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POSSIBLE ECONOMIC COUNTERMEASURES TO BE TAKEN
IN THE FACE OF THE BERLIN CRISIS

Report by the Working Group on Economic Countermeasures

This report is provided in response to the Council's instruction of 23rd August, 1961(1) to the Committees of Political and Economic Advisers to submit conclusions of a Working Group on possible economic countermeasures to be taken in the face of the Berlin crisis.

2. By agreement, delegations limited their comments:

- (a) to their governments' legal and administrative capability to implement the measures described in Annex A to the Recommendations on Economic Countermeasures adopted at the meeting of the Foreign Ministers of the 4-Powers on 6th August, 1961, and
- (b) to the impact of these economic countermeasures on the economies of member countries and on the means by which adverse effects on certain of these countries could be averted or mitigated.

3. Part I of the report reflects the answers of delegations to a questionnaire on legal and administrative measures submitted to them by the Secretariat(2). In this context the Working Group has attempted as far as is possible to determine the actual legal and administrative powers held by member governments which would enable them to impose a total embargo. The decision to confine consideration to the maximum case, namely a total embargo, was taken on the ground that the lesser problems of partial measures were involved in the greater ones of a total embargo. It was understood that this scheme of work did not imply that member governments would in all circumstances be prepared to take any or all of the economic countermeasures envisaged. Decisions upon the expediency of such measures and upon their timing or tactical

(1) Addendum to G-R(61)39, Item I

(2) AC/202-D/1

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application were essentially political in nature. For these reasons Part I of the report is confined to an exposé of the legal and administrative ability of member countries to take economic countermeasures amounting to a total embargo against the Soviet bloc.

4. In addition paragraphs 12 to 15 of Part I mention briefly the problems of international law involved. The Working Group, however, did not consider it advisable to attempt an authoritative statement of the legal position or to set out in detail the legal arguments which might be invoked to justify the imposition of economic countermeasures: nor indeed did they consider themselves competent to do so.

5. Part II of the report reflects the answers of delegations to a questionnaire on the impact of a total embargo upon the economies of the NATO countries themselves(1). In this section the same considerations as are mentioned in paragraph 3 above apply. It has also been assumed that in the first stage, at least, the embargo would apply only to the Soviet Union and its European satellites.

6. Although some countries took the view that the announcement of a decision to apply economic countermeasures might act as a deterrent to the Soviet bloc, it has been emphasised by others that to prevent adverse effects on the international currency situation any publicity about discussion in NATO upon economic countermeasures should be strictly avoided(2).

7. The Working Group did not give detailed consideration to the effect of a total embargo upon the economies of the Soviet bloc, but the United States, United Kingdom and German Delegations (3) submitted their assessments of this question. The Group felt that, while it was difficult to make any accurate forecast, an embargo was unlikely to have a major impact on the Soviet bloc economy as a whole, although in the short run it would seriously affect some European satellites, and might delay the development of some key industrial sectors in the USSR. On the other hand, they also recognised that the actual consequences of a total embargo upon the economies of the Soviet bloc, and even its impact upon the economies of member countries were of secondary significance since any decision to take such a measure would be essentially a political action which should be determined in the light of its political and psychological effects rather than of its economic repercussions.

8. At the same time the report shows that three member countries - Iceland, Greece and Turkey - would be seriously

(1) AC/202-D/2
(2) AC/202-WP/2 and WP/6
(3) AC/202-WP/1, WP/1/1 and WP/1/2 respectively

affected by an embargo. In their view some kind of external assistance would be necessary in order to help them through their difficulties. Some preliminary suggestions have been made with a view to dealing with these difficulties but further studies might be necessary. Other countries than the three mentioned above would be affected by the embargo to varying degrees. For some of them, given their current economic difficulties, particularly in regard to their balance of payments and their international monetary responsibilities, the implications would be serious. Some form, not necessarily of assistance, but of international co-operation, might help to avoid such undesirable economic repercussions.

9. The Working Group assumed for the purpose of its study that any imposition of an embargo would be a short term operation. For these reasons it did not attempt to examine in any detail the problems which would be posed by Soviet bloc attempts to avoid the effects of an embargo by trading through neutral countries or diverting trade to the latter. The Working Group considered that any significant evasion would occur only if the embargo was to last a considerable length of time. On the other hand, it was recognised that if circumstances resulted in continuation of the embargo for a substantial period, problems of considerable magnitude would arise and these would need further detailed study.

10. Similarly, the Working Group did not feel itself competent to examine the possible effects of an embargo on the neutral countries themselves. In addition, this question was considered one to which it was not necessary to give a high priority in view of the nature of the exercise contemplated.

11. The Working Group recommends that the Council:

- (1) take note of this report;
- (2) determine what further follow-up action should be taken upon it.

(Signed) R.W.J. HOOPER
A. VINCENT

Joint Chairmen of the
Working Group

OTAN/NATO,
Paris, XVIc.

