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## Revised embargo policy towards the USSR

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1. The dollar remains the soundest currency in the world. It is a mistake to exaggerate the significance of the deficit and the world may have to live with a deficit of \$ 1,000—2,000 million annually. For demonstration purposes, the gap could be closed but remedial measures would not concentrate on any one single aspect of the components of the balance.
2. No obstacles to imports into the US are proposed as only measures for a steady, two-sided expansion of trade can benefit the world community.
3. The US approves of fiscal discipline to prevent international inflation though a maximum of economic freedoms in international dealings should be protected. Reflecting these principles, the voluntary restriction program for capital exports will be maintained in spite of the world-wide growing need for capital. The businessman accepts these restraints in order to co-operate in the balancing of the Balance of Payments.
4. The growth of international banking is designed to assist all countries in their raising of funds locally for local benefits including subsidiary growth.
5. The growth of multinational organisations—and that includes European and Asian as well as American—relentlessly continues. They are owned and controlled by nationals of many different countries and inevitably are growing into dominant world producing and marketing factors.
6. The US offers full cooperation for reforms proposed by the International Monetary Fund. An expansion

of drawing rights and/or the creation of new international means of payments is acceptable. However, such super-central bank functions must only be exercised under strict non-inflationary controls for the benefits of all members but without providing development funds. The views of Dr Blessing in this respect are fully shared and will be supported.

7. The US rejects any tampering with set-gold-values of currencies in any form of devaluations or increases in the price of gold. Such manoeuvres could not bring a genuine increase in liquidity nor contribute to the expansion of world trade.

8. The US considers world economic relations as the most important link with the free world and instrument for improval of the political climate throughout the world. Hence, it is determined to assist in the removal of all trade obstacles, directly or indirectly by lowering of tariffs and greater financing assistance. A success of the Kennedy Round would greatly contribute to silence those business voices who ask more hard-headed policies weighing our great bargaining strength in particular against non-cooperative creditor nations.

9. The US hopes that the Federal Republic of Germany as the preponderant nation in the Common Market will exert its due weight toward the growth of international trade, removal of obstacles and financial cooperation for the benefit of the entire world.

## Revised Embargo Policy Towards the USSR

By Gerhard Schildmann, Hamburg

**I**t became recently known that already in spring, 1966, the West German Government asked NATO for lifting the embargo on large pipes. The Federal Government had earlier decided on this embargo in November, 1962 (4th Decree on Changing the List of Embargoed Goods—Supplement to the External Trade Regulations of December 14th, 1962). Above all under the impact of the Berlin crisis and under US pressure the embargo was based more on political and military grounds than on economic considerations. It came into force on the 18th of February, 1963, and forbade the German steel industry to export to countries of the East bloc pipes and pipelines with an outside diameter of more than 19 inches.

Very soon, however, it was seen that the measure which had been controversial from the beginning produced neither the political nor the military results. Rather did it cause grave harm to the German steel industry and mainly affected the good will of the Federal Republic's economy in Eastern Europe. The Soviet Union which at the time had started on building a pipeline from Kujbyshchev to Mosyr (the

so-called "Pipeline of Friendship")<sup>1</sup> accused the Government in Bonn and the firms involved of breaking contracts of delivery which had already been concluded. The ability of enterprises in a national economy to compete internationally depends, it is true, first of all on price and quality of the exported goods and on terms of payment and delivery; but other conditions, such as the image of the producers, are also decisive for giving an order. In a situation where competition in world markets became increasingly fierce and most industrial countries made growing efforts to win new markets or to strengthen the existing market position, the German action was bound to have harmful repercussions mainly on Germany itself.

