

Discrimination in Eastern Europe

Text of Address by Acting Chief, American Delegation, Paul Porter, Geneva Conference, Economic Commission for Europe, Delivered May 16, 1949.

It had not been my intention to speak further on this item. We have heard constructive and thoughtful statements from both western and eastern delegations, and although there were certain remarks with which I do not agree, I had preferred to pass them by so that our attention might be focussed on the broad area of agreement. That agreement is important and encouraging. First, all who have spoken agree that it is desirable that there should be a large expansion of east-west trade. Secondly, all favor creating a committee on the development of trade to further that aim. Finally, although some would prefer other language in the terms of reference, the committee has made a good start. I wish that the discussion might have been confined to these constructive purposes. However, the Soviet delegate and some others have dwelt on other matters. Since this is a public body, one of the responsibilities is to see that the public record is not confused. The United States profoundly hopes that it will become possible to end the export restrictions which we have been compelled to establish in the interest of our national security. One condition only is necessary - confidence by the American people and the other free peoples of the world in the peaceful intentions of the Soviet Union. I hope that the Soviet Government, through deeds, will create that confidence.

The charge has been made that the U.S. engages in discriminatory practices in its trade with eastern Europe. In the General Assembly, in the Economic and

Social Council, and elsewhere, representatives of the US have given full and complete answers, but the charges are repeated and the answers ignored. This repetition of charges, with studied failure to note the reply, is not the procedure practiced by one who sincerely wishes to resolve a problem; it is the technique of the propagandist.

A charge of improper or unfair discrimination is in essence a charge of violating rules of conduct which are accepted by the maker of the charge. You cannot call a man to account for breaking a law unless you yourself accept its validity. So a bona fide charge of trade discrimination must be based on an acceptance by the accuser of certain principles.

The principles which lie at the foundation of mutually beneficial economic relations between countries are those enunciated in the Draft Charter for an International Trade Organization, the fruit of much careful effort on the part of countries genuinely interested in the expansion of multilateral, non-discriminatory trade. The principles of the Charter are essentially simple ones. They include, first, the establishment and maintenance of a peaceful world community, and second, a recognition that the various parts of the world differ in resources, climate, skills, and traditions, and therefore have special opportunities to produce certain types of goods. Thus the greatest benefit for all is assured by encouraging each area to develop of its own free will its special potentialities and to exchange its products with other areas on terms of mutually beneficial economic advantage; at the same time, it is to

the interest of all to seek to reduce unnatural and uneconomic trade barriers to a minimum. The ITO Charter recognizes these sound principles, at the same time seeking to codify some of the general rules which should govern international trade relations, and to provide agreed procedures for determining when special circumstances warrant departure from the general rules.

The countries which bring the charge of discrimination have not, under their present government, been conspicuous in contributing to the cooperative effort which has produced these agreed principles. These countries, willingly or unwillingly, form parts of an economic bloc in which these principles are consistently denied or violated, a bloc in which the outstanding characteristic is the domination and autocratic control by one strong power over its weaker neighbors, with little or no regard to their legitimate interests. We are, therefore, justified in concluding that the complaints do not arise out of concern over principles, but for some other reason.

The plain fact is that economic development in eastern Europe is subordinated to political and ideological preoccupations, that trade is distorted for political ends by the imposition of force, by it physical or political, in such a way as to subordinate the legitimate economic interests of weaker areas to the selfish ends of a stronger one and to reduce the living standards of all peoples to those prevailing in the Soviet Union. A summary sketch will show that the countries which complain of discrimination are in truth beset by difficulties. The source of their troubles, however, lies not in the actions of countries outside of eastern Europe, but in the interference by the Soviet Union with the rules of mutually beneficial economic relations.

TRADE RELATIONS

Turning first to trade, we find at once that certain eastern European nations have not been allowed to trade in the pattern obviously most advantageous to them. These nations have described themselves in meetings of this commission as the relatively under-developed economies of Europe. They have requested this Commission's sympathetic interest and assistance in fostering their economic development and have accused the United States of retarding their development. In reply, we would suggest a glance at the pattern of eastern European trade to observe how and by what nation the rate of eastern European economic development is being retarded. During the current trade year, according to available data, eastern European countries will exchange with each other an estimated \$2.1 billion in goods as compared with \$1.6 billion during the previous year and as compared with something less than \$2 billion, or the predominant share of the \$2.1 billion total, represents the Soviet Union's imports from exports to other countries of eastern Europe. Naturally, it cannot be expected that any large percentage of the total goods to be exchanged within eastern Europe will be machinery and equipment of the type necessary for economic development. As a matter of fact, it is only about 10 percent of the total; and more than a quarter of this limited amount consists of machinery and equipment destined for import into the USSR from the other countries of eastern Europe. The Soviet Union does furnish some industrial equipment to the other countries, but we hear many complaints--softly spoken--about late deliveries, poor quality, and antiquated technical standards. Most of the Soviet exports to these countries

are fuels, raw materials, and foodstuffs--useful in many ways, certainly, but not the sort of commodities which really promote economic development in underdeveloped areas. And in many cases these raw materials are furnished only so that the smaller countries may process them into finished goods for re-export to the USSR, often as reparations.

