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The role of Czechoslovak trade with neutral countries in the period of escalating Cold War: the cases of Switzerland and Sweden, 1949–1953

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Foreign trade as a means of division of labour in a modern, globalized world has irreplaceable significance for every economy. This of course is particular by the case for small states with relatively advanced industry but a limited internal market, such as the Czech Republic and the former Czechoslovakia. The stability of the Czechoslovak economy always depended directly on the effectiveness and success of foreign trade, since the above-mentioned factors amplified the problems of a limited raw material base for extensive industry (Czechoslovakia was self-sufficient only in fuel). Industry, which became established during the Dual Monarchy, was geared to service the more than 50 million-strong market of the Austro-Hungarian Empire. Small Czechoslovakia was forced to export a substantial part of its production and traditionally used exports to pay not only for imported goods, especially necessary raw materials, but also for food and various services (the so-called invisible trade, that is patents and licences, import of capital, tourism, transport, etc.). As the overall balance of services was always passive for Czechoslovakia, a trade surplus became indispensable.

Czechoslovak foreign trade after the end of the Second World War continued the tradition of its pre-war development. The economy, which up to 1948 functioned as a market economy in principle, naturally had to overcome the problems of the altered balance of power in Europe and the economic status of its traditional trade partners. The two biggest, Germany and Austria, temporarily lost their pivotal Central European economic positions and Czechoslovakia was forced to look for a replacement. This it found among the European neutral countries, namely Switzerland first of all, and then logically in relations with the victorious world powers, the USA, Great Britain and others. The share of capitalist countries in Czechoslovak foreign trade in the first years after the war quickly rose, reaching nearly 90 per cent in 1947.[1] Czechoslovak foreign trade run by national socialist ministers thereby came into conflict with the foreign policy orientation of the country, which, as the Košice government programme of April 1945 declared, preferred the Soviet Union and allied Slavic countries.

The coup d'état in February 1948, which resulted in the country gradually becoming communist and being incorporated into the camp of the Stalinist Soviet Union, posed new problems for the Czechoslovak economy. The project of Stalinist industrialization expressed in the first five-year economic plan for 1949–53,[2] approved in October 1948, represented not only reconstruction of the nation using heavy industry, and especially machine-building, to lay the foundations of the future industrialization of the other underdeveloped countries of the Soviet bloc. It also represented a change of orientation in international economic co-operation, namely away from market economies and towards the Soviet Union and its satellites, forming a centrally planned economy after the Soviet model. Such co-operation was to be consolidated by the Council of Mutual Economic Assistance (CMEA), in place in 1949 as a means of socialist integration. As was soon to be shown, however, this was able to fulfil its co-ordination role only in a very limited manner, most economic relations being resolved through separate bilateral agreements. This complicated economic–political process, combined with huge internal social changes, took place under the conditions of the so-called Cold War, which even in certain parts of the world became military confrontation, for example in the Korean War.

The conflict of ideologies and political strategies was also carried over necessarily into the economic field. International disputes, stemming from the legacy of the Second World War, nationalization, land reforms and, last but not least, the problems of huge population transfers, were accompanied by reductions in aid from the West, where countries undergoing post-war reconstruction fell within the Soviet sphere of influence – in the words of Winston Churchill, behind the 'Iron Curtain'. Loans and the Marshall Plan were effected and ultimately reductions in trade relations occurred. There was talk at the time of waging an 'economic war' by legal means. The aim was to reduce the possibility of buying weapons, strategic instrumentation, technologies and raw materials, either through various forms of pressure on individual countries and exporters, or through direct, normative discrimination in mutual relations.

The leading role in organizing economic pressure on the USSR and its satellites in the most important world markets (in the East, it was called economic discrimination) was assumed by the USA, which for this purpose utilized wartime legislation (the Act Leading Towards Strengthening National Defense of 2 July 1940, updated in February 1949 in the form of the Export Control Act). The Mutual Defense Assistance Control Act of 26 October 1951, adopted by the US Senate, introduced the principle of limiting economic relations with countries that represented a threat to US security (including the USSR and countries under its influence). Czechoslovak–American non-treaty relations (pre-war provisions were declared invalid by the USA) did not change the fact that the former, as a member of GATT, enjoyed most-favoured nation status in the USA. At the GATT meetings the USA declared that it accepted the cancellation of mutual treaty obligations between the USA and Czechoslovakia, but the latter remained a GATT member and enjoyed the benefits of relations with other member countries. Mutual Czechoslovak–American trade thus unfolded under very unfavourable conditions and the volume was considerably reduced. Administrative barriers came to a head in October 1951 in connection with the so-called Oatis spy case, when the American consulate in Prague stopped confirming consular invoices necessary to export all goods for which customs duty was collected ad valorem (most mutual trade commodities), and suspended this

confirmation indefinitely, which in fact meant the cancellation of exports of Czechoslovak goods to the USA.