PART ILEGAL AND ADMINISTRATIVE ABILITY OF MEMBER COUNTRIES
TO TAKE ECONOMIC COUNTERMEASURES AMOUNTING TO TOTAL
ECONOMIC EMBARGO AGAINST THE SOVIET BLOC

1. The Working Group on Economic Countermeasures to be taken in the face of the Berlin crisis had requested delegations to comment on their governments' legal and administrative ability to impose a total economic embargo against the Soviet bloc.
 2. All delegations, except the Portuguese Delegation,⁽¹⁾ have submitted papers, a list of which is attached at Annex I.
 3. Without prejudice to the expediency of the various countermeasures to be taken for the imposition of a total embargo as envisaged in Annex A of the Recommendations on Economic Countermeasures adopted at the meeting of the Foreign Ministers of the Four Powers on 6th August, 1961 (referred to in this report as "Recommendations" and attached at Annex II), the United States, Danish, Netherlands, Belgian, French, Turkish,⁽²⁾ Luxembourg and Icelandic Delegations (referred to as the "Eight" in the general outline of the answers attached at Annex III) have indicated that their Governments are in a position to apply the appropriate measures.
 4. The Norwegian Delegation added that such measures could only be taken on Norway's entry into a war, or when the Norwegian Government considers that there is a threat of war, or that the independence and security of the country are in danger. In time of peace only the measures proposed by the "Recommendations" under (a), (b), (e), (f) and (h) (after ratification of a new law) could be taken, and these only under certain fixed conditions.
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- (1) The Portuguese Delegation had not yet received instructions and was not in a position to indicate by what date an answer would be provided.
 - (2) Administrative measures of a far-reaching character involving interruption of trade with the Soviet bloc by denial of import and export licenses might have to be brought to the knowledge of the legislature. However, should the occasion arise, the Turkish Government may denounce commercial treaties with the Soviet bloc by executive action. Such action should afterwards be submitted to the ratification of the legislature.

5. The German, Greek, Italian, United Kingdom and Canadian Governments were in a position to take some, but not all, of the measures suggested in the "Recommendations".

6. Germany could without delay take the measures listed under (a), (d), (e), and (f). Difficulties exist as far as measures under (b), (c), (g), (h) and (i) are concerned. The Federal Government is therefore preparing legislation to provide a more comprehensive legal basis in the matter.

7. Greece has, in a provisional answer, stated that according to existing legislation the Government would be in a position to discontinue imports and exports with countries to which she is bound neither by bilateral nor by multilateral agreements. In cases where agreements exist, (such agreements have been concluded with all the Soviet bloc countries except Albania), interruption of economic relations could, in the view of the Greek Government, take place only in accordance with the provisions of these agreements.

The Greek Government consider that an interruption of contractual arrangements in a way incompatible with the terms of the agreements would be possible to them only if it were undertaken in conformity with a resolution reached in accordance with the charter of the United Nations.

8. Italy envisages a complete embargo only as a reply to a total blockade of Berlin.

9. As far as the present legal possibilities are concerned, Italy would be in a position to adopt the measures indicated in the "Recommendations" under (a) (only as far as state credit guarantees are concerned), (b), (d), (e) and (f). To take measures listed under (a), (i.e. as far as private credits are concerned), (c), (g), (h) and (i), new legislation would be required.

10. The United Kingdom would be in a position to implement (h) by action under existing legislation. There are no laws in force in the United Kingdom which could provide for the implementation of any counter-measures affecting shipping. Some trade measures (e.g. (f)) could be introduced by administrative action only, but other trade measures (e.g. (e)) and finance measures such as (a) and (c) would require orders under existing legislation to bring them into effect. United Kingdom action to implement measures such as (a) and (c) could not be fully effective without worldwide control.

11. Canada, in a provisional reply, stated that under the legislative and administrative regulations at present in force, the Government is not in a position to take all steps necessary to impose a total embargo. In theory, the Canadian Government could possibly acquire the necessary powers through proclaiming legislation known as the War Measures Act. For that action, however, there is no peacetime precedent.

12. Almost all delegations emphasised that the imposition of a total embargo would affect contractual ties both bilaterally and multilaterally existing under international law between them and the Soviet bloc countries. With the exception of the United States and Portugal, all member countries have concluded commercial agreements with some or all Soviet bloc countries.

13. While some countries stated that non-compliance with these obligations, bilateral or multilateral, (e.g. the ICAO, IATA and Montreux agreements) would involve legal difficulties,⁽¹⁾ some delegations maintain, and have submitted arguments to support their view, that the decision to take economic countermeasures such as a total embargo would be justified in international law. The Belgian Delegation drew attention to Article 41 of the Charter of the United Nations, and suggested that arguments should be worked out to show that by taking measures to impose a total embargo the member countries are not infringing upon the prerogatives of the security council.

14. In the context of justification of economic countermeasures under international law, mention was also made of the generally acknowledged right of retaliation, the right of reprisal against international delinquency, the right of self-defence, and the possible "casus foederis" under Articles 5 and 6 of the North Atlantic Treaty in the light of the Council's resolution of 23rd October, 1954, and of other principles of international law which could justify the measures to be taken. The Committee's attention was drawn, in this context, to the problems of interpretation in Articles 5 and 6 of the North Atlantic Treaty as far as the definition of an "armed attack" was concerned.

(1) The Turkish Delegation has, in fact, stated that non-compliance with obligations arising out of the Montreux Convention is to be considered as a measure of last resort.

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15. The Committee also took note of the exposés submitted by the German Delegation on 6th September (AC/202-WP/4) and by the United States and United Kingdom Delegations on 18th September (AC/202-WP/8 and AC/202-WP/7 respectively) dealing with the principles in international law permitting the imposition of the economic measures envisaged.

16. The Belgian Representative also suggested that consideration should be given to the problem of the position of NATO diplomatic representatives in Soviet bloc countries when and if a total embargo is imposed.

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PART IITHE IMPACT OF A TOTAL EMBARGO ON NATO COUNTRIES' ECONOMIES

1. In this part the replies⁽¹⁾ received from member countries to Questionnaire AC/202-D/2 and statements made by some delegations in the Working Group have been summarised under the following headings:

- I. Assessment of the overall impact of a total embargo on the economy of each NATO country.
- II. General implications and implications by main economic sectors.
- III. Proposed remedies to alleviate the adverse consequences of an embargo on NATO countries.

