accepted the Community's existence but is feeling toward some sort of accommodation, while the Community at the same time, in moving toward a common trade policy, is seeking agreement among the Six member states on policy toward the Bloc.

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Now, having outlined the state of things, let me take a moment to give you the facts of Community-Bloc trade.

Fact Number One: Since 1958, the volume of Community-Bloc trade has steadily increased. The Community's trade with the Bloc has increased by 87 per cent during this time, which EEC trade with the rest of the world has increased by 44 per cent.

Fact Number Two: The Community sells slightly less to the Bloc than it buys there. The overall trade deficit last year was \$282 million. The Community as a whole decreased its exports to the Bloc in 1963 by 8 per cent over the year before, while imports from the Bloc increased by 13 per cent. France last year increased its imports from the Bloc by 27 per cent over 1962, while it exported 16 per cent less than the year before. The biggest EEC traders with the Bloc are Germany, with \$891.8 million 1963 volume of trade; Italy, with \$693.4 million; and France, with \$476.9 million, compared to Great Britain, with \$855.323 million; and the United States, with \$248.1 million.

Fact Number Three: The Soviet Union does a great deal of business with other Comecon countries, but also with the Common Market.

In 1962, Soviet-Comecon exchanges totaled \$7.5 billion. Soviet-EEC exchanges totaled \$1 billion. EEC-Comecon exchanges totaled \$2.4 billion.

Fact Number Four: The Common Market's goods, in general, fill more of a gap in the Eastern economy than do the Bloc's exports in the Western European economy.

In 1962, the EEC's major exports to the Bloc were, in order:

Machinery-----	\$417.9 million
Food Products-----	\$ 84.3 million
Raw Materials-----	\$ 71.9 million

Its major imports from the Bloc were, in order:

Raw Materials-----	\$314.9 million
Food Products-----	\$289.2 million
Machinery-----	\$ 47.6 million

If you analyze the various categories of products traded between the EEC and the Bloc, you can see that the trade structure is identical to that between the developing countries and the industrialized countries.

Finished products clearly outnumber other exports of the EEC to the Bloc, while three-fourths of the Bloc's exports to the EEC are primary products; food, fuel, and raw materials. The remainder, a very small amount, are finished products. The situation is even more pronounced for the Soviet Union. Less than one-tenth of Soviet exports to Western Europe are finished products. Only the exports of Eastern Germany and Czechoslovakia approach the normal pattern of trade between industrialized countries. But even in this case, it is impossible to find evidence of the well-known tendency of trade to increase as the degree of industrialization of the trading partners rises.

In conclusion, what do the present policies, trade trends and developments add up to? They add up to:

A reality of increasing Community-Bloc trade.

A certain dependence of the Bloc economy on Western industrial goods.

An increasing effort by the Soviets to meet the challenge of the Community--probably by increasing, rather than diminishing, commercial contact.

An awareness by the Community countries that they must arrive at common policies vis-a-vis the Bloc in the near future, and in such a way that they will not leave themselves vulnerable to dumping.

I have not discussed at all today the attitudes of various Community countries toward U.S. and NATO policies, commercial and other. These attitudes differ, and they are not in my domain to discuss.

I will close, however, with a few words of purely personal observation.

It seems to me that more and more European countries are coming to view the American definition of "strategic" goods as being too broad.

Many feel that, had a European country---rather than the United States---made a recent massive wheat sale to the Soviet Union, the reaction here would have been strong and immediate. And probably a few more feel that, in an era of increasing detente, all the Western countries should be freer than previously to trade where trade is profitable and available.

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**EXCERPTS FROM AN ADDRESS BY
FREDERICK T. VAN DYK
DEPUTY DIRECTOR
EUROPEAN COMMUNITY INFORMATION SERVICE
WASHINGTON, D.C.**

**AMERICAN MANAGEMENT ASSOCIATION
BRIEFING SESSION ON EAST-WEST TRADE**

**HOTEL PIERRE, NEW YORK CITY
MAY 22, 1964**

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