Control of economic relations with the East also occurred within the framework of NATO. The Defence, Finance and Economic Committee in November 1949 created a so-called Consultative Group to exchange opinions and information on relations with Eastern countries, which resulted in the early 1950s in the well-known Co-ordinating Committee – COCOM. Its extensive administrative apparatus with headquarters in Paris resolved current issues of control of economic relations with the countries of the Soviet bloc, issued and periodically renewed a list of banned goods and goods under controlled export, and monitored compliance with the embargo on export of strategic goods.[3] The list names individual kinds of goods according to their line of production: for example, in machine production the export of vertical drills, revolving lathes, hydraulic presses, etc. was banned; in the chemical industry substances to produce penicillin and streptomycin could not be exported. Technologically advanced products of the electrical engineering industry such as calculating machines, electron microscopes, radars, etc. were also subject to a total ban. The lists included 200 items of raw materials, substances and technical products.[4]

Without question the Western embargo had significant effects on trade between East and West in both its structure and volume. COCOM's statistics show that the countries of the Sino-Soviet bloc had a 4.1 per cent share of free-world exports in 1947, 3.7 per cent in 1948, 3 per cent in 1949, 2.7 per cent in 1950, 2.2 per cent in 1951, and as low as 1.9 per cent in 1952 and 1953. In the following years the East's share of exports of countries with market economies rose only at a slow pace. Also prominent was the decline of free-world imports with countries of the Sino-Soviet bloc, which amounted to 2.7 per cent in 1947, while two years later it reached its lowest, namely 2 per cent. Absolute figures do not indicate such a radical decrease in significance of trade with European satellites of the USSR (see figure 10.1), but of course the fact that the volume of international trade rose dramatically while trade with the USSR and its satellites stagnated and even fell must be taken into account.[5]

The temporary reduction of trade relations between the West and the European countries of the Soviet bloc cannot be attributed only to concerted American pressure. It is a fact that trade with the West was limited also by those countries themselves. The main slogan of the day became 'for the countries that set out on the path to build socialism, let's eliminate the economic-technical dependence on the capitalist economic system and achieve internal economic stability'.[6] Eastern countries tried to carry out this task in several ways: by changing the structure of the national economy and beginning to produce various forms of machinery that admittedly did not have a great tradition in Eastern European countries: by importing raw materials and substances from friendly countries; by developing so-called socialist integration; by increasing domestic mining through rapid identification of raw material sources through geological surveys; and by replacing raw materials and substances traditionally imported from the West and now blocked by embargo with others that were more easily attainable. This process, which in hindsight even the pro-regime literature recognized, worked in two directions. On the one hand, the development of new sectors accelerated and increased domestic production of raw materials, while on the other hand, it naturally introduced long-term inefficient mining the aim of our policy should be to remove all imports from capitalist states if possible, and that every import from capitalist states is just a necessary evil'.[12]

Official Czechoslovak documents in connection with overcoming the effects of the embargo by the USA and its allies highlighted the role of two countries especially: Switzerland and Sweden.[13] For this reason we have decided to devote greater attention to the development of relations with these two states and attempt to find points of similarity between these two highly important partners in Czechoslovak foreign trade as well as differences. First we will consider their specific benefits to the Czechoslovak economy in one of the most critical periods of the Cold War: 1949–53. If 1948–9 represents a quite clear milestone defined by the communist takeover of power and the resultant changes of the CSR's position on the world political and economic scene on the one hand, and the revolutionary changes expressed by the General Line of Building Socialism approved by the ninth congress of the Czechoslovak Communist Party and the consequent first five-year plan, on the other, then the second milestone, 1953, is a less conspicuous, rather technical one. It was a year when several factors and events combined that fundamentally influenced the development of relations between the opposing political-economic blocs, as did the development of the world market and the Czechoslovak economy itself. The international situation was characterized by the death of J. V. Stalin, the end of the Korean War and a certain relaxation of international tensions expressed in the apparent rise of trade between East and West in all sectors. The increase in trade stimulated an obvious predicament on world capitalist markets, which made room for the renewal of trade with the East.[14] In Czechoslovak–US economic relations there was temporarily a revival of mutual trade (the return of the American trade attaché to the Prague embassy and a renewal of issuing and confirming consular invoices). A milestone in the internal economic development of the CSR was the introduction, according to the Soviet example, of central economic planning.[15] This stage of development of the national economy was formally concluded with the declaration of the fulfilment of the aims of the first five-year plan.

Our study of Swiss relations draws considerably on the outstanding and extremely thorough work of Christoph Späti, monitoring Czechoslovak–Swiss relations fully in political, economic, social and cultural terms, and moreover in a similarly defined time period.[16] Späti relies on documents and statistics mainly of Swiss origin, although also employs documents of the Czechoslovak Communist Party's Ministry of the Interior and Ministry of Foreign Affairs, which are already compiled to a large extent in archives and accessible. The documents of the economic ministries (mainly of the Finance Ministry and the Foreign Trade Ministry) have not been compiled and so only a relatively narrow selection was available. Using another survey of documents of the above-mentioned economic ministries, our study attempts to complement Späti's work. Unfortunately, the work of this Swiss historian is unrivalled elsewhere. Other Czechoslovak relations with neutral states, including also Sweden, have not yet been processed in such a detailed way and so competently. Our analysis therefore is based exclusively on original archival material.