I. ASSESSMENT OF THE OVERALL IMPACT OF A TOTAL EMBARGO ON THE ECONOMY OF EACH NATO COUNTRY

2. To assess the general impact of a possible embargo on the economy of NATO countries many factors would have to be taken into consideration. The questionnaire has been limited to the share of East/West trade in the total trade of member countries, the share of exports to the Soviet bloc in relation to their GNP, the standard of living of the population and the situation of the balance of payments. The following table shows on these various points the situation in 1960.

	GNP (f.c) per head in \$ (a)	Export.to Soviet bloc as a % of total exports.	Import. from So- viet bloc as a % of total imports	Export.to Soviet bloc as a % of GNP	Gold and for- eign exchange holdings as number of months of im- ports of goods (b)
Belgium/ Luxembourg	1.243	2.6	2.0	0.8	4.5
Canada	1.773	0.7	0.2	0.1	4.2

- (a) Comparisons of GNP per head, based on official rates of exchange, cannot give more than a rough idea of the relative position of various countries since the purchasing power of money varies in different countries.
- (b) Gold and foreign exchange holdings at the end of June 1961 compared with monthly average of imports of goods for the year 1960.

(1) See list at Annex IV.

	GNP (f.c) per head in \$ (a)	Export.to Soviet bloc as a % of total exports	Import. from So- viet bloc as a % of total imports	Export.to Soviet bloc as a % of GNP	Gold and for- eign exchange holdings as number of months of im- ports of goods (b)
Denmark	1.147	4.0	4.4	1.0	1.6
France	1.069	3.2	2.5	0.45	5.3
Federal Rep. Germany (e)	1.082	4.7(e)	4.7(e)	0.9(e)	11.6(e)
Greece	325	22.1	7.9(c)	1.6	3.5
Italy (f)	566	5.8	5.6	0.8	7.8
Iceland	960(d)	24.0	23.0	9.4	3
Netherlands	884	1.6	2.1	0.6	4.5
Norway	1.104	4.4	3.2	1	2.2
Portugal	229	2.2	1.4	0.3	15.6
Turkey	182	12.2	9.1	0.8	5.7
United Kingdom	1.189	2.6	3.1	0.4	2.6
United States	2.555	1.0	0.5	0.04	14.4

(c) This figure is 12% if transfers of ships to the Greek flag are excluded.

(d) Estimate by the International Secretariat.

(e) Trade between the Federal Republic of Germany and the Soviet-occupied zone of Germany is considered intra-German trade. The figures do not, therefore, include interzonal trade. If the latter is included, the figures amount to:
1.082 - 6.6 - 7.1 - 1.37 - 11.6

(f) In her reply, Italy has indicated that exports and imports to the bloc represent 6.2% if the total of Communist China is included in the Soviet bloc.

3. From this table, which can only give a very rough indication, it appears that the effects on the economy of member countries of an embargo would vary widely. It may be convenient, although this is somewhat arbitrary, to divide NATO countries into three main groups according to the extent to which they would be affected.

(1) NATO countries which would suffer most from an embargo

4. There is no doubt that the most far-reaching repercussions would be on Iceland, Greece and Turkey.

Iceland

5. The value of Icelandic trade (exports and imports) with the Soviet bloc has in recent years been about $\frac{1}{3}$ of the total. Last year this proportion dropped to about $\frac{1}{4}$ and this year another decrease is expected but it is difficult to estimate its magnitude.

6. Icelandic exports to the Soviet bloc are limited to a very small number of fishery products, in fact only two groups of products, for which Icelandic exporters have not found a ready market in the free world in spite of considerable efforts on their part during the last few years. The Soviet bloc countries have been buying in recent years about 60% of the total exports of frozen fish fillets and from $\frac{1}{3}$ to $\frac{1}{2}$ of the total exports of salted herring. International trade in fishery products is still hampered by severe import restrictions and high customs tariffs, in spite of the OEEC liberalisation drive in the fisheries trade, originally launched by Iceland with NATO assistance.

7. Icelandic imports from the Soviet bloc countries are of the most varied nature: numerous items and small quantities. The biggest items are diesel and gas oil, gasoline, coal and lumber. All these imported commodities can be fairly easily replaced from sources in the free world. However, obvious balance of payments difficulties would follow.

8. The continuous inflation in Iceland during the past decade has been reflected in large external deficits resulting in the depletion of foreign exchange reserves. The situation has improved somewhat with the introduction of a stabilisation programme in the spring of last year, but the Government is still seeking extended assistance from the EMA and the IMF.

9. The imposition of a total embargo would undoubtedly result in a permanent rupture of Icelandic trade relations with the Soviet bloc countries even if the embargo itself were to be lifted by NATO at an early date. The magnitude of the problem for Iceland would be such that special assistance over a period of years would be needed to ensure the export of her products in the required quantities to the free world.

Greece

10. The overall figure of about 22% of total Greek exports directed to the bloc in 1960 hides considerably higher percentage if the commodity composition of this trade is considered:

Cotton - spun	:	91.74%
Citrus fruits	:	66.90%
Bauxite	:	47.74%
Edible olives	:	43.86%
Dried raisins	:	40.91%
Cotton fibres	:	39.20%
Leather	:	33.81%
Tobacco	:	21.88%

Greek authorities would have expected further increases of trade with the Eastern bloc in coming years.

11. The above figures show the very considerable difficulties which would have to be overcome if this trade were to be redirected towards the West. For some of them, no alternative markets might be found while others would probably need heavy Government export subsidies, thus imposing a heavy burden on the budget. In free world countries import duties for most of these products are generally extremely low, or even non-existent, so that tariff reductions could not solve the problem. Greek tobacco cannot find outlets in the West unless formal action is taken by the other NATO governments, and most of the agricultural products cannot be stockpiled without losing part or all of their value.