Is this the logical trade pattern to promote eastern European economic development? If not tied up in politically-conceived bilateral trade relationships in eastern Europe, could not more advantageous markets be found for much of the coal, petroleum, timber, grain and potash scheduled for export from the smaller nations of eastern Europe? Of course, they could. Left to establish trade relations of greatest advantage to them, eastern European countries would not trade scarce and important raw materials with countries substantially similar economies. The word for exchange under these conditions is not "trade" at all but simply exploitation and this is not the type of activity that will most rapidly foster economic development. Particularly at this time, the smaller countries of eastern Europe, left to pursue their own and not the Soviet Union's advantage, would find their terms of trade with other parts of the world especially favorable. The foodstuffs and raw materials eastern Europe exports have been in short supply on world markets and their prices have advanced, in comparison with pre-war, relatively more than have prices of the manufactured goods eastern Europe normally would import. Thus, perhaps as much as a billion dollars of what is now traded among eastern European nations could be directed to other parts of the world. In exchange, eastern Europe could receive the typical exports of more industrialized countries, goods that would be of genuine value in economic development.

Both trade and economic development of eastern European nations along the lines of most benefit to them obviously would not serve the present purposes of the Soviet Union and its apparent political and economic objectives in Eastern Europe, which seem to involve the impoverishment of the smaller countries. The volume of USSR trade with other eastern European countries has been increasing since the end of World War II. Offering little in the way of goods needed for development, the USSR is nevertheless a large taker of eastern Europe's most important commodities, consuming 8 million tons of eastern Europe's coal, one million tons of petroleum, over 500,000 cubic meters of timber, more than 1/3 the aluminum, 60% of the lead, and so on down the list. The USSR thus not only absorbs an abnormal share of the saleable commodities of eastern Europe, but it also seeks to create a pattern of economic dependence of these countries upon the Soviet Union. It also tends to minimize trade relations between the smaller countries, so that it can hold in its hand all the major channels of trade. The usefulness of this pattern in achieving political ends is so obvious that it requires no further comment.

This artificially expanded network of eastern European trade has, for the USSR, numerous other uses. There is, for example, a very interesting movement of petroleum, timber, aluminum, lead, newsprint, and iron and steel, which the USSR imports in larger quantities and exports in smaller quantities in its trade with other countries of eastern Europe. According to available

reports, the USSR reaps a price advantage on its middlemen dealings in, for example, coal. A similar middleman profit is reputedly obtained by the USSR by the purchase of cotton on world markets for resale at a higher price under one of its eastern European trade agreements. Frequently, it is reported, the USSR supplies low grade cotton, rancid butter, inferior gasoline, in return for the most important goods eastern Europe has available for export. Such practices, profiting the strong at the expense of the weak, indicate something nearer to Seventeenth Century colonial relations than to the "economic cooperation and assistance", which the Soviet Union describes as characteristic of economic relations among the countries of eastern Europe.

INVESTMENT RELATIONS

Even more revealing of the true character of economic relations among countries of eastern Europe are the discriminatory practices and special privileges set forth in the joint-company agreements between the Soviet Union and certain countries of eastern Europe. Available data illustrate in clear-cut form how the strong partner, the USSR, manages through these arrangements to obtain treatment better than that extended to national enterprises, and vastly more favorable than that given to the next most-favored-foreign nation.

As an example of a country in bondage to Soviet imperialism, let us look at Hungary. In Annex I of the December 1947 economic collaboration agreement between Hungary and the USSR, the joint Soviet-Hungarian companies, Soviet enterprises, and other enterprises with less than 50% Soviet participation, are authorized to conclude contracts for the processing of raw materials imported from the USSR. Most of the finished products can then be

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exported to the USSR or other countries, entirely according to Soviet plans and without control by the Hungarian Government. Thus, Hungarian workers and capital can be utilized purely for Soviet purposes and in accordance with Soviet desires.

In Annex II of the same agreement, the Soviet Union is given the right to take out of Hungary all profits and dividends due it as a result of its participation to the extent of 50% or more in enterprises located in Hungary. The fact that profits of Soviet corporations may be transferred out of Hungary is not as noteworthy as the fact that they are to be transferred in advance of actual earnings and that in certain cases the Hungarian Government has guaranteed that the corporation will make a profit. "Profits and Dividends" are terms borrowed, of course, from other economic systems that prevail outside of eastern Europe. In the western world, however, profits are the payment of capital investment and for the attendant risk of depletion or loss of this capital. By their very nature, profits are the residual of a business venture and cannot be determined in advance. It is clear, therefore, that the transferable earnings of Soviet corporations in Hungary are not, in fact, "profits", but another form of "tribute" that is currently being exacted from the people of Hungary by the Government of the USSR.