Czechoslovak–Swiss economic relations

Both Czechoslovak and Swiss business circles showed enormous interest in restoring economic relations after the end of the Second World War. As early as 15 August 1945, a Czechoslovak business delegation arrived in Berne by invitation of the Swiss government. Both parties agreed that the pre-war economic agreement dated 16 February 1927[17] was still valid. Under this agreement, a protocol on exchange of goods and payment regulation was signed on 31 August 1945. This was the first inter-state economic arrangement that Czechoslovakia signed after the end of the war. Because of the uncertain transport situation, the plan of mutual deliveries was only agreed for a period of six months. It was a quota-based protocol ensuring for Czechoslovakia the import of food, silk and, most importantly, iron ore, ball bearings, aluminium and semi-finished products made of aluminium, various apparatuses and machine equipment, watches, medicines, colouring agents and chemicals. In exchange for this, food was to be supplied to Switzerland – primarily malt, hops and sugar, as well as coke, machines, iron pipes, cast iron and various consumer products. For unspecified types of goods, a global quota worth 7 million Czechoslovak crowns was proposed. The payment arrangement set forth a clearing procedure administrated by central banks, based on the payment of excess financial amounts in a freely convertible foreign currency.[18]

The Czechoslovak negotiating position was very good because there was a difficult situation in Switzerland with regard to supplies and the Czechoslovak deliveries would contribute significantly to addressing this problem. Prague secured the release of the assets of the Czechoslovak National Bank, which was a condition for Czechoslovak ratification.[19] As Späti reminds, the demand for Czechoslovak goods led to the expansion of Czechoslovak exports. The volume of mutual trade grew. While previously the Swiss share in Czechoslovak imports amounted to 3.3 per cent, it rose to 22.4 per cent at the end of 1945. Czechoslovak imports to Switzerland reached as much as 33.7 per cent. Prague attempted to increase the export surplus, which, within the clearing system, was bringing a considerable foreign currency benefit. Switzerland became the main Czechoslovak trade partner; Hubert Ripka, the Minister of Foreign Trade, called it 'the Czechoslovak gate to the world'. The cause of the unprecedented boom in mutual relations was the simple fact that both countries perceived these relations as a substitute for their traditional relations with Germany, which had been the most significant pre-war partner for both countries.[20]

Annex 1 to the Protocol on Goods Exchange Regulation, agreed in August 1945, was a letter, which envisioned that an agreement on all types of payments related to past obligations (old claims) would soon be achieved. Since, after the expiration of the Protocol, the Swiss government made any further negotiations on exchange of goods contingent on the regulation of non-trade payments, negotiations on this issue took place in Berne from 15 February to 9 March 1946. These resulted in the formation of three agreements, namely the Agreement on Regulation of Payments from Insurance and Reinsurance Relations, the Agreement on Regulation of Remittance of Revenues on Swiss Capitals Deposited in the Czechoslovak Republic and the Agreement on the Settlement of Former Slovak–Swiss Clearing (from the war period). The settlement of old claims was to be completed by 30 September 1946. Switzerland reciprocated the Czechoslovak

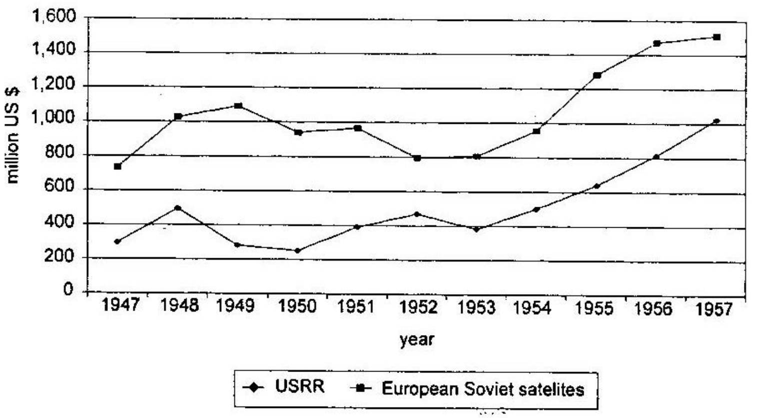

Figure 10.1 Free-world imports from the USSR and its European satellites, 1947–57

Source: The 1958 Revision of East–West Trade Controls. Mutual Defense Assistance Act of 1951, Department of State, Publication 6797, April (Washington, D.C., 1959), p. 38.

of ore with low metal content and inefficient small-scale production of machines with relatively low technical-technological parameters.[7]

The East also faced problems stemming from the Western embargo in a way that was not and could not be discussed in public. This involved imports of embargoed raw materials, semi-finished goods and technical products, especially machines, which were not accessible in the Eastern bloc but were attainable from the West via neutral countries. It must also be said, as the following analysis will demonstrate, that this involved a wide range of items that were fundamentally important for the national economy of individual countries and their economic stability. Trade with neutral countries therefore even became the subject of clandestine events in the countries of the Eastern bloc. During the years 1949–56 inclusive Czechoslovakia did not publish any official data on its foreign trade. In the following years it did publish certain data retrospectively, but the nature and extent of trade with neutral states was of course missing.