12. The cancellation of orders for industrial equipment placed with the bloc countries would result in an immediate slowing down of Greece's economic development. Greece imports from the Soviet bloc substantial quantities of timber, oil products, crude oil, equipment and spare parts, sugar, solid fuel, livestock and meat. These products might be obtained from the free world, but they would have to be paid for in foreign currency, while they can be exchanged against Greek products when they are imported from the Soviet bloc. The additional burden on the Greek balance of payments would come in addition to the probable loss of indemnity and war reparation from Soviet countries already agreed as well as those still hoped for, and to the probable loss of the outstanding debts to be paid by the bloc. (The Greek balance of payments is reportedly showing a current credit of over \$8.2 million with the bloc.)

13. It should also be noted that one-third of the total tonnage capacity of the Greek merchant fleet is employed in transport towards the Soviet bloc countries (transport earnings provide Greece with about 16% of her total current receipts from abroad).

14. The social consequences of an embargo should not be overlooked in a country where the standard of living is still fairly low and where 60% of the total population is engaged in

agriculture. The reduction of total agricultural exports by one-quarter would directly affect a large proportion of the population and there would be even greater, indirect repercussions. At its present stage of development, the Greek economy would not be in a position to find easily alternative employment for those who would have to discontinue their activities.

Turkey

15. Turkish world exports have decreased by 9% in 1960 as compared to previous years, due primarily to a serious overall decrease in those of tobacco, which constitute the main Turkish export commodity. The nature of the Turkish products and the impossibility of finding outlets to absorb the whole of the exportable commodities in the free world markets compelled Turkey to sell 12% of her total exports to the Soviet bloc countries in 1960.

16. It would be very hard to find alternative outlets in the Western world markets, since Turkey's export commodities to the bloc are all "liberated" within the OEEC. The stockpiling of the Turkish tobacco quota allotted to the Soviet bloc (18,000 tons) would cost approximately \$3 million (TL 27 million). Other sea and forestry products would have to be left to perish.

17. Imports from the bloc represented 9% of total imports in 1960. Alternative sources of supply for construction equipment, raw materials and consumer goods could probably be found in the Western markets, but the interruption of deliveries of capital goods would create difficulties in the completion of projects already undertaken with equipment imported from the Soviet bloc. In both cases, the diversion of imports would be complicated by the scarcity of foreign exchange. The balance of payments registered a deficit of \$72 million for the first half of 1961. Hard currency reserves are at a very low level (\$48 million in September, 1961). Gold reserves amount to 123.8 tons, of which 89.2 tons are already pledged.

18. Until recently the economy has suffered from the destructive effects of a prolonged period of inflation. Stringent stabilising measures were taken from the second half of 1960. The immediate result was a drop in production and income below their already inadequate level, but recent economic indicators show that the economy is moving towards recovery. Under these conditions, the loss of 12-13% of export earnings would aggravate the balance of payments disequilibrium, and would have a grave deflationary effect on an economy which has just started to pick up. Such a consequence would also reduce the low income level of a large mass of producers and workers and aggravate the under-employment that affects Turkish economy, which, in turn, could produce unfavourable social repercussions.

(2) NATO countries where the impact of an embargo would be significant

19. Most NATO European countries belong to this category.

Federal Republic of Germany

20. The German Representative stated that a total embargo against the Soviet bloc would lead to not inconsiderable losses to German exports. This applies particularly to the products of certain industries, such as chemicals, machinery and certain rolled products. However, the Federal Government is of the opinion that in view of the possible political need for an embargo such export losses would have to be borne by the Federal Republic. Exports to the bloc represent 4.7% (1) of total exports of the Federal Republic.

Italy

21. Trade with the Soviet bloc countries represents about 6% of the total Italian trade. It is important, both in regard to the industrialisation of the country and the employment of the labour force, especially at a moment when the rate of expansion of exports tends to fall. In industry, the branches of textiles, iron and steel products, chemical and oil products would be seriously affected, while in the sector of transports, Trieste would definitely lose its first rank to Fiume for the trade in the Adriatic. Goods exported to the USSR could hardly be sold in other member countries whose products are already in competition with Italian exports in their trade with the bloc.

22. Italy possesses sufficient gold and exchange reserves to cushion in the short-run the effect of an embargo on her balance of payments. However, to appreciate the damage the Italian economy would undergo from an embargo on the Soviet bloc, account must be taken of the fact that the standard of living is still far below that of the most advanced European countries.

Norway

23. Although, on the whole, an embargo would hardly touch the general standard of living of the population, it would significantly affect certain industrial sectors and the marketing of some export commodities such as fish and fish products, oil and fats, pyrites. It would also substantially reduce shipping earnings (shipping earnings provide Norway with about one third of her total current receipts from abroad). The embargo would aggravate the very unfavourable trend in the Norwegian balance of payments situation which, as estimated in the national budget for 1961, would show a deficit on current account of about N.Kr.1,275 million, as compared to a deficit of N.Kr.790 million in 1960.

(1) If interzonal trade is included, this figure amounts to 6.6%.

Denmark

24. The overall impact on the Danish economy might be of limited importance but certain sectors of industrial production, notably shipyards and the engineering industry, would be considerably affected, fishing and some agricultural products would encounter marketing difficulties. Freight earnings from shipping services and receipts from Soviet bloc ships calling at Danish ports would also be lost. Imports could probably be replaced fairly easily by supplies from other sources.

25. In the short run, Denmark would probably not find it necessary to ask for financial assistance from international organizations, but an embargo may accentuate the problem of gaining further outlets for agricultural products in Western Europe and the United States.