Besides, the embargo could satisfy the NATO Council's aims only if all Western countries, together with the Federal Republic, abstained from supplying large pipes. This was not the case; competitors in Sweden and Japan took on the supply of 200,000 tons of large

<sup>1</sup> Detailed information about Russian pipeline building see Anneliese Sobek: Enlargement of the pipeline network in the USSR, in WIRTSCHAFTSDIENST, Vol 43 (1963), No. 7, p. 299 ff.

pipes; and the Soviet Union itself built up its own production. The COMECON-pipeline, with its side lines, has meanwhile reached Schwedt a/Oder, the Baltic ports and the Danube river.

And now the NATO Council has, on the recommendation of the Economic Committee of NATO, lifted the embargo as from November 10th, 1966. For this it gave the rather curious reason that under present conditions the measure was no longer necessary; that it was "inopportune". In the light of all that has been said here, however, the embargo could in practice never be "opportune".

Anyhow, the decision to lift the embargo could be a symptom for some rethinking about Western trade with the East, and this all the more since in recent weeks the United States has propagated an expansion of trade exchanges with the Soviet bloc. In the Federal Republic itself the lifting of the embargo has partly been welcomed and partly been received with a feeling of resignation. Such feeling is not justified. Rather

could the Paris decision of November, 1966, be considered to be suitable to begin a new phase in developing trade relations with the East bloc and with the Soviet Union in particular.

What impact of the NATO Council's decision on German trade with the East can be expected? There is certainly no prospect for regaining immediately the good will. Yet, the time of the lifting of the embargo can be regarded as favourable for the Federal Republic since it may have a positive impact on the German-Soviet trade negotiations which have not yet been concluded. But apart from this short-term aspect, the long-term factors should be taken into account since the chances of trade with the East are lying in the future; markets in the Soviet bloc countries are still largely unsaturated. With some initiative on the part of private firms as much as of the Government the markets in the Soviet bloc countries may in the long run become interesting to the German economy—even if at present the East-West trade exchange is, on the economic side, still being limited.

## EDF Favours Resident Construction Firms

By Dr Rolf O. Brenner, Frankfurt/Main

Over the past few years the German construction industry has become increasingly involved in international commerce. Its successes in World Bank projects—which are normally put out to international tender—are proof of its technical efficiency and competitiveness on world markets. In 1965, German construction firms were awarded building contracts by the World Bank worth about DM 190 million. This is about 30% of all foreign contracts concluded last year by German construction firms. However, their share of funds placed for construction purposes by the EEC European Development Fund (EDF) was considerably smaller.

It is interesting that the position of the French construction industry is exactly the opposite. French construction companies are not very successful where World Bank contracts are concerned. But they are extremely successful in their tenders to the European Development Fund. The reason why the French think they make such a bad showing with the World Bank is to be found in the 1965 Annual Report of French construction firms working in ex-colonial African territories (SYMETRA): "There were and are many reasons why French firms do not, in fact, have the same chances of success when tendering to the World Bank as their American, English, German and other competitors. However, in those countries which were previously under French domination, French firms can compensate for such disadvantages by the various advantages which accrue to them because of their traditional residence."

It is precisely these "various advantages" which prejudice to a large extent the chances of German and other European construction firms with the European Development Fund. Such advantages mean that no real competition exists. French construction companies which have been resident for decades in the associated African States know the market through and through and still maintain close personal and working relations with the competent authorities.

Only if he is prepared to make very great and extraordinary sacrifices can an outsider penetrate this system of precise knowledge of circumstances, personalities, tax regulations, legal regulations and, in particular, the interpretation of these.

### German Contribution 34% ...

The first European Development Fund (from 1958 to 1963) was endowed with about \$ 580 million, or about DM 2,300 million. According to the Yaoundé Agreement on associate membership of the EEC for the African States and Madagascar, the second Development Fund has about \$ 800 million—that is DM 3,200 million—to distribute for economic and social projects. These funds will be made available for suitable projects to those developing African countries which were formerly French colonies. These funds are, almost without exception, straight advances. Thus—contrary to most other multi-lateral capital aid organisations—it is the policy of the European Development Fund not to grant credits, but to make gifts.