Difficulties in economic relations with the West rose sharply during 1949. Czechoslovak foreign trade liabilities rose in relation to countries with valuable currencies. As a result, foreign currency was insufficient to import raw materials essential for Czechoslovak industry. To improve the situation, further organizational measures were introduced. The government stated that regulations on saving of the materials that were in short supply did not bring about the expected effect, and planned consumption of these materials was exceeding the import possibilities of the Czechoslovak economy. Internal analyses suggested that the state of reserves of such materials was not precisely known and only rough estimates were used. Inspections at companies indicated waste. For this reason the central Committee for Savings of Deficit Raw Materials was established in July 1951 with branch offices at individual departmental ministries. The committee expected vast savings as a result of its operations (40 per cent of copper and lead, 30 per cent of aluminium and nickel, 10 per cent of zinc and tin).[8] Furthermore, in December 1951 the government Commission for Systematic Limitation of Imports from Capitalist States was set up.[9] The effectiveness of both committees was limited, although statistically it did not look entirely bad. For example, for 1953 the committee calculated unexpected savings of 676 million CZK, although real savings were less than half this: 274 million CZK.[10] This was approximately 4 per cent of the total volume of Czechoslovak imports in that year. However, despite the bundle of measures the situation did not improve fundamentally. In September 1952 the Czechoslovak government even had to take the extreme step of reducing by 500 million CZK the state reserves of gold deposited as currency reserves in the State Bank of Czechoslovakia. This sum was used on Western markets to buy non-ferrous metals that were in short supply.[11]

Economic reality soon showed – in spite of a great success in the area of raw materials – that reducing dependence on Western markets would not be easy or quickly feasible (see figure 10.2). Trade relations with the West appeared to be indispensable, and the concept of limiting foreign trade across the Iron Curtain even became one of the themes of fabricated political trials. In the trials of deputy ministers of foreign trade Rudolf Margolius and Eugen Löbl, on the one hand, their 'sabotage activity' was alleged to have been aimed at tying the Czechoslovak Republic (or CSR) to the system of capitalist states, especially the USA, while on the other hand, of course in these same trials it was said that 'under the pretext of strengthening independence from capitalist states the impression was given that

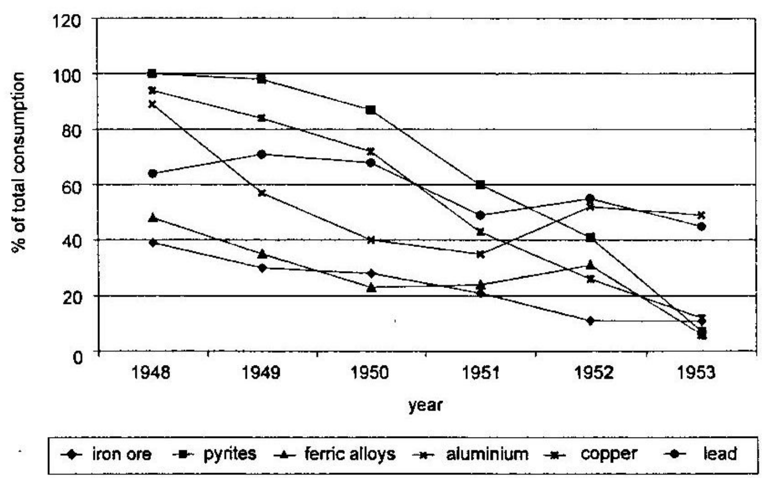

Figure 10.2 Proportion of important raw materials imports in total consumption, Czechoslovakia, 1948–53

Source: Základní údaje o plnění I. pětiletého plánu ČSR, část III. Geologický průzkum, technický rozvoj, investiční výstavba, zahraniční obchod, NAP, fond SÚP II 1949–59, carton 335, No. 51.734/53 concession by releasing the gold belonging to the former Slovak National Bank and by releasing the claims of Czechoslovak banks and other organizations in Swiss territory. The path to trade negotiations was opened.[21]

The negotiations about a new regulation of trade relations took place in Prague from 23 April to 3 May 1946. The resulting protocol, signed along with the above-mentioned financial agreements, was agreed for an indefinite period but once again the quota lists were to be valid for only six months. Nevertheless, the Czechoslovak party was satisfied. Export was to reach 1 billion Czechoslovak crowns; import was to be lower by one-quarter, which was to bring the much-needed foreign currency to the country. For the quotas of undefined goods, 60 million crowns were earmarked (a financial reserve for the import of any necessary goods); in addition to the traditional import of machines, the quotas for iron ore, ball bearings, chemical substances and colouring agents were increased. A joint commission was set up to address problems connected to the trade exchange.[22]

In October 1946, the validity of the old quota lists expired and new trade negotiations were supposed to start. Before this happened, the Swiss embassy in Prague announced that 'the Swiss government does not intend to enter into any agreement of a commercial nature, if the [remaining] issues resulting from the provision on nationalization and confiscation of Swiss property in Czechoslovakia are not settled'.[23] The negotiations were complicated and long (14–19 December 1946; 12 February–8 March 1947). On 8 March 1947, an amendment to the Agreement on Trade Relations and Payments between the Czechoslovak Republic and Swiss Federation was signed; however, this was preceded by the signing of the protocol on Czechoslovak–Swiss Trade Negotiations on the same date. The protocol set forth the Swiss request for resumption of the debt service concerning the Austrian and Hungarian debt, which the Czechoslovak Republic assumed in the inter-war period. At the same time, the protocol contained the Czechoslovak promise of compensation and the method of paying it through 5 per cent interest-bearing bonds.