France

26. The finding of other sources of supply for imports from the bloc would not present any major difficulty; but prices would increase appreciably. The stopping of exports might affect seriously some specialised industries and would result in heavy losses for the Compagnie Française de L'Assurance-Crédit.

United Kingdom

27. The imposition of a total economic embargo would affect the United Kingdom's balance of payments in three main ways:

(i) The United Kingdom would lose direct receipts from the bloc of over £100 million per annum, and it would take at best some time to replace these earnings by the diversion of exports and services (especially shipping) to other countries. Imports to be obtained from sources other than the bloc would probably be paid for at higher prices, while there would not be immediately-compensating exports. The United Kingdom position has to be seen in relation to the sterling area as a whole. Other countries in the area, even without participating in the embargo, would see their trade with the Soviet bloc reduced and this would adversely affect their net earnings of gold and foreign exchange, which amounted currently to about £80 million per annum (it is estimated that the Soviet bloc have sold gold on the London market to the value of about £60 million in the first eight months of 1961). The imposition of an embargo, in addition to the effects on trade, would result in a Soviet bloc default on its debt against which there is little or no security.

(ii) A threat of imminent war would very probably lead to an increase in world prices, and this would be aggravated by an embargo. Such a rise might have substantial adverse effects on the United Kingdom terms of trade and balance of payments.

(iii) The freezing of assets of the bloc and the denial of financial facilities would accentuate any flight from sterling caused by the deterioration of the international situation, and thus imperil the sterling position as a world currency.

28. The direct effect of a trade embargo on the United Kingdom internal economy would be small in itself, but in view of the dependence on overseas trade, in the present conditions of serious imbalance, the various implications would add substantially to the very grave stress on the United Kingdom economy, and would involve immediate and lasting damage to sterling.

Belgium (UEBL)

29. The relatively small share of trade with the Soviet bloc in Belgium's and Luxembourg's total trade is to be considered in the light of the general structure of their respective economies, heavily depending on foreign trade for their levels of employment and living standards. About 40% of the national production of Belgium, and about 83% of the national production of Luxembourg are exported; hence the relatively high percentage of exports to the Soviet bloc countries in relation to their GNP. Some sectors may be particularly hit, since no alternative outlet would be easily found. Although the interruption of trade with the East would probably present no major difficulty for the balance of payments, the overall impact of a total embargo would be serious at a moment when Belgium is re-orientating its trade after the slackening off of economic relations with the Congo (it had been estimated that the rupture of trade relations with the Congo has resulted in the direct loss of 20,000 jobs in Belgium, and the order of magnitude of trade with the Congo was comparable to that of trade with the Soviet bloc).

30. The general consequences may be a reduction in the prices of manufactured goods, as there would be an increased competition between NATO countries for securing new outlets, while on the other hand the re-orientation of imports of raw materials towards countries of the free world may result in an increase of the prices of the supplies required by the industries of Belgium and Luxembourg.

Netherlands

31. The Netherlands Representative stated that the impact of an embargo would probably be absorbed without major unfavourable consequences for the economy as a whole. However, some sectors, for instance services, were bound to suffer losses.

(3) NATO countries where the impact would be slight

32. The North American countries whose trade with the bloc represents less than 1% of their total trade may be placed under this heading.

Canada

33. The general impact of an embargo on the Canadian economy and on the Canadian balance of payments would be small. However, some particularly sensitive sectors of the economy would be seriously affected. Exports to the bloc are in fact significantly greater than the statistics indicate because of shipments via third countries, and external trade plays a more important rôle in the economy of Canada than in the United States.

United States

34. The United States Delegation did not consider it necessary to reply in detail to the questionnaire, since the impact of a general embargo would have only marginal effects on the United States economy. A major reason for this position is that the United States has for strategic-political reasons already restricted its exports to the Soviet Bloc to a very considerable extent. For instance, the United States does not grant export licenses for oil and gas pipe, and is holding up an export license for the delivery to the USSR of over \$40 million worth of automotive parts. These United States actions have been taken in spite of the fact that the United States industries affected are working at about one half of their capacity.

II. GENERAL IMPLICATIONS AND IMPLICATIONS BY MAIN ECONOMIC SECTORS

35. The United Kingdom's reply drew attention to a possible long-term effect of a total embargo. Such a measure might lead to increased self-sufficiency within the Soviet bloc. Some countries e.g. Iceland, Greece and Turkey have noted that the imposition of a total embargo, even of short duration, would probably result in a prolonged rupture of trade relations with the Soviet bloc countries.

36. It is the view of a number of countries (United Kingdom, France, Italy, Belgium, Greece, Turkey) that the replacement of the Soviet sources of supplies would be bound to cause increases in the price of goods to be imported. At the same time, increased competition between the NATO countries may result in a reduction of the prices of the goods formerly exported to the Soviet bloc countries and for which an alternative market in the free world countries may prove difficult to find (Denmark, Italy, Belgium).

37. In the following paragraphs are summarised the main points of the replies on the implications of an embargo resulting from:

(a) the interruption of exports:

- (i) food and agricultural products;
- (ii) chemicals and raw materials;
- (iii) manufactured goods and machinery;
- (iv) services, shipping.

(b) the interruption of imports:

- (i) on the balance of payments;
- (ii) on the economic development of some NATO countries;
- (iii) crude materials, minerals and fuels;
- (iv) foodstuffs.

(a) Implications resulting from the interruption of exports

(i) Food and agricultural products

38. Food and agricultural products constitute an important part (about 17%) of the total NATO countries' exports directed to the bloc. This is particularly true in the cases of Iceland and Norway (fish), Denmark (meat and meat products, fish), Greece (tobacco, fruit), Turkey (tobacco, fruit and vegetables), Canada (grain). All these countries have stressed that the re-orientation of this particular export trade would constitute a considerable problem.