The supra-national privileges granted Soviet joint companies illustrate again that it is Soviet exploitation and not "democratic cooperation" that prevails in eastern Europe. In Hungary, however, national regulations are allowed to affect the operations of corporations in which the Soviet Union

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has a financial interest. To insure that joint companies shall be properly understood and conducted as operations by and for the Soviet share of the partnership, the so-called "joint" companies are permitted to import all necessary materials and fuel without the requirement of a government import license and the National Bank is then obliged to lend them the necessary foreign exchange. The joint companies also may conclude export-import compensation agreements without the supervision or consent of the local government. Thus, the joint bauxite-aluminum company, controlling over 90% of Hungary's important bauxite resources and itself controlled by the Soviet Union, has the final decision as to who shall export bauxite from the country. In order to complete the pattern of special privilege, the joint companies, as might be expected, are exempt from all the property and income taxes that are required of other Hungarian companies. The Soviet delegate this morning said his government favored the principles of equality between trading partners. It would be interesting if he would tell us what privileges Hungary enjoys within the Soviet Union which are equal to the privileges which the Soviet Union enjoys in Hungary.

These joint companies control a very substantial segment of the total natural and capital resources in bauxite, aluminum, timber, petroleum, textile, manufacturing plant, and transportation facilities in the countries in which they operate. Soviet insistence that joint-company operations result in immediate benefits in goods and profits for the USSR prevents their contributing in any significant degree to the present or future development

of the local economy. These countries hence must manage their resources for the benefit of the Soviet Union, rather than for their own economic development and future welfare.

Soviet penetration and control over the economies of Hungary and Rumania are not by any means limited to a pre-emptive utilization of present resources. The Soviet-Hungarian bauxite and aluminum company, for example, occupies a preferential position, in relation to all Hungarian and foreign interests, with respect to exploration for bauxite deposits. Annex III of the 1947 agreement states that "all requests to the Minister for Industry by other companies and enterprises asking for the right to explore for bauxite deposits must be reported to the joint Soviet-Hungarian Bauxite and Aluminum Company within 15 days in order that it may determine whether it desires the right to explore for bauxite on the territory designated by the applicant". Similar exclusive privileges exist for joint Soviet petroleum companies in these two countries.

Capitalists of the western world, so often accused of exploitation and imperialism, could never expect under any circumstances to arrive at so profitable a system of foreign investment as the Soviet Union has achieved through the use of these companies. Without expenditure of its own capital, without risk, and without any opposition, the Soviet Union achieves a long-term control over essential resources, and a guaranteed "profit" from their exploitation.

TRANSPORTATION POLICY.

Turning next to transportation problems, we find yet another instance of discrimination in eastern Europe. At the 1948 Danube Conference, a Soviet-dictated so-called Danube convention was rejected by the United States, Great Britain, and France, as a backward step in the conduct of international relations affecting transport, and as an outright betrayal of the basic interests of the Danube peoples. In drafting its convention, the Soviet Union aimed at the establishment of special Soviet interests on the Danube, to the direct disadvantage of riparian states. The United States was not and will not be a party to that betrayal.

Although the initial clauses of the convention give limited recognition to "freedom of navigation" and "non-discriminatory treatment", the convention fails completely to give specific implementation to these concepts. In reality, international control of Danube shipping and the prewar free movement of goods over this important waterway, a traffic that was of benefit to all European nations, are now to be abandoned. Control of Danube waters within the boundaries of each of the riparian states now reverts to national control and national control that is in the hands of joint companies operating, as we have seen, for the Soviet half and not for the riparian states' half of the bargain. Thus, under the Soviet convention, use of port facilities can be arranged only by agreement with transport agencies. In important Danube countries such as Hungary and Rumania, these are companies with 50% Soviet ownership, with Soviet General Managers, and, in fact, under almost 100% Soviet control. In the same way as the other Soviet joint companies, the transport

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companies occupy a privileged and usually monopolistic position.

Thus, the USSR, by its political hegemony over a majority of riparian states, has captured for its own use and for its own ends this highly important channel of intra-European trade. This can put an end to the Danube's usefulness as a channel of east-west trade, and it provides another example of how, by whom, and for whom discrimination is practiced in Europe today.

I have said the charge of discrimination essentially means that the accuser accepts agreed principles, and that the purpose of bringing the charge is to solve the problem. I have indicated the discriminatory nature of Soviet economic relations with smaller countries in eastern Europe. Why do these countries not speak up in their own behalf in forums such as this? Why do they not seek out the real cause of their economic troubles, and why do they talk about principles which do not seem to be at home in the eastern European atmosphere? It is only human to complain and to discuss one's grievances, but the only complaints we hear from the smaller Eastern countries are those directed to the wrong address.

In conclusion, I should like to express the hope which I think inspires all peace-loving peoples everywhere--that the commerce of Europe and of the world should be conducted with a minimum of restrictions, and for the greatest mutual benefit of purchasers and seller. Europe is entitled to expect that such peaceful trade will result in better levels of living and in the improvement of human welfare. If we work patiently and cooperatively, according to the principles of the UN Charter, we may hope to reach the point at which all nations abide by such universally accepted rules as those of the charter for

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an ITO. In that future day—which is really within our reach—we may
confidently expect that the evils of discrimination, special privilege,
and colonial exploitation will no longer hamper the free and cooperative
economic development of sovereign peoples.

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5/4/49