The new agreement on trade relations again referred to the Trade Agreement of 16 February 1927. It was concluded for a period from 1 March 1947 to 29 February 1948 and envisaged exports into Switzerland totalling 3.75 billion Czechoslovak crowns and imports totalling 2.5 billion. In practice, this meant extension of the trade relations. The explanatory report for the Czechoslovak government mentioned that the import of goods for metal industry and for machinery and chemical goods was playing an important role in meeting the two-year plan. These strategically important commodities represented 80 per cent of total import from Switzerland. The share of raw materials and semi-finished products was higher among imports from Switzerland than among Czechoslovak exports. Thus, in these mutual relations, Czechoslovakia was still holding the position of an 'industrial' country.[24]

The trade agreements expired exactly at the moment when the Czechoslovak *coup d'état* took place. Consequently, the uncertain situation resulted in provisional renewal of the old agreements, subject to the stipulation that the quota lists would be increased by 25 per cent.[25] New negotiations took place again 'under the direction of the Swiss' because a Swiss note of 3 July 1948 set forth categorical requirements for the start of such talks. The requirements were primarily the need to address the issue of nationalized Swiss property in the second phase of nationalization (Acts No. 114 and 126/1948 Coll. of laws and decrees) and acceleration of the compensation procedure under way.

Prague had no choice but to yield to Swiss pressure. The negotiations were concluded on 25 September 1948 by the signing of additional confidential protocols on exchange of goods and regulation of payments, once again with validity for a period of one year but this time with a clause that the agreement would be automatically renewed if neither of the parties terminated the agreement. The agreement opened up opportunities for transferring the claims of Swiss creditors, both trade-related and otherwise, from the Czechoslovak Republic to Switzerland. Czechoslovak exports totalling 3.3 billion Czechoslovak crowns and imports amounting to 2.8 billion were envisaged. The resulting active balance was to be used to cover Czechoslovak financial obligations to Swiss natural persons and legal entities; any possible residual amount was to be freely available to Czechoslovakia. The quota lists, contained in an annex to the protocol, were also amended. The Czechoslovak delegation was content with their structure because they ensured opportunities for Czechoslovak export and, above all, the import of strategically important raw materials. A confidential letter, which was 'an integral part of the agreement' and contained Swiss consent to the transfer of payments for the goods purchased through Swiss companies in third countries, was of special importance to Prague because it actually ensured a mechanism for circumventing the Western embargo.[26]

Actual trade during 1948 was dramatically declining in comparison with 1947; some quotas were less than 50 per cent filled. On the Swiss part, this situation was perceived as a consequence of the change in Czechoslovak politics as well as the tight foreign currency situation. However, very prosaic reasons also played their role, including frequent and serious complaints about the quality of the goods and their prices, which were regarded in Switzerland as inadequate in comparison with international competitors. The delivery times for Czechoslovak goods also had a negative impact. According to the statements of the Swiss party, there were no political obstacles to the development of trade.[27]

The subsequent trade negotiations, which were supposed to eliminate past problems in Czechoslovak–Swiss relations once and for all, took place from 15 August 1949 to 22 December in the same year. On that day, an inter-state agreement on the total compensation for Swiss property interests (compensation for nationalization and the settlement of Czechoslovak obligations to Swiss insurance and reinsurance companies totaling 250 million Czechoslovak crowns), a trade exchange agreement and payment regulation agreement were signed.[28] The financial matters were to be taken care of by means of a clearing system. Banque Nationale Suisse opened two accounts for the Czechoslovak National Bank. To the first account, labelled 'A', 93 per cent of payments for Czechoslovak goods were credited; to the other account, labelled 'N' (compensations), the remaining 7 per cent of payments for Czechoslovak goods were diverted and this money was to be used to settle the claims arising from nationalization. So that payments could be started immediately, the Swiss government paid an advance of 10 million Swiss francs to account 'N'. The agreement traditionally included quota lists. Nevertheless, both countries promised, in Article 3, to apply a benevolent approach to the import and export of goods that were not contained in the quota lists.[29]

The agreement was a compromise for both parties. However, in those difficult times, it provided Czechoslovakia with necessary deliveries of raw materials and mechanical engineering products, which represented 65 per cent of the goods in the lists. Czechoslovakia expected a reduction of the trade exchange in goods referred to as non-essential products. The volume of the goods within the quotas amounted to 2.9 billion Czechoslovak crowns for both export and import. In addition to that, Czechoslovakia obtained two interest-free loans, specifically a marginal credit of 115 million crowns and an investment loan from Swiss banks amounting to 345 million crowns. The business practice applied up until that point became significantly different from then on. The share of reciprocal trade transactions agreed at the level of major enterprises was growing.[30]

Czechoslovak efforts to strengthen relations with Switzerland were also expressed by a project of what was referred to as 'triangle trade', which was agreed in March 1950.[31] Triangle trade was a purposeful trilateral exchange of goods, usually taking the form of barter trade, and it was not unusual in Czechoslovak post-war trade practice. The advantage of these transactions was that they involved bartering goods that did not have to be paid for with valuable currency but only with other goods, in this case with products from a third partner, that is, goods that were not available in Czechoslovakia. Thus, triangle trade was regarded as a means of improving the foreign currency balance because it was used to import goods that otherwise – in bilateral trade – would draw on valuable currency. After the nationalized Czechoslovak trading party and Sulzer, a Swiss company, the nationalized Polish trading party became the third party of the triangle trade. The contents of the agreement are shown in figure 10.3. It provided Czechoslovakia with coal and zinc worth approximately 11 million Swiss francs. Negotiating a triangle trade transaction was very demanding: the negotiations were extremely tough, even for the Czechoslovak and Polish delegations. Although more such transactions with the participation of the Sulzer company were planned, this project was eventually both the first and the last. The opportunities for bartering goods were decreasing.