39. The difficulties experienced by Iceland, whose economy is heavily dependent on fish exports, in its efforts to redirect its external trade towards the West would be increased by simultaneous and identical efforts undertaken by Norway and Denmark.

40. Similar conclusions are reached in connection with Greek and Turkish tobacco and fruit, which represent essential export items for both countries. Past experience has shown the considerable marketing difficulties encountered by those products in free world countries. Greece exported 13,350 tons to the bloc in 1960 and the Turkish tobacco export quota allotted for 1961 to the Soviet bloc amounted to 18,000 tons. The absorption of these goods by the NATO countries would, however, be facilitated to some extent by the interruption of NATO tobacco imports from Soviet bloc countries.

41. Canada has reported that the re-orientation of its grain exports to the Soviet bloc might constitute a particular problem, which would be greatly aggravated if the embargo were extended to include Communist China.

(ii) Chemicals and raw materials

42. In 1959, chemicals entered for about 10% in the total exports from NATO countries to the Soviet bloc, coming mainly from the Federal Republic of Germany (about 35% of the total), the United Kingdom, Italy, the Netherlands and France.

43. Of the countries mentioning in their replies the importance of chemicals in their exports to the bloc (United Kingdom, France, Italy), two (United Kingdom and Italy) have stated that it would be difficult to find alternative outlets for these products. The Italian note stresses that prices obtained in Soviet bloc countries are generally higher than those reached in the free world.

44. The same difficulties in finding alternative markets were mentioned by the United Kingdom for copper and alloys, iron and steel; by Italy for synthetic rubber (of which exports to the bloc represented in 1960 more than 60% of total exports), sulphur, baryte; by Norway for pyrites, of which exports to the bloc represent 30% of total exports directed towards Soviet bloc countries. As regards rubber, in the event of an embargo United Kingdom re-exports to the bloc (52,000 tons at a value of about \$47.5 million) would cease and the bloc would buy direct.

45. Although the overall percentage of France's exports to the Soviet bloc countries does not exceed 1% as compared to her world exports, this percentage is considerably higher for sheet-iron (10%) and magnetic sheet-iron (45%), with the result that steel plants may even have to stop production if the Soviet bloc orders are to be cancelled at short notice. Greek exports to the Soviet bloc of cotton (39% of total exports) leather (34%) and bauxite (48%) represent considerable parts of Greece's total exports.

(iii) Manufactured goods, industrial and transport equipment, and machinery

46. These categories of goods which are of particular interest to the Soviet bloc, represented in 1959 about 57% of total NATO countries' exports to the bloc. They were mainly supplied by the Federal Republic of Germany (about 35%) and the rest by France, the United Kingdom, Italy, Belgium, Denmark and the Netherlands, in that order.

47. The exports of artificial and synthetic fibres to the bloc, according to the country replies, represent an important share in the world exports of these commodities for such countries as France, Italy and Norway. The Italian note insists on the consequences of the loss of the outlets in Soviet bloc countries

for these products. Exports to the bloc represented in 1960 almost half of the total Italian exports of these goods, and between 20 and 25% of similar French exports. They represented also 33% of Norwegian exports of artificial wool.

48. France and Italy export also substantial quantities of wire and cables. The Italian pipeline industry, concentrated in a small number of enterprises, would be rather seriously affected in the event of a trade embargo.

49. The exports to the bloc of industrial and transport equipment and machinery are even more important, given their bearing on the economic development of Soviet countries.

50. In 1959 about one quarter of all exports of NATO countries to the Soviet bloc consisted of capital goods. The United Kingdom note states that much of the machinery and plant being supplied to the Soviet bloc is "custom built"; e.g. railway equipment, complete textile and chemical plants, etc., which could not be sold elsewhere. The USSR is France's most important customer for mechanical and electrical material. Most of the machinery built for the USSR requires a two years' delay for delivery, and payments are executed in installments, usually covering five years. The main Danish exports to the Soviet bloc in this field are ships and machinery, and the Danish note states that substantial increases in orders for such products are expected in 1961 and 1962. The Italian exports to the Soviet bloc consist mainly of complete industrial plants and special machinery and specialised industrial equipment. These goods could hardly be sold elsewhere because the equipment is tailored to particular requirements, and because the Italian prices are often higher than those of other industrialised countries, which are in a position to produce similar equipment competing with the Italian products. For such exports to the Soviet bloc, usually covered by credits, delivery has often already started, so that no other outlets for the remaining parts can be envisaged.

(iv) Services, shipping

51. Denmark, Greece, the United Kingdom, Norway, and the Netherlands draw attention to the considerable loss of earnings from services that would be incurred. This would be in particular the case if their ships were to be debarred from trading with or being chartered to the Soviet bloc. The already difficult overall world shipping situation resulting from an excess of supply in regard to demand would be considerably worsened by a ban on chartering ships to the Soviet bloc, and the United Kingdom suggests that special measures would be indispensable to meet this problem.

(b) Implications resulting from the interruption of imports

52. It is generally felt that the replacement of imports from the Soviet bloc countries by alternative sources of supply in the free world would present less difficulties than those resulting from the loss of exports, although, due to the rise in prices, the import bill of most countries would increase.

(i) Impact on the balance of payments

53. A number of countries have stressed in their replies the fact that imports from the bloc are closely linked to their exports, and that the free world alternative sources of supply would impose a heavy strain on their foreign currency reserves as long as no compensating export outlets are available (Denmark, Greece, the United Kingdom, Norway, Turkey, Iceland).

(ii) Impact on the economic development of NATO countries

54. In the case of Greece and Turkey a large part of the imports for the Soviet bloc consists of industrial equipment and machinery. These two countries have reported that in a number of cases partial deliveries have already been received so that alternative sources of supply may be difficult to find, and in any case would be much more expensive.

