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PRESS RELEASE

EAST-WEST TRADE RELATIONS

Summary of address by M. Guido Colonna di Paliano,
Member of the EEC Commission, at the joint meeting
of the European Parliament and the Consultative
Assembly of the Council of Europe

The problem of East-West trade relations has occupied our attention for years and indeed has progressively acquired more importance as relations as a whole between East and West have developed. In particular the new balance of military power in the world has made it possible for the economic thought of the Eastern European countries to adopt a new orientation. In the climate created by this equilibrium, the absolute subordination of the whole of the Eastern bloc countries' economies to building up armaments seems increasingly less in keeping with their real interests. The result has been a fresh impetus given to production in the civilian sectors and, in particular, that of consumer goods. It may be hoped, moreover, that the gradual movement of the Eastern bloc's economies towards greater diversification will increase the influence of purely economic considerations on the political orientations of the governments. That such hopes are not without foundation has been strikingly demonstrated by the new tendencies which have arisen in the last few years in the management of industry: these tendencies are significant in that they assign to the profit motive a determining influence in official policy.

One day historians will examine which of the two groups of States - East and West - has contributed more to steering such relations towards a degree of stability and normality. It is certain, however, that there could be no talk of a balance of power in the world if the Atlantic Alliance, despite all the difficulties it has had to face, had not existed and did not still exist. Similarly, the trend of our Eastern contemporaries towards forms of

economic thought nearer our own cannot but be encouraged by the success of European integration. A Community which has become the leading commercial power in the world cannot be ignored by its immediate neighbours at a moment when they are about to enter the decisive stage in their economic development.

As for the Western countries and, in particular, the European countries, there can be no doubt of their interest in extending their trade relations with the East. This interest is indeed destined to increase concurrently with the industrial development of the countries of each group and with the requirements arising for them all from their economic development.

We can therefore observe a natural convergence of the interest of the two groups in the continuous growth of trade between them. This convergence is, moreover, already reflected by the facts. The member countries of the OECD, for example, excluding Yugoslavia, have increased the volume of their trade with the Eastern European countries by 87.7% from 1958 to 1964. In this trend the Community countries lead the field with a trade growth rate of 95% in terms of absolute value.

It is clear that the increase in the volume of East-West trade depends on the capacity of the Eastern European countries to obtain, through their exports, the means of paying for imports from the West. From this angle we must consider the possible effects of the Community's agricultural policy on the volume of trade. Over a quarter of the Community's imports from Eastern Europe consists of agricultural and food products. Here it must be pointed out that, while it is true that the Community's imports from the Eastern bloc countries of products subject to agricultural policy regulations diminished from 1963 to 1964 by 12%, the Community's total imports from abroad increased by 3%. This shows that the progressive entry into force of the common agricultural policy has not had the restrictive effects feared by some and that, given the non-discriminatory nature of Community agricultural regulations, the reduction of agricultural exports from the Eastern countries is not to be imputed to the Community. One is inclined to think that the Eastern European economies would, on the whole, be capable of taking the implications of the Community's agricultural policy in their stride provided that their situation as producers is healthy and that their commercial organization is sufficiently flexible.

As regards the industrial sector, in 1964 there was an increase of over 20% in imports of finished products and of 19% in the Community's purchases of machinery and transport equipment from East Europe. This demonstrates the importance for the future growth of East-West trade of the Eastern countries' capacity to supply the Community with competitive industrial products.

In view of these developments the question of defining the Community's policy in this sphere takes on great importance. It was

because the Commission of the European Economic Community realized the promising prospects materializing for East-West trade, that it formulated as early as February last year proposals to implement, ahead of the time-table set out by the Treaty, a common commercial policy vis-à-vis the state-trading countries. This policy must take into account the following points:

- (i) Trade with those countries presents such an interest from the political and economic angle that measures must be taken to create conditions to favour its expansion;
- (ii) Such trade, moreover, possesses special characteristics by which it differs from all other trade flows and this makes it absolutely necessary to make special administrative arrangements.

With these general aims in mind, the Commission has endeavoured in its proposals to make it easier for the majority of products from the Eastern European countries to enter Community markets. For the remaining products the Commission suggested that certain important controls be retained.

An essential condition, however, for arriving at satisfactory solutions is that all the Western States should adopt a uniform approach. Particular attention, for instance, should be paid to the matter of export credits for trade with the Eastern European countries. In the Western countries there are various attitudes to this matter with actual competition for advantageous positions vis-à-vis Eastern markets. Such competition may prove dangerous for the Western economies and, so far as the Community is concerned, can hardly be reconciled with the irreversible commitments which the Member States are obliged under the Treaty to assume reciprocally in all sectors of their economies.

A more intensive development of East-West trade also depends upon the good will of our friends in Eastern Europe. In this respect it is interesting to note that in Western Europe the idea is gaining ground that in order to obtain substantial concessions from the Western countries, the East European countries must assume firm commitments in respect of an increase of their purchases from the West. This idea, of course, can by no means be considered universally accepted. Nevertheless, a certain movement is observed in favour of seeking a true reciprocity of advantages despite the inevitable disparity of concessions and commitments. This movement is reflected in the present negotiations in Geneva, in the Kennedy Round, with some Eastern countries and in discussions on the possibility that some of these countries may join GATT. Since it would not be realistic in the present state of the organization of East European economies to expect that these countries will be able to assume the obligations of the General Agreement, since these obligations were conceived for trade between market-economy countries, it is necessary that on both sides specific commitments be sought which must be defined in the light of the particular characteristics

of East-West trade. It is a matter of finding ways of ensuring the balance of advantages when the most-favoured-nation clause is applied to such trade, of affirming the principle of healthy and fair competition and the desirability of a progressive reciprocal opening of the markets. The Commission, for its part, has always tried to show its interest and comprehension in examining all the specific solutions suggested by one or other of the Eastern European countries during the Kennedy Round negotiations and during the technical conversations which took place there with those countries.

The prospects of a further expansion of East-West trade are closely dependent on the Community's continuing development. The events of recent years have shown the importance of economic integration in increasing the volume of production and of trade within and outside the area in course of integration. In the second place, the East European countries should continue to consider their trade relations with the Community from a pragmatic rather than a doctrinal angle. For this reason it is important that they should have no cause to doubt the Community's future. Since, in the present state of affairs, the change of attitude of the Eastern bloc countries towards the Community has been to a great extent dictated by practical requirements and cannot be considered to be determined by a clear political choice, the irreversibility of the trend cannot be taken completely for granted. This means that the Community countries need to extend their common stand to commercial policy as soon as possible. Only when there can no longer be any reason for a Member State to fear the results of commercial policy measures taken unilaterally by another Member State will the conditions be created for a steady increase of the volume of such trade. Another condition is that the Eastern European countries must recognize that special rules are needed, as part of the general pattern of international trade, to provide a stable framework for relations between countries whose trade is subject to such different norms.