Although the agreed quotas envisaged export from the Czechoslovak Republic worth 125 million Swiss francs in the first quarter of 1950, actual exports only reached 25.5 million and the efforts to increase them were unsuccessful. There were several causes for the decline, including the depression in the Swiss market and the emergence of German competitors, combined with legal insecurity resulting from the espionage scandal involving employees of the CIBA company and their conviction. However, the main causes of the decline lay with Czechoslovakia: the quality and price of Czechoslovak goods, lengthy execution of orders, and the unwillingness of Prague to export some 'hard' commodities, which the Czechoslovak Republic itself needed (coal, coke, cast iron, etc.).[32] In imports, Czechoslovakia drew on the agreed quotas unevenly. While the quotas for the essential resources were exceeded, the quotas for consumer goods and food were used to a level of only 20–70 per cent (varying between different categories of goods). Switzerland sought to even up these levels. In early summer, a sharp dispute broke out over Czechoslovakian import of textiles from Switzerland, which was not carried out, and Switzerland stopped importing textiles from Czechoslovakia.[33]

Through mutual compromises, the dispute was successfully settled. The negotiations of a joint Czechoslovak–Swiss commission, which held a meeting in Prague from 8 February to 19 March 1951, renewed the quota lists. It was planned that Czechoslovak imports would amount to 1.04 billion Czechoslovak crowns and that exports would amount to 1.11 billion. Prague, however, was only partially satisfied by the lists of goods becoming effective on 1 April 1951. It succeeded in ensuring the necessary quantity of investment goods, aluminium, colouring agents, chemicals and medicines but did not succeed

Correspondent	Switzerland	Czechoslovakia	Poland
Switzerland **– export**			machines (13.67 m) **13.67 m**
– import		material of metallurgy (6.52 m) ships' materials (2.9 m) coke (1 m) machine tools (1 m) **11.42 m**	Goods in Polish-Swiss clearing (2.25 m) **2.25 m**
Czechoslovakia **– export**	material of metallurgy (6.52 m) ships' materials (2.9 m) coke (1 m) machine tools (1 m) **11.42 m**		
– import			coal (9.137 m) zinc (2.284 m) **11.42 m**
Poland **– export**	Goods in Polish–Swiss clearing (2.25 m) **2.25 m**	coal (9.137 m) zinc (2.284 m) **11.42 m**	
– import	machines (13.67 m) **13.67 m**		

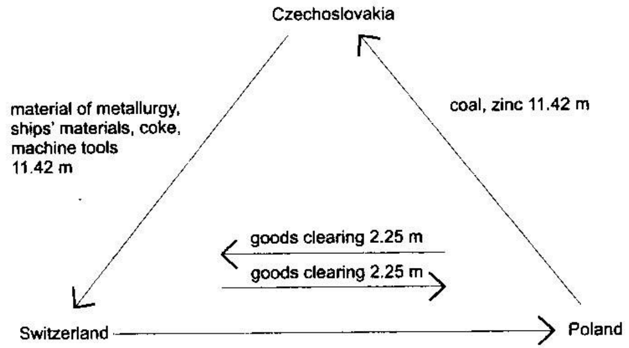

Figure 10.3 The 'triangle' compensation trade between Switzerland (Gebrüder Sulzer, Winterthur), Czechoslovakia and Poland, an example from 1950/1 (million Swiss francs)

Source: Ministry of Foreign Trade, Secretariat of Deputy-Minister Dr Rudolf Margolius, 1951, Trojúhelník Sulzer-ČSR-Polsko, Information for Minister Antonín Gregor, Prague 3.2.1951.

in ensuring the intended quantities of ball bearings, industrial diamonds and non-ferrous metals. Nevertheless, Prague considered the results of the negotiations, which had taken place under 'a strong pressure by the USA on the Swiss government', to be fairly good. The Czechoslovak government intended to import the missing raw materials not directly from Switzerland but from third countries by means of transit through Switzerland.[34]

However, the import of goods embargoed by the USA and its allies became complicated even in relation to Switzerland. During the negotiations about the quota lists in Prague, the Minister Max Troendle stated that the USA had requested that Switzerland should also introduce an embargo; this had been rejected by Berne, and no embargo document signed: Switzerland would 'maintain its neutral position'. Nevertheless, Troendle stated that Switzerland was dependent on the import of all kinds of raw materials and, if it wanted to import them, it would have no other choice than – in those cases where COCOM explicitly requested that the goods should remain in Switzerland – to comply with this request and even check on whether these conditions were being complied with.[35] Czechoslovakia began to feel the effects of reduced tolerance on the part of Swiss authorities when trading in 'sensitive goods'. Prague countered this by improving the organization of its activities, partly legal, partly semi-legal, or even illegal ones.