55. The interruption of such imports may have a direct bearing on the further economic development of these countries, which are among the NATO countries in the most urgent need to improve their situation.

(iii) Imports of crude materials, minerals and fuels

56. Commodities of this category represent the main imports from the bloc in the case of Italy, the United Kingdom, France, Belgium, Denmark and the Federal Republic of Germany. Alternative sources of supply could be found without too much difficulty in the free world. The importance of the redirecting of this type of trade is, however, indicated by the fact that, as a share of its total imports of each product, Italy imports from the bloc: pig iron (47%); coal products (40%); wood and fuel (25%); timber and lumber (15%); coal (15%); crude oil (13%); and a number of other goods, such as skins, various chemical products, manganese and chrome ores, metals, antimony, textile raw materials such as flax, hemp, silk waste and other organic textile raw materials.

57. The United Kingdom is importing important quantities of fertilizers, manganese ore, zinc, flax, raw cotton and timber from the Soviet Union, and foresees some difficulties in finding

alternative sources of supply for flax, fur skins (for which London is an international centre) and timber; in the case of the latter, difficulties might be substantial if the embargo were to continue into 1962, and if supplies from Finland were affected as a result of Soviet pressure.

58. France, as a share of its total imports of each product, imports from the bloc: anthracite 70%, down and feathers 40%, hogs' bristles 40%, asbestos 35%, coal tar 33%, petroleum products 30%, chrome ore 28%, manganese ore 25%, platinum 20%.

59. There might be a certain amount of competition between NATO countries if they had to find other sources of supply and, in the case of urgency, the global demand may have a direct bearing on the prices. The Italian note stresses that this danger would be considerably increased if the producing countries were imposing restrictions on exports, while the transportations of such bulky products may create some difficulties.

(iv) Imports of Foodstuffs

60. The relative share of food products in the NATO countries imports from the Soviet bloc is generally small. The United Kingdom is one exception to this general rule but the British reply states that wheat, bacon and butter can be supplied from alternative sources in the free world.

III. PROPOSED REMEDIES TO ALLEVIATE THE ADVERSE CONSEQUENCES ON NATO COUNTRIES

61. The main suggestions so far offered by NATO countries are as follows:

(a) Re-orientation of trade

62. The most affected countries (Iceland, Greece, Turkey) have all stressed the urgency of finding alternative outlets for their exports. Part II has indicated the considerable difficulties which would impede the solution of this problem.

(b) Relaxation of customs tariffs and of quantitative import restrictions

63. Italy (chemical products), Iceland (fish) and Denmark (agricultural products and fish) have indicated that a relaxation of customs tariffs might soften the effect of the embargo. Turkey and Greece, on the other hand, have explicitly indicated that this type of solution would be ineffective for their goods.

(c) Alignment of shipping policies

64. The United Kingdom note states that waivers of cargo preference legislation would provide relief from the adverse consequences of the embargo, but that a closer alignment of the shipping policies of the members of NATO would be necessary as a long-term measure.

(d) Assistance from existing international organizations

65. The Italian and Greek notes state that organizations such as the IMF and the EMA, although they might soften the first balance of payments difficulties of countries suffering from the sudden re-orientation of their trade relations, would not be in a position to provide any adequate assistance, without a fundamental revision of the agreements and of the methods they apply. The United Kingdom feels that while the IMF may provide a temporary relief (although its assets have been reduced by the United Kingdom drawings) some form of special longer-term assistance might prove necessary.

(e) Creation of a special fund

66. The Greek note suggests the creation of a special fund as an indispensable condition of imposing an embargo. Such a fund could take the form of a clearing agency for commercial transactions with the aim of promoting both the disposal of exports and the equilibrium of balance of payments. At the same time, such a clearing agency should have the necessary means for financing the purchase of products that would be deprived of their normal outlets. The United Kingdom reply alludes to an international supply and control organization to prevent undesirable price movements.

(f) Other forms of assistance

67. The Turkish reply proposes that to the extent that new outlets for the replacement of lost markets could not be ensured, the resulting loss should be made up by grants. Compensatory credit in hard currencies to secure the maintenance of Turkey's import flow would not only aggravate her heavy external debt, but also hamper seriously her efforts to orientate her economy and place it on sound foundations.

68. The Icelandic note, given the lasting effect of an embargo, even of short duration, on Icelandic trade with the Soviet bloc, concludes that special assistance over a period of years would be needed to ensure the exports of Icelandic products in the required quantities to the free world.

69. The Belgian reply suggests that some kind of burden-sharing should be devised in order to distribute equitably the consequences of economic measures decided and taken in common, and that measures should be considered in common to mitigate the repercussions of an embargo on world prices.

COUNTRY REPLIES TO QUESTIONNAIRE ON LEGAL
AND ADMINISTRATIVE MEASURES (AC/202-D/1)

BELGIUM	- AC/202-WP/3/6	dated 8th September, 1961
CANADA	- AC/202-WP/3/7	dated 11th September, 1961
DENMARK	- AC/202-WP/3/1	dated 6th September, 1961
FRANCE	- AC/202-WP/3/8 and Addendum	dated 12th September, 1961 dated 19th September, 1961
GERMANY	- AC/202-WP/3/2(Revised) and Addendum	dated 14th September, 1961 dated 21st September, 1961
GREECE	- AC/202-WP/3/3 and Addendum	dated 6th September, 1961 dated 19th September, 1961
ICELAND	- AC/202-WP/3/13	dated 21st September, 1961
ITALY	- AC/202-WP/3/10	dated 13th September, 1961
LUXEMBOURG	- AC/202-WP/3/11	dated 14th September, 1961
NETHERLANDS	- AC/202-WP/3/4	dated 6th September, 1961
NORWAY	- AC/202-WP/3/5	dated 8th September, 1961
TURKEY	- AC/202-WP/3/9	dated 12th September, 1961
UNITED KINGDOM	- AC/202-WP/3/12(Revised)	dated 26th September, 1961
UNITED STATES	- AC/202-WP/3	dated 6th September, 1961