In July 1951, the Ministry of Foreign Trade set up a special co-ordination group in Berne for trade in embargoed goods. This group was made responsible for carrying out and organizing this trade, and it consisted of employees of the embassy and representatives of some privileged foreign trade enterprises (Metalimex, Kovo, Chemapol, Keramika, Investa). Its terms of reference included confidential co-operation with certain companies, to which money was entrusted confidentially and which procured the necessary goods 'on their own account' for certain commission fees. The group organized purchase of non-ferrous and precious metals, special apparatuses, spare parts for aircrafts and automobiles as well as industrial diamonds. During the first eighteen months of its existence, the turnover of trade ensured by this group totalled US $39 million.[36] The members of the group ensured receipt of the goods, insurance of the goods banking and transport links as well as complaints. The requests for the goods to be purchased were sent by encrypted messages or in the form of order *in claris verbis* included in sealed diplomatic messenger mail, to which the exterritorial status of a diplomatic mission applied. Some smaller commodities such as diamonds, platinum, resistance spirals, etc. were even transported by messenger mail to the Czechoslovak Republic. The co-operating companies included larger enterprises as well as quite small firms, which based their existence on this trade (such as the SAVE company).[37] These companies used to be referred to as the companies of 'faithful hand' in Prague because they were entrusted with large amounts of money without any guarantee.[38]

This special group also ensured transit from third countries. Raw diamonds were purchased in the Federal Republic of Germany, diamond boring heads for drilling machines were purchased in Belgium and the United Kingdom. The volumes of some strategic imports of raw materials and embargoed technical commodities, such as American parts for the aircraft of Czechoslovak Airlines (purchased in Belgium),[39] were constantly growing and it was hardly possible to keep them secret (see figure 10.4). Managing the funds was becoming a growing problem because the amounts involved were not small. For example, in January and February 1952 alone, the Kovo foreign trade enterprise imported embargoed goods worth 1.126 million Swiss francs,[40] and the Investa enterprise imported goods worth 0.206 million. The money was paid in cash by the responsible member of the mission to some of the business partners. In part it was transported to Switzerland – like the orders for the goods – via diplomatic messenger mail and, in part, cheques endorsed by the Czechoslovak State Bank and Swiss banks were issued to the business partners. The

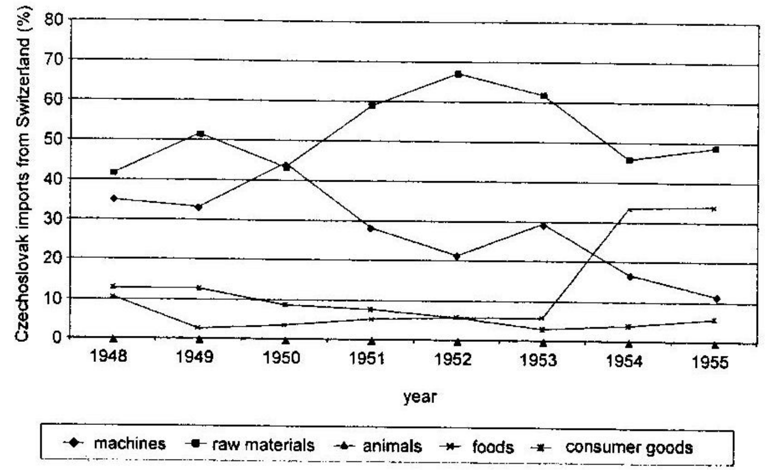

Figure 10.4 Structure of Czechoslovak imports from Switzerland, 1948–55

Sources: Zahraniční obchod republiky Československé v roce 1946, Československá statistika, sv. 177, Praha 1948; Zahraniční obchod republiky Československé v roce 1947, Československá statistika, sv. 179, Praha 1948; Vývoj zahraničního obchodu ČSSR za léta 1948–1973, Federální ministerstvo zahraničního obchodu, ekonomický odbor – oddělení statistiky, tajné, čj. 012605/74, NAP, FTO, Division 3/secret, carton 1.

methods of remitting the money were constantly being changed because the transactions involved fairly high amounts, which might have attracted attention.[41]

In spring 1952, the USA increased its pressure on Switzerland, blocking the dollar deposits of Swiss banks, and reproached banks for the transactions with the East, especially with North Korea and China. The deposits were soon released but from then on the banks refused to carry out operations related to transit trade and trade in raw materials. In August 1952, a representative of the management of Union de Banques Suisses notified the Czechoslovak trade representative that from then on he would have to use the services of a Swiss post office or would have to collect the cheques sent to the bank in cash because the bank would not issue any cheques in his name or that of the embassy.[42] The clients of the banks had to sign a sort of declaration of 'non-infection' when carrying out transfers of finances, stating that the payment was not to be used for transactions that would be in conflict with the American regulations on trade between East and West.[43] The American pressure restricted the possibility of using transit from third countries and Swiss re-export of the embargoed goods to such an extent that it was actually eliminating this trading method as a source of raw materials and technical and technological know-how.[44] It also became one of the major factors behind the further marked decrease of Czechoslovak imports from Switzerland in 1952.

The second meeting of the joint Czechoslovak–Swiss governmental commission was concluded by a protocol signed in Berne on 12 May 1952. The volume of the quotas of goods totalled 2.2 billion Czechoslovak crowns: 1.2 billion for Czechoslovak export and import to be lower by 130 million. The structure of the agreed exchange of goods did not change in any fundamental manner. The explanatory report for the government stated that the import of investment commodities, special apparatuses, bearings and chemicals, as well as aluminium and aluminium semi-finished products, was ensured.[45] The declining volume of trade was confirmed by the third meeting of the joint commission held in Prague on 15–25 April 1953, where a reduction of the quotas defined in the lists by approximately 15 per cent was agreed. Czechoslovakia was reducing the deliveries of coke, iron and steel, which were in short supply in Czechoslovakia.

The result of the decrease in Czechoslovak exports, combined with the need for strategic economic imports, was a constantly passive balance of Czechoslovak foreign trade in relation to Switzerland. This clearly had an increasingly detrimental effect on the almost desperate Czechoslovak lack of hard currencies, which resulted in the sale of a part of the gold reserves of the Czechoslovak State Bank, mentioned at the beginning of this chapter. The gap between import and export was constantly widening until 1953 (see figure 10.5). The unfavourable trend was not significantly changed even by an alteration in the structure of the goods imported to Czechoslovakia, in which the quickly increasing share of raw materials was to be compensated by reducing the import of consumer goods and food (see figure 10.4). The year 1953 saw the deepest decline in the mutual trade exchange in the 1940s and 1950s. Imports converted to the new currency[46] decreased to 106 million and exports fell to a mere 90 million Czechoslovak crowns (see figures 10.6 and 10.7).

The unclear legal issues and new mutual relations brought a fresh trade agreement signed on 24 November 1953, which replaced the 1927 framework agreement and the system of annexed protocols. But that is another, separate story.[47]

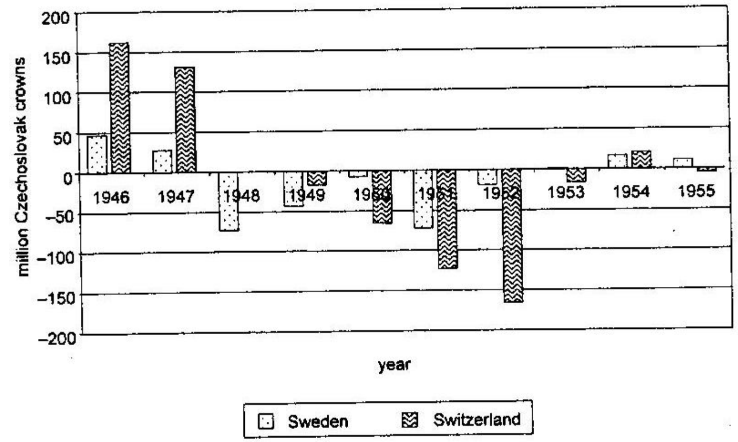

Figure 10.5 Balance of Czechoslovak trade with Switzerland and Sweden, 1946–55

Sources: As figure 10.4.

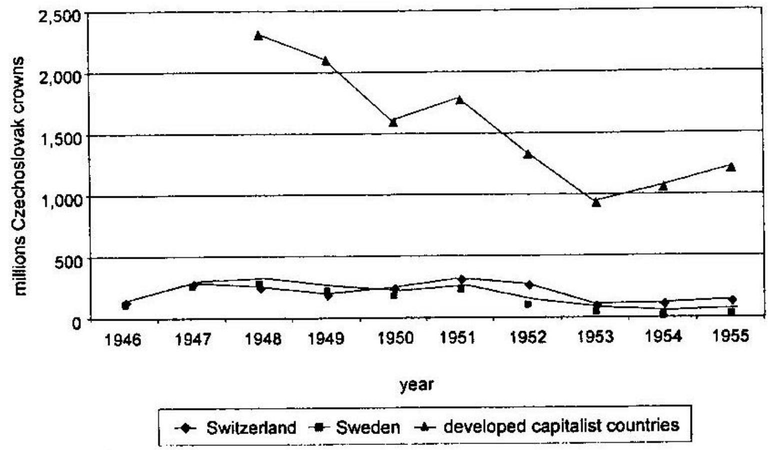

Figure 10.6 Czechoslovak imports from Switzerland and Sweden, 1946–55

Sources: As figure 10.4.

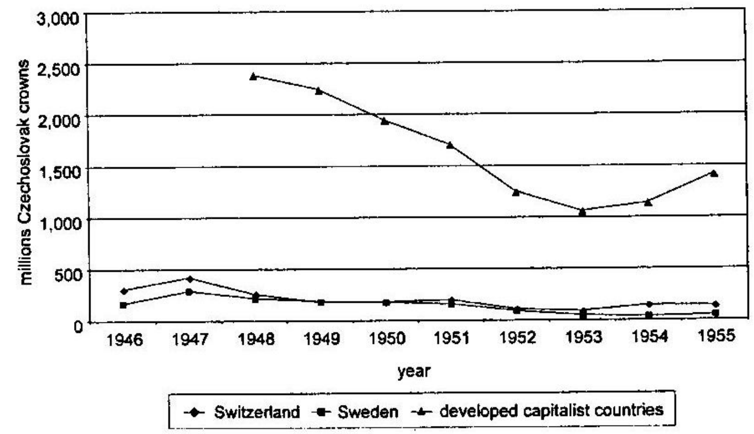

Figure 10.7 Czechoslovak exports to Switzerland and Sweden, 1946–55

Sources: As figure 10.4.

Czechoslovak–Swedish economic relations

The trade relations between Czechoslovakia and Sweden after the Second World War also built on the pre-war tradition. The trade and payment agreement of 18 April 1925[48] was implicitly recognized by both parties as valid. It was important that it had not been