ANNEX A TO THE RECOMMENDATIONS ON ECONOMIC COUNTERMEASURES
ADOPTED AT THE MEETING OF FOREIGN MINISTERS ON 6th AUGUST, 1961
(CIRCULATED AT THE COUNCIL MEETING OF 8th AUGUST)

TOTAL EMBARGO

A total economic embargo imposed by NATO would include among others the following measures:

- (a) The prohibition of the use of all financial facilities of the NATO countries to carry on current transactions with the USSR, the Soviet Zone of Germany, the other Soviet Bloc members and their Nationals.
- (b) The expulsion of all Soviet Bloc technical experts and foreign trade officials without diplomatic immunity from the NATO countries.
- (c) The freezing of all assets of the members of the Soviet Bloc under jurisdiction of the NATO powers.
- (d) Termination of trade agreements involving Soviet Bloc countries.
- (e) The denials of all exports to Soviet Bloc countries.
- (f) The stoppage of all imports from Soviet Bloc countries to NATO countries.
- (g) The closure of NATO ports to Soviet Bloc shipping and planes and Soviet Bloc chartership.
- (h) The prevention of aircraft of Soviet Bloc countries from making transit overflights and technical stops.
- (i) The prohibition of calling at Soviet Bloc ports of vessels and planes of the NATO countries.

GENERAL OUTLINE OF ANSWERS TO THE QUESTIONNAIRE ON
LEGAL AND ADMINISTRATIVE MEASURES (AC/202-D/1)

General outline of the answers received:

The following economic countermeasures as listed in Annex II can be taken by:

(a) Prohibition of the use of financial facilities:

The "Eight"(1)

Germany

Italy (State credit guarantees only)

Italy (private credits after new legislation)

Norway (in time of peace only under certain fixed conditions)

United Kingdom (would require special orders under existing legislation; action could not be fully effective without world-wide control)

Greece(2)

(b) Expulsion of bloc experts and trade officials etc.:

The "Eight"

Germany (after new legislation)

Italy

Norway (in time of peace only under certain fixed conditions)

Greece(2)

United Kingdom

(c) Freezing of all Soviet bloc assets:

The "Eight"

Germany (after new legislation)

Italy (after new legislation)

United Kingdom (would require special orders under existing legislation. Action could not be fully effective without world-wide control)

Norway (in time of war only)

Greece(2)

-
- (1) United States, Denmark, Netherlands, Belgium, France, Turkey, Luxembourg and Iceland.

(For the special position of Turkey see relevant footnotes to paragraphs 3 and 13)

- (2) These measures ^{will} ~~can~~ be taken if bilateral or multilateral contractual arrangements are not affected.

(d) Termination of trade agreements with the bloc

The "Eight"
Germany
Italy
Greece (according to terms of existing trade agreements)
Norway (in time of war only)
United Kingdom

(e) Denial of exports to bloc

The "Eight"
Germany
Greece (see under (d))
Italy
Norway (in time of peace only under certain fixed conditions)
United Kingdom (would require orders under existing legislation)

(f) Stoppage of all imports from bloc

The "Eight"
Germany
Greece (see under (d))
Italy
Norway (in time of peace only under certain fixed conditions)
United Kingdom

(g) Closure of ports and airfields

The "Eight" (Denmark: subject to confirmation)
Germany (after new legislation)
Italy (after new legislation)
Norway (in time of war only)
Greece (2)
United Kingdom (after new legislation)

(h) Prevention of transit overflight and technical stops:

The "Eight" (Denmark: subject to confirmation)
Germany (after new legislation)
Italy (after new legislation)
Norway (in time of peace only under certain fixed conditions)
United Kingdom
Greece (2)

-
- (2) These measures can be taken if bilateral or multilateral contractual arrangements are not affected.

(i) Prohibition of calling at Soviet ports and airfields

The "Eight" (Denmark: subject to confirmation)
Germany (after new legislation)
Italy (after new legislation)
Norway (in time of war only)
Greece (2)
United Kingdom (after new legislation)

Note:

Canada is in a position to take some but not all of the measures listed above.

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- (2) These measures ^{can} ~~will~~ be taken if bilateral or multi-lateral contractual arrangements are not affected.

See Comm.

COUNTRY REPLIES TO THE QUESTIONNAIRE ON THE ECONOMICS
IMPACT OF A TOTAL EMBARGO ON THE SOVIET BLOC (AC/202-D/2)

BELGIUM	:	AC/202-WP/5/9 -	dated 18th September, 1961.		
CANADA	:	AC/202-WP/5/4 -	" 14th	"	"
DENMARK	:	AC/202-WP/5 -	" 13th	"	"
FRANCE	:	AC/202-WP/5/1 -	" 13th	"	"
GREECE	:	AC/202-WP/5/2(revised)	21st	"	"
ICELAND	:	AC/202-WP/5/10 -	" 20th	"	"
ITALY	:	AC/202-WP/5/6 -	" 16th	"	"
NORWAY	:	AC/202-WP/5/7 -	" 18th	"	"
TURKEY	:	AC/202-WP/5/8 -	" 14th	"	"
UNITED KINGDOM:	:	AC/202-WP/5/5 -	" 14th	"	"
UNITED STATES :	:	AC/202-WP/5/3 -	" 14th	"	"